

# The Third Way Has Failed

BY FRED L. SMITH, JR.

“The Market Has Failed!” is a slogan fit for a bumper sticker. It is simple and concise, and politics is often dominated by simple narratives. Our challenge is to advance an alternative, more accurate narrative that shows how the global economic crisis flows not from any failure of capitalism, but from the steady blurring of lines between the *private* and the *political* worlds. We need our own bumper sticker!

Over the last few decades, we have seen a shift away from “honest” socialism—whereby government objectives were pursued by government agencies—to the current “third-way” mixed economy model in which quasi- and fully private agencies are “encouraged” to promote social goals through a mix of regulations, subsidies, and guarantees. In contrast to traditional government agencies, which operate on-budget and are politically accountable, these new “third way” mechanisms function off-budget and have little, if any, political oversight—which only makes them more dangerous.

Contrary to the popular narrative, it was not market failures which caused the financial crisis. A wide array of public policies transformed what should have been a normal downturn into a global collapse. It is undeniable, for instance, that the U.S. government promoted lending policies for increasing lending to marginal borrowers that maximized risks to lenders and rewarded politically favored constituencies.

It is also undeniable that the Federal Reserve’s easy money policies brought the cost of capital and credit to artificially low levels; that government guarantees and government-sanctioned ratings services weakened private incentives to monitor risks, making in that much harder now to root out toxic assets; that the government sponsored enterprises Fannie Mae and Freddie Mac

helped to funnel private investments toward ever riskier financial instruments; that the mortgage deduction helped make this all worse; and that government bailouts have greatly increased moral hazard.

The third way sought to marry private sector wealth creation to political sector wealth redistribution. In the process, it turned the American Dream into a global nightmare. The bumper sticker is wrong: It was not the market that failed.

Nor was this, as many allege, a case of too little regulation. Warren Buffet has rightly pointed out that two central institutions in the current crisis—Fannie and Freddie—were overseen by over 200 regulators in an agency with a \$60-million budget.

Capitalism is about the rational allocation of capital. Yet the awful incentives created by this mixed economy have long diverted capital flows toward mortgage debt—the much touted “American Dream”—and away from education, retirement accounts, and entrepreneurial

*(continued on page 3)*



## FEATURED ARTICLES

### OBAMA PREVIEW: WORLD TRADE



>>page 4

### OBAMA PREVIEW: ENVIRONMENT



>>page 6

### BUREAUCRASH SOCIAL: FACEBOOK FOR LIBERTARIANS



>>page 9

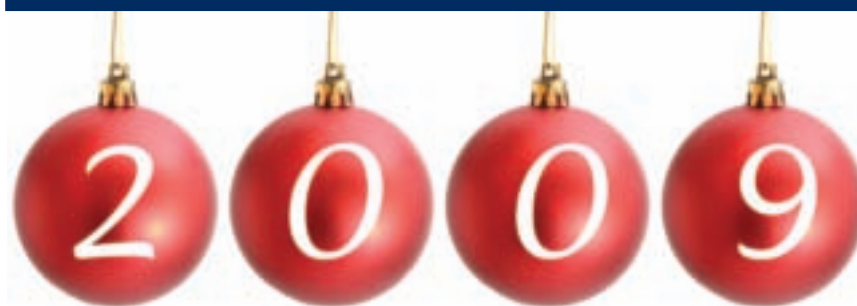
### ALSO INSIDE:

CEI Donor Spotlight	8
Bureaucrash	9
The Good, the Bad, and the Ugly	10
Media Mentions	11
End Notes	12

>>FROM THE GENERAL COUNSEL



## A New Year's Wish, by Sam Kazman



Sometimes we're happy,  
Sometimes we're sad.  
The last few months of bailouts  
Have really gotten us mad.  
Those hundred\$ of billion\$  
Of squandered TARP bucks  
Would make a sane person think  
We're governed by yucks,  
By idiots and laggards.  
And vultures and dolts;  
It's almost enough  
To make you want to revolt.

Now some say that's not true,  
It's not accurate or fair;  
That if the money's been wasted  
It's by people who care.  
It's by people with vision  
Who perhaps got a bit lost,  
And since they mean well  
Who cares what it cost?

