



CATO
INSTITUTE

CATO INSTITUTE 2014 ANNUAL REPORT

“A venerable libertarian research center unafraid to cross party lines. . . . Over the years, Cato has successfully injected libertarian views into Washington policy and political debates, and given them mainstream respectability.”

—NEW YORK TIMES



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THE YEAR 2014 was one of accomplishment and momentum for the Cato Institute. Revenue for the fiscal year ended March 31, 2015, was \$37,300,000, an increase of 28 percent over last year, which was an increase of 32 percent over the previous year. Growth of that magnitude is difficult to achieve but it was driven in this instance by Cato's significant policy successes. We recognize that libertarians are careful and conscientious donors who give



PETER GOETTLER
PRESIDENT

MESSAGE FROM THE
PRESIDENT
AND THE
CHAIRMAN



ROBERT A. LEVY
CHAIRMAN

Cato Institute Surveillance Conference, a standing-room-only event analyzing the various threats to our liberty and privacy. And these are but a few select highlights of our 2014–15 policy accomplishments.

The Cato Center for Monetary and Financial Alternatives was launched in 2014. This groundbreaking initiative brought together one of the most distinguished groups of scholars

to effective and productive organizations. That's why we are committed to the strategic use of the resources you entrust to us. That focus and objective guides all of our efforts—fundraising, outreach, and policy.

Cato literally led the policy debate in several key areas. On March 4, 2015, the U.S. Supreme Court heard another major challenge to the legality of Obamacare. This challenge was crafted by Director of Health Policy Studies Michael Cannon and turned on the fact that Obamacare's subsidies and taxes can only legally take effect in those states that set up their own exchanges—and not in the 36 states that declined to do so. For years Cato has been shining a light on the disturbing trend toward the militarization of police forces nationwide. When the response to riots in Ferguson, Missouri, showcased the issue quite graphically, the director of Cato's Project on Criminal Justice, Tim Lynch, was a high-profile, go-to source for insight and commentary. Once again, Roger Pilon and Ilya Shapiro of the Center for Constitutional Studies compiled an amazing record of amicus brief filings, arguing for the winning side in 10 out of 11 briefs filed with the U.S. Supreme Court. Senior Fellow Julian Sanchez organized the 2014

and businesspeople ever associated with a libertarian organization. Many great free-market economists—including Ludwig von Mises, Friedrich Hayek, and Milton Friedman—warned that an undisciplined central bank is a threat to freedom and long-term economic well-being, and the Center will vigorously respond to this threat. Another Cato effort achieving “lift-off” during 2014 is the expanded Center for the Study of Science, offering an objective, rational challenge to the pseudo-scientific claims of climate-change alarmism. Of course, reaching young people is essential for any organization positioning itself for the future. Thanks to the special generosity of long-time Cato Sponsors Bill and Rebecca Dunn through their foundation, Cato's Libertarian Leadership Project will enable the Institute to dramatically expand its online outreach to young people—and indeed to all tech-savvy friends of liberty.

Journalists tell us that we're in the midst of a “libertarian moment.” With more and more Americans acknowledging the transformative power of free markets and individual freedom, the 2015 release of David Boaz's book *The Libertarian Mind* was perfectly timed. David's book is an integrated presentation of Cato's liberty-based philosophy and the public policies that flow from that philosophy. This is a scholarly but highly readable work that explains and legitimizes—and will also popularize—libertarianism.

The past year was also one of change for Cato: John Allison stepped down as president and CEO on April 1, 2015, and handed the reins to Peter as his successor. When John joined Cato in October 2012, he, as well as Cato's Board of Directors, understood that his tenure would be transitional. Given that Cato's forward surge of the past two years brought the Institute to a new level of stability and success, John felt the time was right to move to the next chapter of his life. The Cato Institute owes John Allison a huge debt of gratitude for outstanding leadership at a difficult time for Cato. John did not simply provide stability and continuity—he also helped drive revenue growth and policy impact. Fortunately, John is not leaving us, as he will remain on Cato's board and serve as chairman of the Executive Advisory Board of the Center for Monetary and Financial Alternatives.

Largely due to Cato's growth and success, libertarianism is recognized as a legitimate political philosophy. We are delighted to be working with Cato's outstanding staff and fellow Cato Sponsors to help build the free and prosperous society we desire for our future generations.



“Michael Cannon is an ardent Obamacare opponent who runs the health policy program at the libertarian Cato Institute. The *New Republic* has described him as ‘Obamacare’s most relentless antagonist.’ They’re absolutely right; Cannon has spent the past three years testifying in countless statehouses, imploring legislators not to implement Obamacare. Now, he’s gotten the Supreme Court listening.”

—VOX

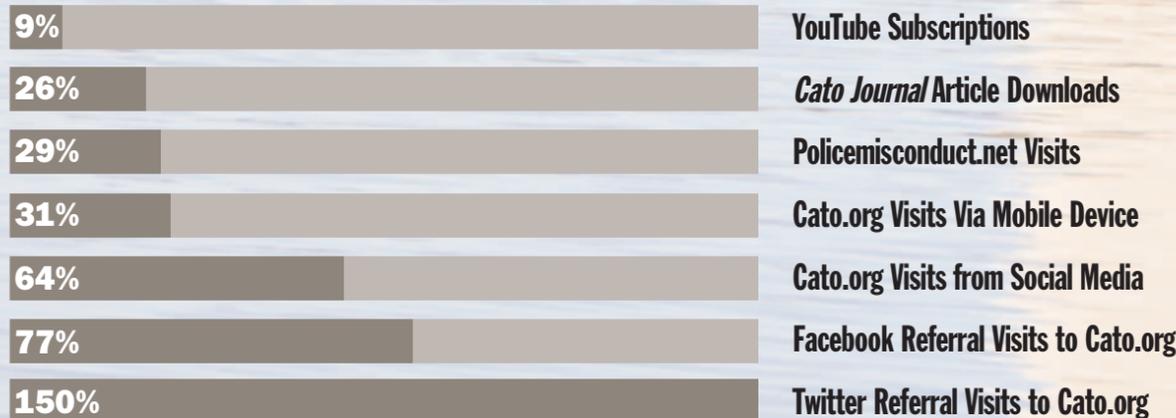
As the political landscape becomes increasingly tense, broad segments of the American public have begun to question the effectiveness of a vast federal bureaucracy. In turn, many have become disillusioned with the establishment on both the left and right. But amidst the shifting currents of mainstream political thought, libertarianism is ascendant, cutting across traditional ideological boundaries with a philosophy of fiscal responsibility, social tolerance, and restrained foreign policy.

For nearly four decades, the Cato Institute has laid the groundwork for this sea change in ideas. Over the course of the past year, the Institute’s scholars have set their sights on the key issues of the day—from the fragile state of Obamacare to the heated debate surrounding immigration reform—applying a skeptical lens to all forms of government intervention, whether economic, social, or foreign. As a result, Cato’s voice is now stronger than ever, delivered from an international platform to an increasing number of citizens who aren’t comfortable on either side of the political aisle.

