# Libertarians and the Tea Party

In 2010 the top political story was the rise of the tea party. This year, the persistence of libertarian support for Ron Paul garnered headlines. The authors of a new paper argue that these trends are "two parts to the same story—a story of the emergence of a libertarian constituency that has planted roots in the tea party." In **"Libertarian Roots of the Tea Party"** (Cato Policy Analysis no. 705), David Kirby, vice president at FreedomWorks, and Emily Ekins, a Cato research fellow and director of polling at Reason Foundation, offer the most comprehensive analysis of polling data on the tea party to date. Using comprehensive data analysis techniques, the authors find that the tea party is united on economic issues but split in half on the social issues it tends to avoid. Interestingly, from early 2008 through early 2009, libertarians—when compared with conservative tea partiers and Republicans more generally—were more than twice as angry with the Republican Party, more pessimistic about the economy and deficit, and more frustrated with their inability to affect government. "Libertarians seem to start at a higher level of agitation," they write, "leading the way for tea partiers and Republicans, who catch up over time." As such, the tea party is "upending the conventional wisdom," showing that Republican candidates must win over tea-party voters rather than placate social conservatives. It may take some years for this impulse to come to fruition. "But in the longer sweep of history, libertarian ideas are undoubtedly on the upswing," Kirby and Ekins conclude.

## Regulators and Credit Ratings

Among the variety of factors that contributed to the financial crisis of 2008 was the perception that risky assets were actually reliable. This error resulted in part from a lack of competition among credit rating agencies (CRAs)—which, as the authors of a new study write, stemmed from regulatory barriers and mandated usage of these ratings. In **"Regulation, Market Structure, and the Role of Credit Rating Agencies"** (Cato Policy Analysis no. 704), Mark Calabria, director of financial regulation studies at the Cato Institute, and Emily Ekins, a Cato research fellow and director of polling at Reason Foundation, examine the origins of the credit rating agencies, highlighting the role of certain regulations in "creating regulatory dependence on designated agencies' ratings." The core of the problem is the lack of competition within the rating industry. "Entrenched market power has led to the predictable result that rating agencies would reduce the quality of their services," Calabria and Ekins write. In turn, the excessive leverage and asset regulation that resulted would not have

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occurred "had financial regulators not embedded the use of ratings into the fabric of prudential regulation." Increased competition alone, however, will not address the dysfunction within the credit ratings industry. Policymakers should eliminate regulatory reliance on credit ratings, reducing the oligopolistic power of the CRAs and the artificial demand for these ratings. Reducing the central role of these agencies would "greatly increase the quality and quantity of monitoring of financial risk."

## The Defense Budget's Excess Burden

As the public debate over the future of defense spending intensifies, many are questioning whether the current structure of the U.S. military should be downsized. In **"Economic Effects of Reduction in Defense Outlays"** (Cato Policy Analysis no. 706), Benjamin Zycher, a senior fellow at the Pacific Research Institute and a visiting scholar at the American Enterprise Institute, considers the aggregate economic effects that would occur if defense outlays were reduced. Assuming spending cuts of $100 billion per year over 10 years, Zycher challenges the findings of several recent studies that conclude that such reductions will have adverse economic and employment effects. On the contrary, defense services are similar to most other goods, he writes—and therefore unemployment, as well as the other economic effects from military cuts, is "irrelevant in terms of the appropriate level of defense spending." The cuts simply shift resources among economic sectors. The resulting unemployment during this adjustment process, while "politically significant," only has temporary economic effects. Ultimately, Zycher highlights "the benefits of an economic system that reallocates resources to more productive uses as economic conditions change." He notes that the reduction in defense spending would reduce the costs of the excess burden that the tax system imposes on the economy, estimating that the cuts would reduce economic costs by $135 billion per year. "In short, the changing long-term threat environment facing the United States, at least arguably, will yield an optimal force structure smaller than that currently supported," he concludes.

## The Charter School Paradox

The explosive growth of charter schools has marked an important change in the composition of primary and secondary education in the United States. Although the first one was founded just two decades ago, charters now enroll more than 1.7 million students in nearly 5,400 separate institutions. In **"The Impact of Charter Schools on Public and Private School Enrollment"** (Cato Policy Analysis no. 707), Richard Buddin, an adjunct senior economist at the RAND Corporation, examines the changes in enrollment across different types of schools, with particular emphasis on the growing charter-school sector. In analyzing district-level enrollment patterns throughout the relevant states, he finds that while most students are drawn from traditional public schools, "charters are pulling large numbers of students from the private education market" as well. This presents "a potentially devastating impact" on that market, he writes. In highly urban areas, for instance, "charter enrollments increased 14.8 percent from 2000 to 2008, while all types of private enrollments declined, "led by a 5.6 percent annual decline in Catholic school enrollments" in particular. This shift will represent a serious increase in the financial burden of taxpayers. "Charter school gains may come at a significant cost as shifts from private to public enrollment significantly increase public school costs," Buddin writes. He concludes by noting that if governments increase educational spending, tax revenues must be increased or spending in other areas reduced. In either case, this student shift represents a significant trend within the U.S. education market—one that undoubtedly requires further attention. In a companion piece to Buddin's analysis—which can be downloaded at www.cato.org/pubs/pas/Charter-School-Paradox.pdf—former policy analyst Adam Schaeffer argues that the seeming contradictions in what he calls "the charter school paradox" are simply "the unintended consequences of inadequate, public-sector-only reform."

## Protectionism in Intellectual Property

The complex web of intellectual property competition today has resulted in a state of constant litigation between companies that can afford to use the courts as tools for negotiating better licensing terms. One such tool is Section 337 of the Tariff Act of 1930. According to Cato trade policy analyst K. William Watson in **"Still a Protectionist Trade Remedy"** (Cato Policy Analysis no. 708), Section 337 gives the U.S. International Trade Commission (ITC) the power to exclude imports if it

finds that foreign manufacturers have engaged in "unfair methods of competition." In addition to filing a lawsuit in federal district court, U.S. patent holders can use Section 337 over the same subject matter. This tactic has become increasingly popular—the ITC has the power to render total exclusion of a product from the U.S. market—yet, as Watson argues, the mechanism has had "negative consequences for the coherence of U.S. patent law." The availability of a second venue to pursue patent lawsuits constrains the integrity and functionality of intellectual property "by establishing a dual-track system for patent enforcement." This, in turn, allows the law to serve as "a purely protectionist trade remedy mechanism." In the end, Watson writes, the only answer is full repeal of Section 337. Otherwise, the law poses substantial risk not only to the effectiveness of the patent system, but also "the ability of the United States to participate in the international trading system" and "the rights of American consumers to pick their own winners and losers in a globalized economy." ■