Well, frankly we need  
Somebody who,  
Like *Seinfeld's* Soup Nazi,  
Will say, "No bailout for you!"

Now this makes it somewhat tricky  
And a bit awkward too  
To switch direction and ask  
For money from you.  
When bailouts are the cause  
Of all this frustration,  
Is it unseemly to turn around  
And ask for a donation?

No. Freedom of choice  
Makes the difference, of course.  
You can say no to us  
While bailout funding is forced.

But we hope you'll say yes  
Because you believe in our fight,  
Because you agree that free markets  
Are vital and right  
And a pretty good reason  
For a check to write

So Happy 2009  
And to all a good night.

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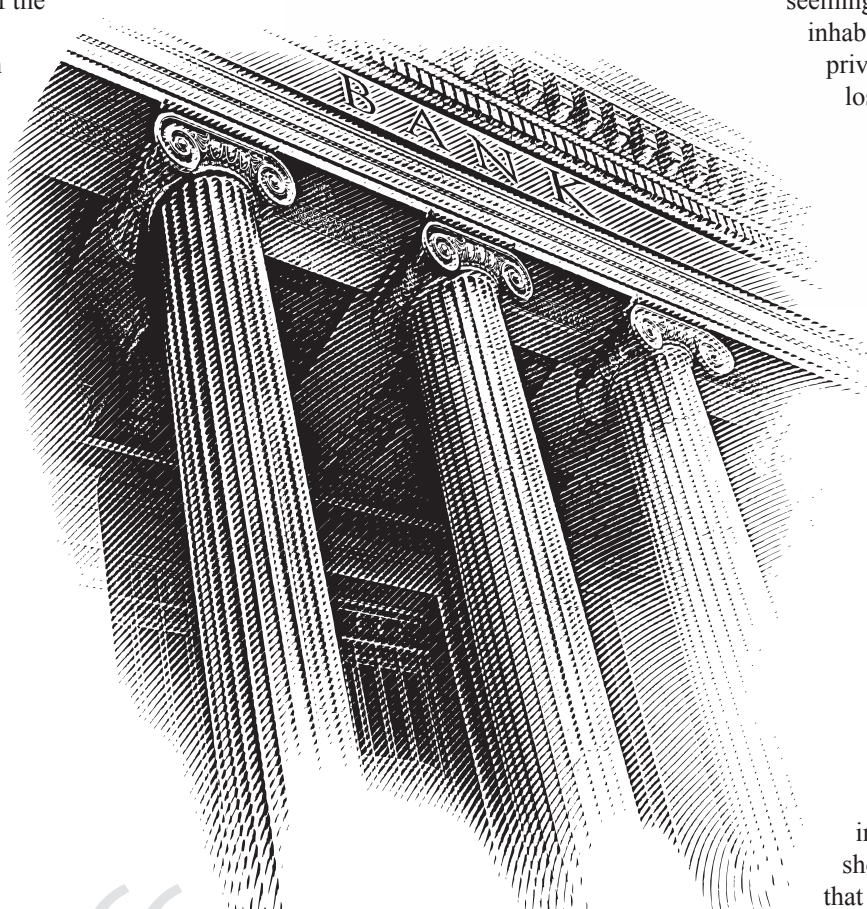
## Third Way, continued from page 1

ventures—that is, some of the “other” American dreams that individuals pursue on their own. This massive diversion of capital also led to a diversion of capitalists toward the financial sector—and encouraged the now-disparaged stratospheric salaries on Wall Street.

Banks were once jokingly characterized as *institutions that would loan you money if you could prove you didn't need it*. That was an exaggeration, but it did reflect the reality that banks had great incentives to ensure that their loans were solid. But government distortions created a new, less sane world in which *banks would loan you money if you could prove you couldn't repay it!*

The result of these political distortions has been to weaken the discipline of market competition in favor of political regulation. We have come to this point because we have allowed the world of private profit maximization to become hopelessly entangled with the political goals of rewarding special interests and promoting social agendas. It is not surprising that most private and political players came to believe that somewhere somebody—somebody else, that is—was “minding the store.” But that is not capitalism.