The philosophy of freedom has deep roots in the country’s founding. But that doesn’t mean that it remains buried in the dustbins of history. “The political awakening in America today is first and foremost the realization that libertarianism is not a relic of the past,” David Boaz, executive vice president of the Institute, writes in his new book, *The Libertarian Mind*. In fact, libertarianism is a framework for the future. “In American politics it is the leading edge—not a backlash, but a vanguard.”

IMPACT

In the fast-paced policy debate the Cato Institute is uniquely positioned to advance well-reasoned, objective research and analysis via rapid response channels and events. Cato's media and marketing teams work diligently to disseminate Cato's message across all popular print and online platforms—blogs, op-eds, TV and radio appearances, and social media. And due largely to the substantial expansion of Cato's event calendar over the past year, Cato's audience and impact is ever-growing.



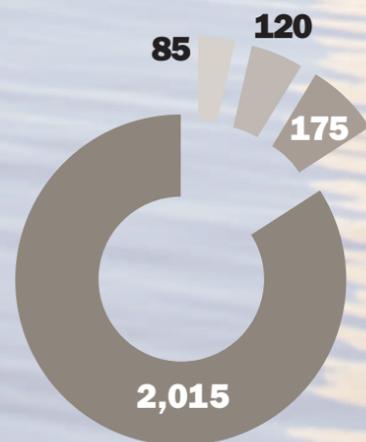
Percentages represent increases in 2014.

Supreme Court



11 Amicus Briefs filed at U.S. Supreme Court
10 Victories

Students

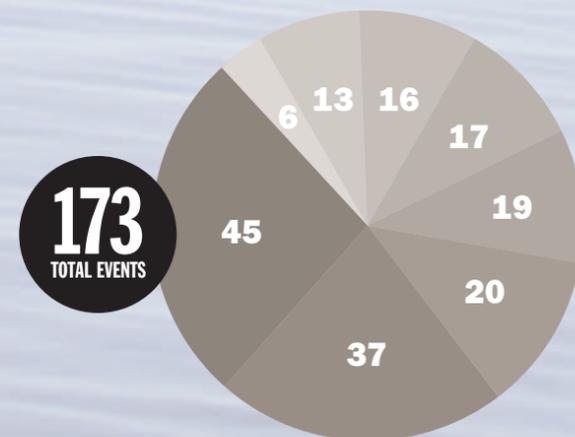


2,015 Students in Cato Outreach Programs
175 Cato University Participants
120 Students in Cato University in Latin America
85 Interns

Events



- | | | |
|----------------------------|---------------------------|----------------------------|
| 1 Atlanta, GA | 1 Middleburg, VA | 1 Raleigh, NC |
| 1 Beverly Hills, CA | 4 Naples, FL | 1 San Diego, CA |
| 1 Charlotte, NC | 1 Nashville, TN | 1 San Francisco, CA |
| 2 Chicago, IL | 2 New York, NY | 1 Sarasota, FL |
| 1 Miami, FL | 1 Philadelphia, PA | 154 Washington, DC |



173 TOTAL EVENTS

Online

10,000,000 WEB VISITS
245,131 FACEBOOK "LIKES"
231,240 TWITTER FOLLOWERS

News & Print Media

1,428 TELEVISION & RADIO HITS
1,335 BLOG POSTS
893 OP-EDS

Publications

57 REGULATION MAGAZINE ARTICLES AND BOOK REVIEWS
44 CATO UNBOUND ESSAYS
33 CATO JOURNAL ARTICLES
32 REGULATION MAGAZINE FEATURE ARTICLES
22 POLICY ANALYSIS STUDIES
16 RESEARCH BRIEFS IN ECONOMIC POLICY
14 CATO SUPREME COURT REVIEW ARTICLES
12 CATO PAPERS IN PUBLIC POLICY ARTICLES
12 CATO JOURNAL BOOK REVIEWS
11 WORKING PAPERS
7 CATO BOOKS
6 DOWNSIZING GOVERNMENT ESSAYS
6 ISSUES OF CATO POLICY REPORT
5 ECONOMIC DEVELOPMENT BULLETINS
4 ISSUES OF CATO'S LETTER

LIBERTY FIRST

After taking office in 2009, President Obama suffered a string of losses before the Supreme Court, racking up 20 unanimous high court defeats. The Cato Institute, however, has found itself on the opposite trajectory. In another successful term at the Supreme Court, Cato's Center for Constitutional Studies went 10-1 in cases where it filed amicus briefs. This was on the heels of its 15-3 record the previous term. "Perhaps the government would be better served following our lead on constitutional interpretation, advocating positions that reinforce our founding document's role in securing and protecting individual liberty," Ilya Shapiro, senior fellow at the Institute, wrote in response.

The Institute filed on the winning side of the term's three high-profile cases and was the only organization in the country to do so. *Burwell v. Hobby Lobby* was the year's most anticipated case, in which Hobby Lobby, a family-owned business, filed suit challenging the Affordable Care Act's contraceptive mandate by citing religious objections. The Court ultimately sided with Hobby Lobby. After the ruling, Cato's vice president for legal affairs Roger Pilon identified the core issue in the case. "Religious liberty is treated today as an 'exception' to the general power of government to rule—captured, indeed, in the very title of the statute on which the Hobby Lobby decision rests: the Religious Freedom Restoration Act," he wrote on Cato's blog. "That Congress had to act to try to restore religious freedom—to carve out a space for it in a world of ubiquitous, omnipresent government—speaks volumes."

The implementation of Obamacare has been littered with illegalities. The administration has continued to reinterpret the statute at will, and Cato has continued to lay the legal groundwork for challenges. As written, the Affordable Care Act offers subsidies to taxpayers who purchase insurance through an exchange "established by the State." After 36 states refused to establish exchanges, the IRS quietly reversed its interpretation of the law, announcing that it would issue these subsidies—and the taxes they trigger—through federally run exchanges. This was a clear departure from the language of the law. If the subsidies in those states are illegal, then the IRS is also subjecting more than 57 million individuals and employers to illegal taxes.

“Cleverly, Cannon and Preble find a fiscal solution for what at first glance seems like an intractable political problem, which is the tendency of lawmakers to neglect the lasting consequences of their actions.”

—SLATE

The Cato Institute's Michael Cannon, along with Case Western Reserve University law professor Jonathan Adler, was the first to blow the whistle on this problem, prompting two states, dozens of public school districts, and a handful of taxpayers to file four separate lawsuits. Two of these have received favorable rulings. The Supreme Court has agreed to review a third, with oral arguments scheduled for March. This could mark the beginning of the end for Obamacare. At their core, however, these cases are not just about the health care law. They are about "determining whether the president, like an autocrat, can levy taxes on his own authority," Cannon and Adler wrote in the *Wall Street Journal*.

The Institute has remained at the forefront of this battle. "Cannon has spent the past three years testifying in countless statehouses, imploring legislators not to implement Obamacare. Now, he's gotten the Supreme Court listening," *Vox* wrote in a profile of Cato's director of health policy studies. "The lawsuit is a genuine existential threat," *Vox* added—referring to Cannon as "the man who could bring down Obamacare."

Beyond Obamacare, the progress has been clear. On any number of issues—from campaign finance reform and police militarization to same-sex marriage and marijuana legalization—the trend lines have been striking. The shifting landscape of the U.S. legal establishment has been moving clearly toward an environment where individual rights and personal liberty come first.

In one sense, these developments indicate the weight of Cato's work



TOP: Michael Cannon (left), director of health policy studies at the Cato Institute, and Caleb Brown (right), director of multimedia, discussed the outlook for the Affordable Care Act on the heels of the D.C. Circuit Court of Appeals' *Halbig v. Burwell* ruling during a Cato Sponsor e-Briefing. **BOTTOM LEFT:** At a Policy Forum in May, Ilya Shapiro, senior fellow in constitutional studies at Cato, charged the Obama administration with "blatantly violating the strictures of our founding documents." **BOTTOM MIDDLE:** At a policy forum, "Pruitt, Halbig, King & Indiana," Brianne Gorod of the Constitutional Accountability Center focused her analysis on legislative history and congressional intent. **BOTTOM RIGHT:** Roger Pilon, B. Kenneth Simon Chair in constitutional studies and vice president for legal affairs at the Institute, provided an astute account of the emergence of a modern libertarian legal movement at a Book Forum for Damon Root's *Overruled: The Long War for Control of the U.S. Supreme Court*.



today. But that impact is the cumulative effect of more than 30 years of intellectual debate. Over that period, the Institute's mission has been to shift the climate of ideas to one more conducive to a government of delegated, enumerated, and limited powers.

In 1989 Cato's Center for Constitutional Studies was established. Its mission is to reanimate the ideas laid down by the Framers in their original vision: liberty and equality through limited constitutional government. With an approach grounded in the nation's first principles, the Center soon became an important force in the national debate. The tenets of libertarian legal theory have been refined in the years since, but they are hardly new. They are the product of centuries of thought. "They rest on principles that have been understood over the ages, even if too often forgotten or ignored," Pilon wrote in the *Chapman Law Review*. In the decades since the Center's inception, Pilon has helped cultivate these ideas, guiding them from what was once an emerging consensus to what is now a full-fledged movement.

"Progressives thought they could improve the lot of mankind by ordering vast areas of life through law," he continued. "America's Founders knew better."



TOP: Hon. Diane Sykes of the U.S. Court of Appeals for the Seventh Circuit delivered the annual B. Kenneth Simon Lecture on the limits of judicial minimalism at the 13th Annual Constitution Day Symposium in September.

BOTTOM LEFT: At "The Libertarian State of the Union" last January, Cato scholars **Ilya Shapiro** (left), **Julian Sanchez** (middle), and **Michael Tanner** (right) analyzed timely issues through the lens of liberty on Capitol Hill. **BOTTOM RIGHT:** At the 13th Annual Constitution Day Symposium, **Nadine Strossen** of New York Law School, a former president of the American Civil Liberties Union, defended the First Amendment right to political speech.



A ROAD MAP FOR MONETARY AND FINANCIAL REFORM

Over the past century, the Federal Reserve's monetary policies have been a primary cause of financial booms and busts. The resulting recessions and depressions have in turn been the justification for the growth of government from the New Deal to the Obama administration. The Fed's vast expansion of power since the 2008 financial crisis—including new regulatory powers, monetization of government debt, suppression of interest rates, and a concentrated effort to pump up asset prices—poses a serious threat to future prosperity and freedom.

In any society, the choices made by its central bank are what determine whether or not economic harmony will emerge. “For this reason,” F. A. Hayek wrote in 1960, “all those who wish to stop the drift toward increasing government control should concentrate their effort on monetary policy.”

The Cato Institute launched its Center for Monetary and Financial Alternatives in October. With the ultimate goal of building the intellectual foundation for a free-market banking system, the Center's mission is to develop and communicate a comprehensive policy road map for a return to sound money.

The Institute is uniquely positioned to lead this effort. “We've assembled a group of scholars who will challenge the Federal Reserve in a way it hasn't been challenged in 100 years,” then-Cato president John Allison said in announcing the new center. George Selgin, one of the foremost authorities on banking history and monetary theory, gave up his academic tenure at the University of Georgia to direct the Center. James A. Dorn, vice president for monetary studies and the architect of Cato's internationally renowned Annual Monetary Conference, and Mark Calabria, director of financial regulation studies, also play leading roles in its management. The Center's Council of Academic Advisors includes two Nobel laureates in economics.

The Center for Monetary and Financial Alternatives is already attracting some of the country's foremost intellectual luminaries. (See list of Executive Advisory Council members on page 21.) “We don't want to turn back the clock to 1913, or to any other bygone era,” says Selgin. “But we do need to

George Selgin, the newly minted director of Cato's Center for Monetary and Financial Alternatives, examined the role of gold in a market-based monetary system at the 32nd Annual Monetary Conference.





ABOVE: At a Cato Policy Forum, **Congressman Darrell Issa (R-CA)**, chairman of the House Committee on Oversight and Government Reform, illuminated the glaring illegality of the Department of Justice’s “Operation Choke Point.” **TOP RIGHT:** At a Book Forum for *Renewing the Search for a Monetary Constitution*, co-editor **Lawrence White** (left), a senior fellow at the Cato Institute and professor of economics at George Mason University, was interviewed in a special “live” edition of **Russ Roberts’** weekly podcast, *EconTalk*. **RIGHT:** Last February, **Mark Calabria**, director of financial regulation studies at the Cato Institute, stated before the House Committee on Financial Services that “the Federal Reserve is more the cause of economic instability than it is the cure.”

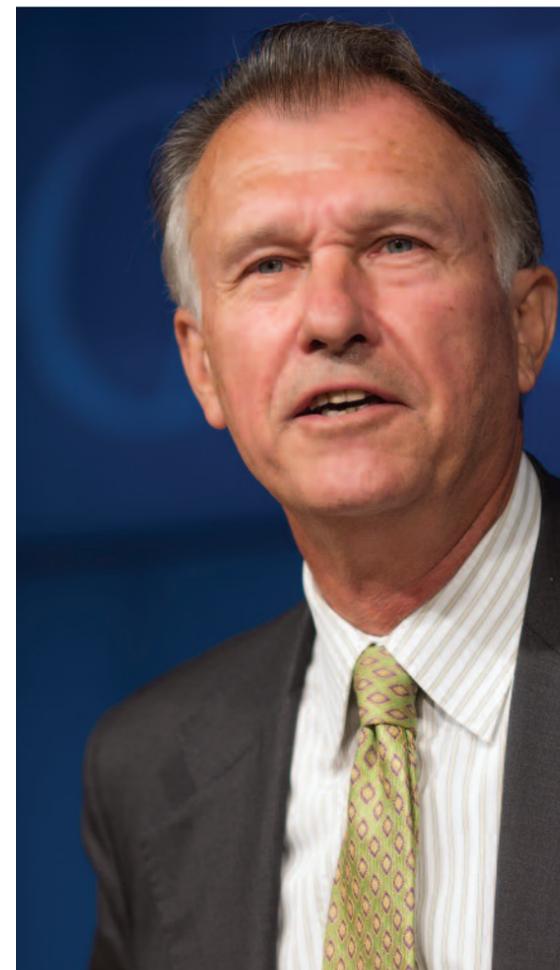
change the intellectual climate from the present one” by offering a practical reform agenda that points the way to liberty and prosperity.