Capitalism depends upon freedom *and* responsibility being linked closely together. Individuals and institutions can make risky decisions, but they must bear the losses—as well as the benefits—of those choices. Unfortunately, the link between freedom and responsibility has been severed. As in the 1980s savings and loan crisis, the result has been the worst of all possible worlds. Some very smart individuals acted the most irresponsibly,



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seemingly convinced that they inhabited a risk-free nirvana of private profits and socialized losses.

Policies to address this crisis must clearly delineate the boundaries between the private and the political world. The welfare goals of government must be kept on-budget to ensure accountability. Agencies that promote these goals should be allowed only limited freedom to innovate, and should be restrained in the areas of compensation, transparency, and accountability—the same as are other political agencies.

In contrast, firms on the private side of the divide should receive no government aid or privileges. They should face the full impact of competition. Policies should be strengthened to ensure that these firms are never again bailed out. They must be allowed to assess the risks of their actions directly, without government-reassurances, and not be allowed to argue that, “we used the government-approved ratings.” They must face any problems in the market on their own, working out whatever insolvencies might occur.

Entrepreneurial capitalists should be free to sail out into the stormy waters of financial innovation, but they must assume responsibility for plotting their course, for providing whatever safeguards (“financial life vests”

and “outriggers”) they believe necessary, and for preparing a “return to port” retreat when necessary. And, if their craft does succumb, they must be left to sink or swim.

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*Fred Smith (fsmith@cei.org) is President of CEI. This is adapted from a speech that was delivered last November at the International Leaders Summit at the European Parliament in Brussels, Belgium.*

As the new Obama Administration takes over in Washington, CEI's experts look at what to expect in the new political climate. In this issue, we look at trade and the environment.

## OBAMA PREVIEW

# WORLD TRADE



BY FRANCES B. SMITH

**I**ncreasing liberalization of world trade is one engine behind the dramatic increase in global prosperity since the 1950s, yet the country is faced with a negative view of trade and globalization. Much of this was spurred on by the lengthy presidential primaries, where populism and protectionist rhetoric held sway.

In the national colloquies, few came forward to defend free trade, which provides benefits for rich and poor in both developed and developing countries. The efforts of the World Trade Organization (WTO) to lower international trade barriers

have particularly benefited poor countries seeking prosperity. The current impasse in advancing the WTO's Doha Round mainly hinges on rich countries' reluctance to reduce their extensive agricultural support programs, which distort the world market and harm developing countries' ability to compete. In addition, several rapidly developing countries that are major trading nations still want to take advantage of the WTO's "special and differential treatment" designed for poor countries.

Moreover, the progress that more open trade can bring is increasingly threatened by involving the WTO in setting environmental and labor standards—a

form of disguised protectionism. Imposing uniform American- or European-level environmental and labor standards on developing countries would deprive poor people of jobs and harm the environment in those countries by undermining their economies' varying competitive advantages. There is also a more recent push to introduce carbon border taxes to penalize countries that have not taken steps to enact Kyoto-like regimes. Armchair environmentalism is a luxury. Increasing wealth—via liberalized trade—is a key to raising both labor standards and environmental protection in the developing world.



For some constituencies, this disguised protectionism is desirable. In the United States, organized labor would like to restrict labor market competition for its members by thwarting international trade liberalization as well as bilateral trade negotiations. Environmentalists likewise would like to “export” U.S. environmental mandates to poor countries.

In 2007, Trade Promotion Authority (TPA) expired. TPA or “fast track” authorizes the President to negotiate and sign trade agreements and have them voted up or down by Congress without amendments. Enacted as part of the Trade Act of 2002, TPA was extremely controversial, with labor unions and environmental groups opposed and insisting that labor and environmental mandates be included in future trade agreements. Today, TPA’s requirements have burdened trade agreements with developing countries with U.S.-style environmental and labor provisions. Already some special interests insist that any new TPA must include greater enforcement of even more stringent labor and environmental mandates. If successful, this will further harm developing countries’ sovereignty—their ability to set their own policies to deal with their own urgent needs and priorities—and stifle their economic growth through more open trade.

At the same time, international treaties (such as the Law of the Sea Treaty and other international agreements, particularly environmental ones) pose significant threats to American sovereignty and to the constitutional rights of American citizens. Treaties require only a presidential signature and ratification by a two-thirds Senate vote to become law. Vigilance will be required here.

With the election of Senator Barack Obama as the nation’s next president, special interests are positioning themselves to push the new president to back up his pre-election positions on international trade with action. Other trade commentators have said that the heavily Democratic Congress may try to move quickly to end tax breaks for companies that outsource jobs overseas, perhaps reopen the North

American Free Trade Agreement (NAFTA) to add enforceable labor and environmental standards and to change NAFTA’s investment provisions. Congress may also take actions to declare China’s currency “manipulation” as an unfair subsidy and may try to step up duties on Chinese imports.

While the new president will not be able to completely renege on these campaign promises—labor, environmental, and anti-globalization special interests won’t allow that—it is likely that other forces and priorities will temper many of these proposed trade policies. Chief among

*“More than ever, free trade supporters need to promote the benefits of open trade for people in the U.S., and in both developed and developing countries around the world.”*

these considerations, of course, is the ongoing financial crisis and the specter of a long and deep recession.

It’s likely that initially the new president and Congress will focus more on domestic issues—on economic stimulus packages, job creation schemes, and creating a larger “safety net” for workers who ostensibly lose their jobs because of trade.

In foreign policy, the new president will have to focus on improving relations with neighbors, allies, and emerging world powers. Trade relationships help open the door for that. Latin America, with many countries going increasingly leftist, has left the U.S. with only a few strong allies in the region, most prominently Mexico and Colombia. Turning against those countries with new trade demands would foment more anti-Americanism and play into the hands of populist demagogues like Hugo Chavez of Venezuela.

In Asia, major trading countries in the region—including Japan, South Korea, Indonesia, China, and Singapore—have free trade agreements concluded or under negotiation with each other through both regional and bilateral trade pacts. Asia-

Pacific countries are setting up the structure for greater economic integration that the U.S. is ignoring in most cases.

The new president cannot ignore such developments, since to do so would set up the U.S. as more isolationist than many of its major trading partners. In recent years, the sustained growth of U.S. exports has been one of the only positive economic developments in a faltering economy. If closer ties with trading partners are not negotiated, the U.S. stands to lose out on increased economic growth through trade.

Besides the economic and geopolitical need for the U.S. to be involved in bilateral, regional, and multilateral trade negotiations, a strong counterbalance to anti-trade proposals could be the need for developing countries to improve their economic situations through increased trade—an argument that President-elect Obama and many of his supporters could find appealing.

Underlying all arguments, however, should be the defense of more open trade as benefiting consumers. Too often, consumers have been neglected in the mercantilist assumptions that frame most trade debates—“Exports good, imports bad.”

The Obama Administration will face enormous pressure from interest groups to make good on campaign promises on trade. More than ever, free trade supporters need to promote the benefits of open trade for people in the U.S., and in both developed and developing countries around the world. There may be some breathing room to do just that, as other economic issues and concerns may push aside the trade debate.

President-elect Obama has a formidable group of economic advisors on his team. In the country’s economic interests, they may be less likely to push ahead quickly on divisive and misguided trade initiatives that would harm our fragile economy and isolate the U.S. from its international interests.

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## OBAMA PREVIEW

# ENVIRONMENT



BY IAIN MURRAY

At this writing, news of President-elect Obama's first appointments to his environmental team are beginning to trickle in. If the appointments of former Environmental Protection Agency (EPA) Administrator Carol Browner as energy/climate "Czar" and Los Angeles Deputy Mayor Nancy Sutley as chair of the Council on Environmental Quality are anything to go by, that trickle may have become an alarmist flood by the time you read this.

Given the importance of the environmental left in Sen. Obama's victorious coalition, it is likely that EPA Administrator will become a cabinet-level position. The result, of course, will be a renewed confidence at EPA backed by zeal to enforce the agency's mission. Browner's EPA was remarkably efficient in achieving virtually all of her radical objectives. The new EPA is likely to go further. One of its first acts, for instance, will surely be to grant California its desired waiver allowing it to set its own auto emissions standards, a move that will be potentially disastrous for an already reeling automobile industry.