The Center will provide a critical addition to Cato’s monetary platform, which over the years has established a reputation for objective research and sound analysis. At the 32nd Annual Monetary Conference, the Institute brought together prominent scholars, lawmakers, and business leaders to consider the role of monetary policy in preventing financial instability. Panelists discussed a range of topics—from the bitcoin revolution and the future of cryptocurrencies to the role of gold in a decentralized monetary regime—before considering the path toward fundamental reform.

In his keynote address, James Grant, the founder of *Grant’s Interest Rate Observer*, declared that the need for sound money is clear and urgent. “Money is as old as the hills, and credit—the promise to pay money—is as old as trust,” he said. “Yet we still search for an answer.” Grant went on to explain that the notion of sound money is neither clear nor urgent to those who own so much of the other kind.

When President Barack Obama signed the Wall Street Reform and Consumer Protection Act into law in 2010, he promised that “because of this law, the American people will never again be asked to foot the bill for Wall Street’s mistakes.” However, four years out, the implementation of Dodd-Frank turned out to be more costly, lengthy, and complex than its proponents anticipated. At the first annual regulatory conference, directed by Calabria and cohosted by the Mercatus Center, scholars came together to scrutinize what has become the largest increase in bank regulation in history.

In his keynote address, Richard Kovacevich, former chairman and CEO of Wells Fargo, pinpointed one of the key problems with Dodd-Frank. Only about 20 financial institutions were at the center of the recent financial crisis. Yet, from the beginning, the federal government attempted to address the problem indiscriminately. “These 20 failed in every respect, from business practices to ethics,” Kovacevich said. “Yet 6,000 commercial banks are now being punished with Dodd-Frank penalties in the same way as those guilty parties.”



TOP LEFT: Rep. Jeb Hensarling (R-TX), chairman of the House Financial Services Committee, delivered the keynote address at the Cato conference “After Dodd-Frank: The Future of Financial Markets.” **TOP RIGHT:** On day two of the “After Dodd-Frank” conference, **Richard Kovacevich**, chairman emeritus of Wells Fargo, provided insights regarding the policies needed for economic growth. **LEFT:** At the 32nd Annual Monetary Conference, **James A. Dorn** (left), Cato’s vice president for monetary studies, and keynote speaker **James Grant** (right), founder and editor of *Grant’s Interest Rate Observer*, made the urgent case for sound money and the reforms needed to realize it.

Center for Monetary and Financial Alternatives

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A LIBERTARIAN AWAKENING?

In recent years, citizens of all stripes have grown weary of both liberalism and conservatism. “The two ‘mainstream’ perspectives strike many as inconsistent and hypocritical, and far more similar than different,” Jeffrey Miron, director of undergraduate economic studies at Harvard University, wrote in the *Washington Times*. “Both advocate large and intrusive government, albeit in different arenas, despite rhetoric that claims otherwise.” The time is ripe, he added, for a libertarian awakening.

In March Miron was named director of economic studies at Cato, where he oversees all economic and budget-related research while maintaining his responsibilities at Harvard. “Cato’s work on economic policy is crucial to challenging the alleged benefits of government intervention—dispassionate analysis shows that most interventions have far fewer benefits, and far greater costs, than proponents claim,” he said upon assuming his new position.

Nowhere are the problems of intervention more clear than in the so-called War on Poverty. On January 8, 1964, President Lyndon Johnson declared his goal not only to “relieve the symptom of poverty, but to cure it and, above all, to prevent it.” Over the past 50 years, federal and state governments have spent more than \$19 trillion in that pursuit. At a Cato Institute Conference at Columbia University—“Can We End Poverty?”—a diverse group of experts came together to assess the failure of the American welfare state.

Today, welfare is rising even as unemployment declines. One hundred and ten million Americans live in households that receive some form of welfare from the government—the highest number in American history. Michael Tanner, senior fellow at the Cato Institute, explained that despite spending more and more money, these programs have long since reached a point of diminishing returns.

“Good intentions are not enough,” he said. “We should not continue to throw money at failed programs in the name of compassion.” The day concluded with a discussion of the role private charity can assume as a real-

At a Cato Conference on the future of U.S. economic growth, **Brink Lindsey**, vice president for research at Cato, solicited suggestions for how to change policy to brighten the U.S. economy’s long-term growth prospects.



istic alternative to the government's failed antipoverty initiatives.

The impact of heavy-handedness can be seen on a broader scale as well, with overspending and overregulation predictably taking a toll on the country's long-term economic outlook. Despite the Great Recession's ending more than five years ago, the main engines of growth appear to be sputtering. Why does the economy remain so sluggish? At a Cato Institute Conference in December, leading economists and policy experts from across the ideological spectrum joined to explore possible avenues for reversing the trend.

"The problem of improving long-term U.S. economic performance is incredibly complex: there are no silver bullets, so meaningful progress will take the form of policy reforms on a whole host of different fronts," Brink Lindsey, Cato's vice president for research, said. Other distinguished panelists at the event included Nobel laureate Edmund Phelps of Columbia University, Edward Glaeser and Dale Jorgenson of Harvard University, Robert Gordon of Northwestern University, and Erik Brynjolfsson of MIT. "It makes sense then to look for promising approaches from as many different angles as possible," Lindsey concluded.

One promising angle is to encourage states to improve their investing climates. In the "Fiscal Policy Report Card on America's Governors 2014"—a biennial survey by Chris Edwards, Cato's director of tax policy studies, and Nicole Kaeding, the Institute's budget analyst—the authors used statistical data to grade the governors on their tax-and-spending records. "The recession of 2007–2009 knocked the wind out of state government budgets," they wrote. Despite the fact that revenues and spending have grown in recent years, the states face major challenges down the road. "Governors play a key role in state fiscal policy," asserted Edwards and Kaeding. The best reforms, they concluded, will cut spending and increase tax competition. What matters most, as Milton Friedman always said, is the size of government.

Following from this insight, Cato senior fellow Dan Mitchell proposed what he calls "the golden rule of fiscal policy" in the pages of the *Wall Street Journal*. "Rather than fixating on deficits and debt, I suggest another goal: Ensure that government spending, over time, grows more slowly than the private economy," he wrote. "Evidence from economies around the world shows this is the best path to bring down deficits and nurture prosperity."



TOP: James L. Buckley, a former U.S. senator and federal judge, laid bare the political and fiscal benefits of ending aid-to-state programs at a December 2014 Capitol Hill Briefing for Buckley's new book *Saving Congress from Itself*. **BOTTOM LEFT:** At Cato University on Capitol Hill in August, Nicole Kaeding, a budget analyst for the Cato Institute, provided a federal budget overview for journalists and Hill staffers. **BOTTOM RIGHT:** At a policy briefing on Capitol Hill Dan Mitchell, a senior fellow at Cato, explained why the fiscal outlook is worse than shown in official projections.



The Cato Institute's Milton Friedman Prize for Advancing Liberty, named in honor of perhaps the greatest champion of liberty in the 20th century, is presented every other year to an individual who has made a significant contribution to advance human freedom. **Leszek Balcerowicz**, former deputy prime minister and finance minister of Poland, was selected by a distinguished International Selection Committee and awarded the Prize at the Waldorf-Astoria in New York City in May 2014.

Balcerowicz was chief architect of the Balcerowicz Plan, a radical reform program that liberalized the prices of most consumer goods and initiated sound fiscal and monetary measures designed to balance the budget and end hyperinflation. "As an economic crisis manager, Leszek Balcerowicz has few peers," the *Wall Street Journal* declared in a weekend interview with the Polish economist in December 2012. "When communism fell in Europe, he pioneered 'shock therapy' to slay hyperinflation and build a free market. In the late 1990s, he jammed a debt ceiling into his country's constitution, handcuffing future free spenders. When he was central-bank governor from 2001 to 2007, his hard-money policies avoided a credit boom and likely bust." The next Prize will be awarded in May 2016.

TOWARD FREEDOM AND PROSPERITY

This has been called the information age, which also makes it an age of surveillance. Never in human history have people been more connected—or more thoroughly monitored than they are today. Over the past year, the disclosures spurred by former National Security Agency (NSA) contractor Edward Snowden have drawn public attention to the stunning surveillance capabilities of the American intelligence community. Are these tools a vital weapon against criminals and terrorists—or a threat to privacy and freedom?

At the 2014 Cato Institute Surveillance Conference, a diverse array of journalists, lawyers, technologists, and intelligence officials came together in an attempt to reconcile the tension between privacy and security. As senior fellow Julian Sanchez noted in his opening remarks, information has become a central means for protecting ourselves from a multiplicity of threats. "At the same time, the architecture of monitoring . . . that we are constructing in order to make ourselves safer threatens to undermine the preconditions of liberal democracy."

The conference included discussions with Google's Eric Schmidt and Rep. Thomas Massie (R-KY), and an engaging surprise interview with NSA whistleblower Edward Snowden. In a remote discussion over Skype, Snowden said that he was "broadly satisfied" with the reaction to his disclosures. "We have seen a change in public opinion, in public awareness. We have seen an increased openness and innovative spirit in government—not by choice, but by necessity," he said.

The NSA, however, is only part of the surveillance story. Since the attacks of September 11, 2001, state and local police have formed data "fusion centers" across the country, partnering with the federal intelligence community to share a wide array of personal information in an effort to prevent terrorism. With Sanchez, Cato senior fellow Jim Harper has literally led the debate on issues at the intersection of technology and policy with studies, op-eds, and a huge social media presence. At a Cato Policy Forum last July, Sanchez noted that even ordinary law enforcement agencies increasingly employ sophisticated tracking technologies. "It's often hard to keep track of how tracked we are," he concluded.



Pat Michaels, director of the Center for the Study of Science, argued at a Capitol Hill briefing that science and research are most certainly not public goods and that we could—if we wished—leave R&D solely to the market.



At a Cato Policy Forum, **Emma Ashford**, a visiting fellow in Defense and Foreign Policy at Cato, moderated a panel to evaluate the structure of the North Atlantic Treaty Organization and its effectiveness at addressing transatlantic security concerns.

To address these clear civil liberties violations, the country must begin by dragging privacy law at the federal level into the 21st century. “The generals who have built the NSA into a fiefdom will fight tooth and nail against true reform,” wrote Jim Harper. “But the most prominent measures under discussion are mere nibbles around the edges of the problem, or worse.”

As the current administration entangles itself further in Iraq and Syria, it seems that the lessons from conflicts past have not been realized. “The amount we’re paying now to fight terrorism—roughly \$100 billion per year—is simply crazy,” Justin Logan, Cato’s director of foreign policy studies, wrote in *Politico* in October. “If someone ran a hedge fund assessing risk the way the U.S. government has responded to terrorism, it would not be long for the world.”

In *A Dangerous World? Threat Perception and U.S. National Security*, a new book edited by Christopher A. Preble, vice president for defense and foreign policy studies, and John Mueller, a Cato senior fellow, a number of scholars challenge the notion that the United States faces more and more threats. “By chipping away at the common perception that the world is getting more dangerous each day, the contributors to this volume attempt to tame the tendency to overreact,” Preble and Mueller write.

Nevertheless, the United States has initiated its largest military operation in Iraq in years. According to Cato senior fellow Ted Galen Carpenter, the conflict surrounding the Islamic State of Iraq and Syria is “a complex, multisided, regional power struggle,” as he wrote in *National Interest*. “Given the disparate motives of the various parties, it is unwise for U.S. officials to view the fight against ISIS as a stark conflict between good and evil.” Preble argues that targeted air strikes against the extremists and military assistance to Kurdish and Iraqi forces will degrade the extremist group’s already limited capabilities. “The president should focus upon that narrow mission, and resist the calls to launch the U.S. military on yet another quixotic nation-building crusade in the Middle East,” he wrote at Reason.com.

This doesn’t mean, however, that the country should hesitate to engage others. For nearly a decade now, the Cato Institute’s Center for Global Liberty and Prosperity—under the direction of Ian Vásquez—has worked tirelessly to advance policies around the world that protect human rights, extend personal choice, and support the central role of economic freedom in ending poverty. In April, the Center held a Latin American version of Cato University—the Institute’s premier educational event—in Caracas, Venezuela. The event attracted more than 60 students from across the

country to hear lectures on the impossibility of socialism, and the relationship between economic freedom and human progress. Building on the Institute’s extensive work in the international arena, Vásquez recognizes that student movements are one of the driving forces behind the struggle for freedom in Venezuela and beyond.

Since the federal government began counting in 1820, more than 75 million immigrants have legally entered the United States to begin new lives. During the migrations of the late 19th and early 20th centuries, millions of immigrants helped power America’s industrial rise. Today, immigrants continue to fill niches in the labor market.

The overriding impact is to enrich American culture, increase economic output, and raise the standard of living of American citizens. Immigration does not undermine the American experiment—it’s an integral part of it.

“Most of the public debate over immigration reform centers on the 11 to 12 million unauthorized immigrants who are already here,” Cato immigration policy analyst Alex Nowrasteh wrote in the *Washington Post*. “Solving this mess requires long-term solutions that channel immigrants into the legal immigration system, instead of providing incentives for them to come illegally.”

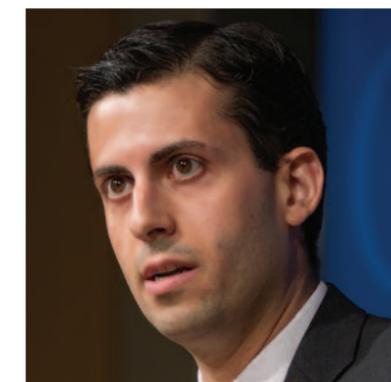
The free movement of goods and capital, like the free movement of people, is essential to a thriving market economy. And expanding engagement in the global economy has played an important role in the ongoing, upward trend in American employment and living standards. Yet barriers still remain. “The U.S. business environment, combined with growing perceptions that crony capitalism is pervasive, has grown increasingly inhospitable to manufacturers,” Daniel J. Ikenson, director of Cato’s Herbert A. Stiefel Center for Trade Policy Studies, wrote in the *Wall Street Journal*.