On other environmental issues, we can expect the U.S. Fish and Wildlife Service to rigorously enforce the Endangered Species Act (ESA), bringing pain to landowners everywhere. In particular, we can expect a significant dilution of the safeguards erected around the decision to list the thriving polar bear as endangered, which will surely empower wildlife organizations to use the ESA as a Trojan Horse against energy interests.

At Interior, omens are looking bad that the Department will return to the "war on the West" days of the Clinton Administration. During that era, the Department

moved to stop logging in National Forests, harassed and arrested grazing permit holders, closed off huge areas to entry under the General Mining Law, closed trails to off-roaders and snowmobiles, closed thousands of miles of roads under the Roadless Rule, denied inholders access to their own property, and threatened to affect massive land acquisitions. The legacy was one of unhealthy forests and massive, devastating wildfires year after year, and a Forest Service starved of funds to fight them through the loss of logging fees.

Yet it is in the area of global warming policy that President Obama and Czar Browner will face their greatest challenges. They will find that they face two main problems in relation to greenhouse gas emissions—one domestic, the other international.

Domestically, Obama the candidate promised to regulate carbon dioxide as a pollutant if Congress does not take action. This will be a real problem. The current rule proposed by EPA to do exactly that will undoubtedly create regulatory chaos. As over 30 free-market groups noted in a comment organized by CEI, the rule “would trigger a regulatory cascade throughout the [Clean Air] Act, imposing potentially crushing burdens on regulated entities and the economy.” So President Obama will be dependent on Congress taking action to avoid this likely disaster.

The sort of Congressional action Senator Obama has previously backed has been a “cap and trade” program for greenhouse gas emissions—which is essentially a disguised tax on energy use. This comes in two versions: a weak version where permits under the cap on emissions are distributed to emitting industries for free, and a strong version in which the permits are auctioned. Some companies, especially power utilities, are actually quite

keen on the weak version. The European Union (EU) has adopted a weak scheme, which has led to windfall profits for utilities, increased bills for homeowners, and—crucially—no reduction in emissions. This last point is why Senator Obama supported a strong cap-and-trade scheme in his campaign.

However, a strong cap-and-trade scheme will be strongly opposed by the same industry forces that support a weak scheme. It is unlikely to gain majority support in the Senate and will therefore force Obama either to adopt a weak scheme, or fall back on the disastrous course of regulatory action.

Meanwhile, there is strong international pressure for the U.S. to agree to join a successor to the Kyoto Protocol at the planned Copenhagen summit in December 2009. Given the problems surrounding Kyoto, however, President Obama is unlikely to sign a new international treaty before having a domestic program in place (although there are indications that he is seeking ways to agree to an international pact that does not rise to treaty status,

nations are beginning to realize they are hurting themselves by adopting emissions restrictions. Italy has threatened to veto a new internal EU deal, while Germany has insisted on exemptions for its large industries.

This means that it is possible that the U.S. will again be the outlier on a climate deal—although this time pushing for more action rather than less.

Finally, Obama himself will be constrained by the continuing economic chaos, which could be prolonged by bad economic policies. On “Meet the Press” on December 7, 2008, the President-elect was asked by Tom Brokaw if he would institute a gas tax to get gas prices back up to the good old levels of \$4 a gallon to pay for alternative energy and as a signal to consumers that the days of affordable energy “are gone.”

Obama’s reply was illuminating. He said, “Yes, gas prices have gone down. But, in the meantime, maybe somebody in the family’s lost their job. In the meantime, their housing values have plummeted. In the meantime, maybe their hours have been cut back. Or if they’re a small-business owner, their sales have gone down 50, 60, 70 percent. So putting additional burdens on American families right now, I think, is a mistake.”

Such an honest answer is rare in politics these days. If the President-elect thinks his environmental policies through, he will realize that virtually every one of them puts additional burdens on American policies and are therefore mistakes. Perhaps he should fire his new appointees before those mistakes come back to bite him.