Can anything be done? “Yes, but the solution doesn’t call for more top-down policy,” Ikenson continued. “It involves streamlining regulations, making sure the rules of the road are coherent and consistent, and adopting less contentious policies to encourage investment and production.”

“In recent years, the science behind onerous environmental regulations has become increasingly one-sided,” Patrick J. Michaels, director of the Cato Institute’s Center for the Study of Science, said in October. “Because of the cost of these issues, it’s very important for the public to understand the broader scientific perspective, rather than one narrow view.” Launched in 2012, the Center is positioned at the nexus between sci-



Marian Tupy, editor of Human Progress.org and a senior policy analyst at the Center for Global Liberty and Prosperity, discussed rising anti-Semitism in Hungary at a policy luncheon at Cato last April.



At a Cato Policy Forum, “State-Based Visas: A Federalist Approach to Immigration Reform,” Cato immigration policy analyst **Alex Nowrasteh** and other panelists examined the costs and benefits of state and locally managed guest-worker visas.



ence and policy, providing market-based ideas that will transition decisions on climate change, energy consumption, and environmental standards away from government planners. Now, at a critical moment in the global debate, the Center is expanding its mission to investigate and document the role of government incentives in shaping science.

The Institute recently added several world-class scholars to its team, including Edward J. Calabrese, a professor of environmental health sciences at the University of Massachusetts, and Terence Kealey of the University of Buckingham. Through peer-reviewed research and analysis by distinguished climatologists, the Center will address a wide range of issues from energy use and taxation, to global warming and environmental regulation. Richard Lindzen, an emeritus professor of meteorology at MIT, is a distinguished senior fellow with the Center. “A pioneering climate scientist with decades at Harvard and MIT,” the *Weekly Standard* wrote in a cover story profiling Lindzen, “sees his discipline as being deeply compromised by political pressure, data fudging, out-and-out guesswork, and wholly unwarranted alarmism.”

The inability to define the problem has only been aggravated by impractical solutions. “The U.S. can spin its imaginary steering wheel and stomp on its imaginary brake all it wants,” Paul C. Knappenberger, assistant director of the Center, wrote in *U.S. News and World Report*, “but those actions won’t change the direction or the speed of approach of the climate changes that are to come.”

TOP LEFT: David Boaz, executive vice president of the Cato Institute, cited positive trends in human well-being around the world during his opening remarks at a Cato Book Forum for *The Moral Arc: How Science and Reason Lead Humanity toward Truth, Justice, and Freedom*.

TOP RIGHT: At a Capitol Hill Briefing, Cato’s trade policy team, including **Dan Ikenson** (left), director of the Herbert A. Stiefel Center for Trade Policy Studies, and **Simon Lester** (right), a policy analyst at the Center, addressed the strengths and shortcomings of the Obama administration’s trade agenda, and forecasted trade policy in 2014 and beyond.

FACING MIDDLE: Flemming Rose visited Cato in November to discuss his book, *The Tyranny of Silence*.

JE SUIS Charlie

When a Danish newspaper published a variety of cartoons featuring the Prophet Muhammad, radical Islamists created violence, held boycotts, and eventually caused some 200 deaths around the world. The heroic editor who exposed the true nature of these people was Flemming Rose. Cato is proud to have published his latest book, *The Tyranny of Silence: How One Cartoon Ignited a Global Debate on the Future of Free Speech*. It was named one of the top 10 current-affairs books of 2014 by *The Economist*.

During a Reddit AMA (“Ask Me Anything”) organized by the Cato Institute Flemming Rose said ominously, “Usually we think of government as the main threat to free speech, but I think that today threats are also coming from below, that is there



is a widespread grievance culture that makes it convenient to play the grievance card when somebody says something that we don’t like. And that has become an effective tool in the hands of those who would like to silence critical voices.” Shortly thereafter, the January tragedy at the *Charlie Hebdo* offices in Paris propelled issues of self-censorship in the face of intimidation

and the nature of freedom of expression to the forefront of public debate. Serious threats to free speech persist in Third World dictatorships and First World democracies alike. In response to the attack, Cato senior fellow Walter Olson wrote in *Time* magazine, “Either we resolve to defend the liberty of all who write, draw, type, and think—not just *even* when they deny the truth of a religion or poke fun at it, but *especially* then—or that liberty will endure only at the sufferance of fanatical Islamists in our midst. And this dark moment for the cause of intellectual freedom will be followed by many more.”

OUTREACH, EDUCATION AND EVENTS

Cato events within and without Washington were attended by upwards of 14,000 journalists, policymakers, students, academics, activists, philanthropists, and others in 2014. Noteworthy outreach and educational opportunities included the Biennial Milton Friedman Prize for Advancing Liberty Award Dinner; the first Annual Financial Regulation Conference co-hosted with the Mercatus Center at the Newseum; the 13th Annual Constitution Day Symposium to celebrate Constitution Day and the publication of the 13th annual *Cato Supreme Court Review*, featuring Hon. Diane Sykes of the U.S. Court of Appeals for the Seventh Circuit; the 32nd Annual Monetary Conference, with Patrick Byrne of Overstock.com; and the Cato Institute Surveillance Conference (#CatoSpyCon) and Crypto Reception in December. As Cato's events and visibility increase, awareness of the efficacy of the Cato brand is rising across the country.



FACING TOP: Steve Forbes, chairman and editor-in-chief of *Forbes*, argued that the 2008 financial crisis would not have occurred under a true gold standard at a forum for his book, *Money: How the Destruction of the Dollar Threatens the Global Economy*, last June. **TOP LEFT:** Cato's 2014 surveillance conference featured a wide array of voices, including Rep. Thomas Massie (R-KY), Eric Schmidt of Google, Alex Joel and Robert S. Litt of the Office of the Director of National Intelligence, and NSA whistleblower **Edward Snowden** by video chat (shown with Cato's **Julian Sanchez** and **Julia Angwin**, author of *Dragnet Nation*). **TOP RIGHT:** Cato's executive vice president, **David Boaz** (left), and **Sen. Rand Paul** (right), with David's new book, *The Libertarian Mind* (Simon & Schuster, February 2015). **FACING UPPER MIDDLE:** **Patrick Eddington**, a policy analyst on homeland security and civil liberties, discussed law enforcement in the digital age at the 2014 Cato Institute Surveillance Conference. **FACING MIDDLE:** Juan Carlos Hidalgo, Cato's policy analyst on Latin America, with students at Cato University in Venezuela. **MIDDLE LEFT:** At a Cato Book Forum, **Betty Medsger**, author of *The Burglary: The Discovery of J. Edgar Hoover's Secret FBI*, revealed the never-before-told full story of the March 1971 break-in at the FBI Bureau branch office outside of Philadelphia. **FACING LEFT:** Cato senior fellow **Tom G. Palmer** advised millennials how to advance peace and freedom in theory and practice at a Cato Student Forum. **FACING RIGHT:** **Lenore Skenazy**, the founder of Free-Range Kids and host of the TV series *World's Worst Mom* (Discovery/ TLC), discussed helicopter parenting and its unfortunate policy cousin, helicopter governance, at "Quit Bubble-Wrapping Our Kids." **BOTTOM LEFT:** **Lauren Victoria Burke**, the creator of Crewof42 blog, discussed issues impacting urban communities at a Policy Forum, "Lessons from Ferguson," in September 2014.