*“Obama himself will be constrained by the continuing economic chaos, which is likely to be prolonged by his economic policies.”*

requiring Senate ratification). This places the 2009 date in serious jeopardy, perhaps meaning that once again the U.S. will be viewed as delaying international action.

There are two serious geopolitical problems that stand against a new treaty. First, several major developing nations refuse outright to consider any emissions reductions, and they are rapidly overtaking the developed world as the primary source of emissions. Second, European

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# CEI DONOR SPOTLIGHT

*David Parker*

*David C. Parker is a long time supporter of CEI. He owns Old Boston Restorations in Massachusetts. We talked to David recently about his interest in public policy and CEI.*



**Q. WHAT IS YOUR OCCUPATION?**

A. We are a small property development and management company in the South End of Boston. The South End is the largest area of contiguous Victorian townhouses in the U.S.

**Q. WHAT MADE YOU BECOME A PHILANTHROPIST?**

A. We have never viewed ourselves as philanthropists. However, it has become evident that property rights are the heart of our Constitutional system. If you can take a man's property, you can take him. This of course, requires large, powerful, centralized government. CEI, from its inception, has tried to keep the beast in its cage.

**Q. WHY SHOULD PEOPLE SUPPORT GROUPS LIKE CEI?**

A. It follows from what we said above, that if you love liberty, care for your own personal well being, and are concerned about the future of your country, then you must support CEI and like-missioned organizations.

**Q. ANY SUGGESTIONS FOR WHAT WE CAN DO BETTER AROUND HERE?**

A. Your literature is constantly fresh and energized. This is tough to do over the course of 25 years. Keep up the good work!

**Q. YOU HAVE BEEN TO SEVERAL CEI DINNERS—CAN YOU TELL OTHER DONORS WHY THEY SHOULD MAKE SURE TO ATTEND (OR EVEN BUY A TABLE AT) OUR 25TH ANNIVERSARY DINNER THIS YEAR?**

A. All great politics are great theater and entertainment. CEI entertains us without ever compromising its message, and is never shrill. The CEI dinners always have interesting speakers, good food and good fellowship while donating to a very worthy cause. They are always fun!



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# FACEBOOK FOR LIBERTARIANS

**B**ureaucrash launched a social networking site called Bureaucrash Social in early October 2008, which is now at the heart of its operations. Called the “Facebook for libertarians” by some active on the site—which has gained over 100 members per week since it was launched—it’s a place for crashers to share ideas, plan and document activism, and share resources. To see what all the buzz is about, go to [bureaucrash.com](http://bureaucrash.com) and click the “Bureaucrash Social” button on the right.

Also worth mentioning on the Web-based front is the significant improvements to Bureaucrash’s podcast, dubbed The Podcrash, hosted by Xaq Fixx, a crasher based in Charlotte, North Carolina, who volunteers his time to host the segment. With the help of better-quality equipment and high-caliber guests—including Washington, D.C. gun rights plaintiff Dick Heller—the Podcrash’s listenership has grown significantly. At the time of this writing, the most recent Podcrash had close to 1,500 downloads. To hear for yourself, go to [bureaucrash.com](http://bureaucrash.com) and click the “Podcrash” button.

Since you last heard from us, Bureaucrash launched an ad campaign on Free Talk Live, a pro-freedom radio show. The hosts of the show will read a blurb about



Bureaucrash each night for six weeks, helping to drive like-minded activists to the site.

In November, Bureaucrash played an instrumental role in the Free Kareem rally, coordinated with other activists in cities around the world to protest the jailing by the Egyptian government of Kareem Amer, a blogger critical of its policies. Our involvement with the rally and our video about it was picked up by several news outlets.

We also released videos about the Washington, D.C., Metro subway system’s policy of allowing police to search bags, as well as a video that shows Crasher-

in-Chief Pete Eyre and another crasher injecting freedom-oriented questions into the conversation of BBC’s “Question Time” when the show filmed in the nation’s capital prior to the 2008 election.

Bureaucrash Contraband has released a number of new shirts and hoodies, some featuring designs submitted by crashers. Links from allied organizations and friendly sites have helped to introduce more people to our line of apparel, which quite literally allows individuals to wear their ideas on their sleeves—encouraging even more people to question the status quo and think for themselves.