RIGHT: Jim Harper, a senior fellow at the Institute, visited the University of Texas at Austin last February to talk to students about free speech in relation to privacy. **FACING MIDDLE: Deborah A. Phillips**, a Georgetown University professor of psychology, discussed the effectiveness of preschool at a Cato Policy Forum last January. **FACING RIGHT: John Tsang Chun-wah**, financial secretary of Hong Kong (left), and Cato's **Jim Dorn** (right) at a policy luncheon last May. **BELOW: John Allison** (left); **Eric Schmidt** (middle), executive chairman of Google; and **Dan Ikenson** (right) of Cato's Herbert A. Stiefel Center for Trade Policy Studies at a Global Exchange dinner. **CENTER:** Cato's intern program provides students the opportunity to attend seminars with Cato scholars in a variety of research fields.



ABOVE: Henry Olsen (left), senior fellow at the Ethics and Public Policy Center; **John Samples** (middle), vice president and publisher at Cato; and **Edward Hudgins** (right), director of advocacy and senior scholar at the Atlas Society, debated the role of liberty in politics at a Book Forum for *The Republican Party's Civil War: Will Freedom Win?* in July. **FACING LEFT:** At the 2014 Cato Institute Surveillance Conference, **Charlie Savage** (second from left) of the *New York Times* moderated a panel on international surveillance. **FACING MIDDLE: Flemming Rose**, foreign editor at the Danish newspaper *Jyllands-Posten*, was interviewed by Brookings Institution senior fellow **Jonathan Rauch** at a Book Forum for *The Tyranny of Silence*. **LEFT: Amity Shlaes**, author of *The Forgotten Man Graphic Edition: A New History of the Great Depression*, discussed the use of new media to communicate free-market economics creatively and effectively at a Cato Book Forum in June.

LIBERTARIAN Leadership

CLAIMING THE HEARTS AND
MINDS OF YOUNG PEOPLE

Bill and Rebecca Dunn have, over the past several decades, made a tremendous impact for the libertarian movement—and for the Cato Institute. At the 27th Annual Benefactor Summit in Naples, Florida, in February, we had the opportunity to acknowledge their remarkable leadership, and their recent major contribution that will enable Cato to significantly expand online outreach to young people.

Observers across the political spectrum have noted a shift in Americans' political attitudes—especially among young people. Last year the *Financial Times* published

“The Tide Is Rising for America’s Libertarians.” More recently, *New York Times Magazine* asked the question: “Has the ‘Libertarian Moment’ Finally Arrived?” Robert Draper wrote, “The age group most responsible for delivering Obama his two terms may well become a political wild card over time, in large part because of its libertarian leanings. Raised on the ad hoc com-

munalism of the Internet, disenchanted by the Iraq War, reflexively tolerant of other lifestyles, appalled by government intrusion into their private affairs, and increasingly convinced that the Obama economy is rigged against them, the millennials can no longer be regarded as faithful Democrats—and a recent poll confirmed that fully half of voters between ages 18 and 29 are unwedded to either party.” The Cato Institute has seized the challenge of claiming the hearts and minds of the anti-political millennial generation, empowered by Bill and Rebecca’s generosity and the gift from DUNN’s Foundation for the Advancement of Right Thinking.



CATO BOOKS AND EBOOKS

THE TYRANNY OF SILENCE

By Flemming Rose

A personal account by the Danish newspaper editor who published cartoons of the prophet Mohammad in 2005 on the nature of free speech and on coexisting in an increasingly multicultural, multi-religious world.

THE CONSCIENCE OF THE CONSTITUTION

By Timothy Sandefur

How the growth of government power at the expense of individual rights has grown from the overemphasis of democracy, rather than the primacy of liberty expressed in the Declaration of Independence.

AFTERMATH

By Thomas E. Hall

How government policies created for one set of purposes can often generate unintended, often adverse consequences—in some cases so severe as to render the policy a failure.

BOOTLEGGERS AND BAPTISTS

By Adam Smith and Bruce Yandle

How money and morality are often combined in politics to produce arbitrary regulations benefiting cronies, while constraining productive economic activities by the general public.

A DANGEROUS WORLD?

Edited by Christopher A. Preble and John Mueller

An edited volume of essays by experts on international security assessing the dangers to American security—including wars, nuclear proliferation, terrorism, and state failures—and places them into clear, realistic contexts.

CATO SUPREME COURT REVIEW 2013-2014

Edited by Ilya Shapiro

Analysis from leading scholars of key cases from the Court's most recent term and a preview of the year ahead.

ECONOMIC FREEDOM OF THE WORLD 2014 ANNUAL REPORT

Edited by James Gwartney, Robert Lawson, and Joshua Hall

(COPUBLISHED WITH THE FRASER INSTITUTE) The leading index, measuring the degree to which policies and institutions of countries are supportive of economic freedom and its cornerstones.

CATO PAPERS ON PUBLIC POLICY, VOLUME 3

Edited by Jeffrey Miron

An annual collection of articles by

national experts on a wide range of economic and public policy issues.

SEBELIUS v. HOBBY LOBBY

(An ebook original)

By Eugene Volokh

One of the nation’s foremost First Amendment scholars offers a clear and compelling primer on religious accommodation in the context of the Affordable Care Act’s contraceptive mandate.