## THE GOOD

### Free the Oklahoma Three!

The Tenth Circuit Court of Appeals in December declared unconstitutional an Oklahoma law that had been used to indict activist Paul Jacob and two others for the heinous crime of gathering signatures to place a taxpayer bill of rights on the ballot without being a resident of the state. The case may be appealed but CEI Legal Counsel Hans Bader points out that such restrictions have been struck down by a number of federal appeals courts.

"Oklahoma Attorney General Drew Edmondson's office and his supporters defended the prosecutions as a way of keeping people from outside the state from participating in Oklahoma state politics. Such a purpose is flatly at odds with the First Amendment, which protects non-residents and residents alike," explains Bader. "Out-of-staters play a critical role in movements for political change, like the push for term limits, whose leading exponent is Paul Jacob, the most prominent of the 'Oklahoma Three.'"

## THE BAD

### Bush Seeks to Bail out the Big Three

It could have been worse—probably. Yes, President George W. Bush and Treasury Secretary Henry Paulson decided in mid-December to use some of the \$700 billion in already-approved funds to bail out Detroit's cash-strapped auto makers. There were two silver linings to this clouded decision. First, Ford refused to take the bailout money. Second, the Senate voted down additional funds for automakers, perhaps signaling bailout fatigue that could carry over into the next Congress.

When the next Congress convenes, they might think about a different kind of bailout—a break from excess regulation. Senior Fellow Iain Murray points out, "There are hundreds of regulations that Congress and agencies have imposed on the auto industry, driving up their costs unnecessarily." Murray argues, "A deregulatory bailout would save the industry billions, and also save thousands of lives." What's not to like?

## THE UGLY

### NBC Pushes "Green Week"

In mid-November, NBC held "Green Week," an annual effort to show viewers ways to "green your routine." It sounds innocuous enough, but "Green Week" is actually part of a manipulative business strategy employed by General Electric (GE), the owner of NBC.

Energy Policy Analyst William Yeatman points out, "GE is a world leader in the production of clean energy goods and services that people don't want to buy, like compact fluorescent light bulbs. That's why it spends millions every year to convince the Congress to pass laws like last year's energy bill, which forces consumers to buy compact fluorescent light bulbs. Generally speaking, Americans don't like being told what to do, so GE uses 'Green Week' to propagate global warming alarmism and frighten Americans into accepting rules and regulations that force them to buy GE products."

# MediaMENTIONS

Compiled by Richard Morrison



**General Counsel Sam Kazman questions the thinking behind Chevron's latest ad campaign:**

But what Chevron now calls "found energy" is as far removed from discovering oil as a dieting book is from producing food. Chevron seems to have become more apologetic about oil than drug pushers are about drugs. Has it been taken in by the notion of our alleged "addiction to oil"?

It's true that many politicians nowadays use that idiotic metaphor incessantly. But if those politicians were serious about breaking this "addiction," they wouldn't have been climbing the walls last summer looking for ways to bring gas prices down.

Chevron should know better, yet its website offers an easy-to-e-mail cartoon showing an "Oil Addiction Treatment Center" with bikes parked outside.

*-Investor's Business Daily, November 13*

**Senior Fellow Eli Lehrer warns of the insurance liabilities being run up by state governments:**

Quite simply, states along the Gulf and Atlantic Coasts have taken on massive—probably unpayable—property insurance burdens in order to keep homeowners' insurance rates down. Florida alone has a potential taxpayer liability of at least \$36 billion in bonds. (No state has ever issued more than \$11 billion in bonds all at one time.) Texas, Louisiana, Massachusetts, North Carolina, Mississippi also have large and growing obligations to insure their citizens' homes. (Virginia has, so far, resisted doing anything like this.) These enormous liabilities could result in a massive stream of private and public bankruptcies following a single, bad storm season.

*-Roanoke Times, November 16*

**Senior Fellow Christopher C. Horner**

**reminds us of Enron's role in global warming policy:**

In internal memos, Enron famously argued that the Kyoto Protocol was "precisely what [Enron has] been lobbying for" and that "this agreement will be good for Enron stock!" Not good enough, apparently.