REALIZING FREEDOM

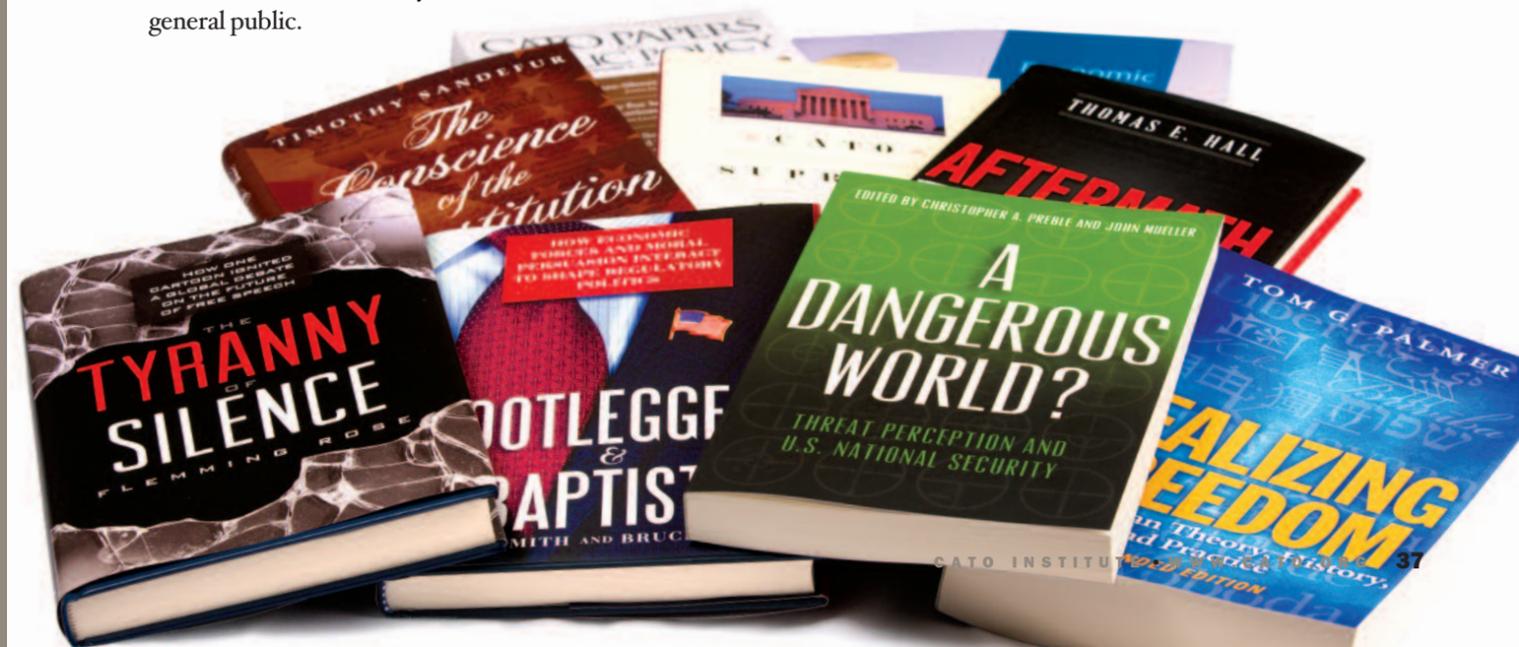
By Tom G. Palmer

In this expanded paperback edition, Tom Palmer collects his best writings, including works on theories of justice; multiculturalism; democracy and limited government; globalization, and, how freedom is related to law, property, peace, and prosperity.

THE SOCIALIST CALCULATION DEBATE (An ebook original)

By Jason Kuznicki

An updated, concentrated analysis of the socialist calculation debate, which pitted members of the Austrian school of economics and others against those who proposed that a nation’s economy could be centrally and mathematically planned.



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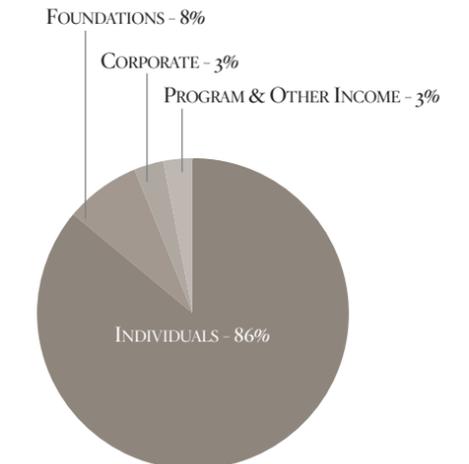
FINANCES

As indicated in the unaudited financial information below, Cato significantly improved its already strong financial position in fiscal 2015. Operating revenues increased by approximately \$8 million, representing a substantial 28 percent increase, while cash balances grew by approximately \$6 million. Given this outstanding revenue and asset growth, Cato will continue to invest in additional scholars and programs in the current fiscal year. Such investments will augment Cato's ability to drive the policy debate towards free markets, individual liberty, and peace. Cato's fiscal year runs from April 1 to March 31.

FISCAL YEAR 2015 OPERATING REVENUE

INDIVIDUALS.....	\$32,110,000
FOUNDATIONS.....	\$2,878,000
CORPORATIONS.....	\$1,070,000
PROGRAM REVENUE.....	\$1,095,000
OTHER INCOME.....	\$166,000
TOTAL.....	\$37,319,000

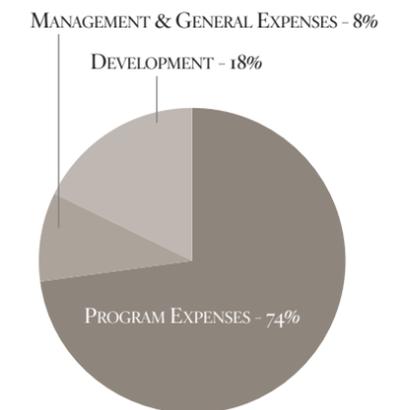
FISCAL YEAR 2015 OPERATING REVENUE



FISCAL YEAR 2015 OPERATING EXPENSES

PROGRAM.....	\$21,677,000
MANAGEMENT & GENERAL.....	\$2,317,000
DEVELOPMENT.....	\$5,358,000
TOTAL.....	\$29,352,000

FISCAL YEAR 2015 OPERATING EXPENSES



ASSETS AND LIABILITIES

CASH AND EQUIVALENTS.....	\$25,171,000
FIXED ASSETS.....	\$36,959,000
OTHER ASSETS.....	\$11,025,000
LIABILITIES.....	(\$2,969,000)
NET ASSETS.....	\$70,186,000

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MEET Peter Goettler

FREEDOM MOVEMENT ENTREPRENEUR

As mentioned in the Message from the President and Chairman, Peter Goettler took over as president and CEO of Cato on April 1, 2015.

During his tenure in the financial sector, Peter acquired the skill set of a principled leader and entrepreneur. After an education at MIT where he earned simultaneous BS/MS degrees in management, Peter went on to work for leading financial institutions such as Salomon Brothers, Merrill Lynch, and Barclays Capital. Over the course of his successful banking career, he distinguished himself as a dynamic strategist and manager, creating new lines of business and ultimately leading an organization exceeding 1,000 employees with a revenue budget of nearly \$1.5 billion.



In 2008 Peter began to dedicate his life to the pro-liberty cause as a volunteer. Extensive travel and service on the Atlas Network's Board of Directors brought him face-to-face with freedom champions and classical liberals in many

developing countries throughout the world. Over the past several years, Peter cultivated an extensive knowledge of the scholars, books, and ideas driving libertarianism. Because Cato stands at the forefront, Peter came to know its scholars and scholarship. The Cato Institute and its people played a vital role in the evolution of Peter's libertarian thinking. A loyal and active Sponsor for 15 years, he joined Cato's Board of Directors in 2014.

While at MIT he married his high-school girlfriend, Cynthia Beckwith. They are the parents of three daughters, Elizabeth (23), Emily (23), and Abigail (21). Peter has always made time to be an active philanthropist, serving on the boards of the National Multiple Sclerosis Society, New York City—Southern New York Chapter, and St. Luke's School in New Canaan, Connecticut.

An effective manager, powerful advocate, community volunteer, and devoted husband and father, Peter looks forward to the next chapter of his career as an entrepreneur in the freedom movement.

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