When Enron's drama unfolded in 2001, the pressure group for rent-seeking businesses called the Pew Center on Global Climate Change quickly airbrushed its website of praise for the company, specifically Pew's erstwhile poster boy for climate "responsibility," Ken Lay. Lay and Enron were founders of Pew's Business Environmental Leadership Council, a green-tinted coalition that was pushing the Kyoto agenda.

*-Energy Tribune, November 13*

**Senior Fellow Iain Murray describes the roots of the mortgage crisis:**

Beginning in the early 1990s, the Clinton Administration pursued a superficially laudable policy of extending home ownership into the less advantaged sectors of society. In the name of racial and economic equality, banks and lenders were subjected to carrots and sticks to get them to offer more loans to people who would not traditionally qualify, with Fannie Mae and Freddie Mac backing up the policy. This helped weaken traditional underwriting disciplines. New products were invented, which quickly spread through the market and proved particularly attractive to property speculators. This is where the toxic assets at the base of the financial scandal originated.

*-National Review Online, November 12*

**Energy Policy Analyst William Yeatman takes on Michigan Governor Jennifer Granholm's plan for creating more "green" jobs:**

What the governor really wants is for the state government to pick winners and losers in Michigan's energy market. This will not yield efficient outcomes. Taxpayer money spent on creating "green jobs" comes out of the market economy, which otherwise would have allocated those resources more efficiently to produce goods and services that consumers actually want. Government pushing "green" goods and services on consumers carries a direct cost, which can be measured in taxpayer dollars, as well as an indirect cost, in forgone economic productivity.

*-Detroit News, November 11*

**Adjunct Fellow Doug Bandow predicts what we'll see organized labor lobbying for in the next Congress:**

At the top of labor's agenda is the misnamed Employee Free Choice Act (EFCA), which would deny employees the opportunity to vote before a union takes over their workplace.

Today organized labor represents just 7.5 percent of private employees. Labor officials blame their woes on the fact that they must win a secret ballot to force company recognition. So organized labor proposes doing away with elections if 50 percent of the workers plus one sign a card.

Unions dislike secret ballots, which protect workers from retaliation for rejecting representation. In contrast, labor organizers find it much easier to mislead and harass workers to sign a union card.

*-Korea Times, October 7*



### Scrooge Empowerment Bill

In response to scare stories about lead paint in children's toys made in China, Congress quickly passed the Consumer Product Safety Act of 2008. The bill mandates that manufacturers perform expensive tests on toys and other children's products and mandates a minimum \$100,000 fine for each violation, regardless of severity or intent. The upshot is a law that may force small toy companies and other firms that gear their products toward children to hike their prices, or go out of business. Bah, humbug.

### Send in the Expendable Crewmen

Writing in the *Wall Street Journal*, Bret Stephens suggested a reason for the recent uptick in international piracy that has captured headlines. The U.N. Law of the Seas Convention, which CEI has long opposed, "enjoins naval ships from simply firing on suspected pirates. Instead, they are required first to send over a boarding party to inquire of the pirates whether they are, in fact, pirates." How is the boarding party supposed to respond when they answer, "Yes, we arrrrre"?

## ...END NOTES



### Fourteen Carrots

In November, food bureaucrats at the European Agricultural Commission decided to do something sensible. About 20 percent of European produce had routinely been tossed out by inspectors for purely aesthetic reasons. Rising food prices and falling incomes forced them to reconsider. The restrictions were abolished on 26 types of fruits and vegetables and relaxed on 10 others. German Rural Affairs Secretary Hilary Benn told the *Times* of London, "Frankly, if shops want to sell, and consumers want to buy, funny-shaped carrots and turnips then I do not really see what the problem is."

### Out with the Old

The *New York Times Magazine's* 2008 Year In Ideas issue reviewed several proposals of possible interest to *Planet* readers, including carbon penances, personal airbags for the elderly, a dog-poop DNA data bank, "gas that's always less than \$3 a gallon," "Plants' rights," and—no joke—"eating kangaroos to fight global warming."



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