

# POLICY REPORT

SOWELL ON RACE  
AND POLITICS—p. 6

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## Alternative Perspectives on Economics and Public Policy

by James M. Buchanan

For more than 30 years, I have been urging my fellow economists to heed the advice offered by Knut Wicksell as early as 1896 and to cease assuming the role of policy advisors to the benevolently despotic government. As you can see, my urging has been almost as totally neglected as that of Wicksell in his time. But hope springs eternal in the human breast, and perhaps I become a bit Panglossian in my dotage. Nonetheless, I am reasonably optimistic; some of my fellow economists have become more sophisticated, and others are coming to be so.

Some economists are changing their perceived role; some economists now recognize the sterility of behaving as advisors to what does not exist, cannot exist, and has not ever existed in reality. Some economists are starting to view basic institutional and constitutional change as the only appropriate avenue for constructive reform and improvement. For example, there is the currently expressed interest of some economists (along with accompanying support) for changes in the existing fiscal and monetary constitution. It is extremely gratifying to hear leading economists (like Milton Friedman at the recent Mont Pèlerin Society meeting) questioning the legitimacy of the Federal Reserve System as an institution. And the upsurge of discussion on fundamental structural change in our

monetary regime can only be healthy, from my point of view. It has also been gratifying to see other economists coming to acknowledge openly (however begrudgingly) that ordinary democratic



James Buchanan: "Only the rules of politics matter, and these rules determine the patterns of the outcomes."

politics cannot be expected to produce meaningful and desirable fiscal prudence in this post-Keynesian epoch.

Instead of repeating sermons I have preached before or telling you my perspective, I shall discuss the attraction of the adviser-to-governments role. I suggest that the ever-present tension in all of us can only be resolved by some appropriate division of labor. I make a major concession here by acknowledging that there is a place for what I shall call the "public-policy economist," de-

spite my own unease in that role. My plea to my economist colleagues and to all who seek constructive change in patterns of policy outcomes is that we take care to distinguish two categorically separate roles: that of adviser or putative adviser to politicians and political parties and that of what I shall here call "constitutional political economist."

I can illustrate the divergence between the two roles here by referring to chapter 2 of the 1982 *Economic Report of the Council of Economic Advisers*. I was asked to review it for the *Journal of Monetary Economics* by Karl Brunner, the editor. James Tobin was asked to do the same, and our two reviews appeared alongside each other in the November 1982 issue of that journal. In my piece, I particularly praised chapter 2 as representing something new in such reports—the perspective of the "constitutional political economist." The analysis in that chapter (presumably due to the efforts of William Niskanen and Paul Rubin) was unique to that 1982 report, and it has been absent from the 1983 report. In his article, Jim Tobin also singled out chapter 2—only to label the analysis largely useless and irrelevant. To Tobin, the discussion was a strange departure from the "proper" perspective for the report, a departure from the role of "public-policy economist" that has characterized such reports before and since.

It would, however, be a serious mistake to interpret my differences with Tobin as being based on ideological, methodological, or empirical considerations. The economist who proffers advice on what government "should"

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# President Reagan and the Free Market

by Fred L. Smith, Jr.

Rhetorically, the Reagan administration is perhaps the most free-enterprise-oriented in our nation's history. But its policies are no more free-market than those of previous administrations.

At least for the time being, the administration has abandoned its efforts to reduce taxes. Thus, its free-market reputation must rest on its handling of such issues as curbing corporate subsidies, eliminating regulations, and maintaining free trade. The first area—curbing corporate subsidies—should have been attractive to an administration that wanted to reduce spending while maintaining an image of fairness. How better than to balance cuts in corporate welfare with cuts in social welfare?

Internal battles were undoubtedly fought, but the view that ultimately prevailed in this administration has been "What's good for General Bullmoose is good for the USA!" The administration spent enormous energies and political credits on its fight to continue the subsidized construction of the Clinch River Breeder Reactor, a fight it finally lost late last year. Efforts to levy waterway user fees and thus shift the financial burden of building and maintaining inland waterways from the taxpayer to the barge industry have foundered, despite the backing such changes have gained from such prominent groups as the President's Private Sector Commission on Cost Control (the Grace Commission) and the Congressional Budget Office. The administration bought the position of the major banks that a rolling loan gathers no loss and moved aggressively and successfully to gain congressional approval of increased IMF funding. This effort to confirm the Republican party as the defender of the big banks is an extreme example of the longstanding Republican tendency to confuse pro-business and pro-market policies.

On the deregulation front, very little is happening. Reagan has appointed some free-market policy makers to regulatory commissions. These appointees have been able to defend the deregulatory gains of earlier administrations, but to expand and consolidate their efforts they need legislation. The administration's major efforts have always been in regulatory relief and regulatory reform rather than in deregulation. A trucking deregulation bill was expected many months ago—but the Teamsters came to town and that bill quickly disappeared. The administration's opposi-

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tion to certain antitrust regulations has much intellectual support. Unfortunately, because little effort was made to inform the policy public of the merits of these changes, Congress now seems likely to limit any further activities in this direction.

In social and environmental regulation, the administration has used free-market rhetoric to mask a pro-business policy eschewed even by most businessmen. The administration wasted two years trying to "purify" EPA and CEQ (Council on Environmental Quality), achieving nothing. CEQ has become an unimaginative apologist for watered-down "good government" regulation, and EPA has returned to its accustomed role of regulatory advocate. The debate within the administration seems to concern how much money, how many foolish programs it should propose to try to curry favor, instead of challenging the imagination of the nation with a pro-environment, pro-market alternative based on property rights and strict liability. It does not even offer a pollution-tax or an emission-rights approach. The administration's regulatory policies are deteriorating to nothing more than the traditional Republican position—trying diligently to make bad policies work.

This administration has conducted other such political-outreach exercises. Two examples are the successful selling of the 1982 gas tax and the losing effort to continue Clinch River funding.

The campaign to increase gas taxes was almost a textbook example of how to lobby for a political program. Administration spokesmen for an expanded federal role in transportation lobbied both within and outside the administration for almost two years. For much of this period, they held their position despite the president's opposition.

Close ties between the Department of Energy and the nuclear industry were formed to get funding for the Clinch River Breeder Reactor. Despite their ultimate defeat, supporters within the administration, working with outside supporters, were able to continue the project for almost two years in the face of overwhelming resistance.

The administration has people who know how to fight politically. Unfortunately those who know how have little interest in reduced government, while those who support smaller government have failed to develop their political skills. That situation must change. Free-market advocates are going to have to take their principles seriously if they ever want their ideas to become realities. ■

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do on a particular issue of policy—for example, on protectionist quotas, minimum wages, fiscal policy, or monetary policy—may locate his own position anyplace on the invisible ideological spectrum; he may do this whether he is in or outside the government. Government policy has its supporters and its critics among economists from left, right, and center. And there would indeed be a serious gap in the dimensions of political dialogue if all public-policy economists were concentrated at one end of the spectrum or the other. Therefore, if for no other reason than to counterbalance the ubiquitous advisers from the left, there must also be policy economists from the right. The emergence of the so-called right-wing think tanks that rose to positions of prominence in the late 1970s and early 1980s can only be applauded, especially in view of the acknowledged left-wing biases of the academic settings in all policy-related areas of inquiry.

### The Constitutional Political Economist

But these policy economists, along with agencies that support their research and policy transmission, are all categorically different from the much smaller set of "constitutional political economists." These do not enter the policy-advice arena at all, at least not in the direct sense of providing supporting arguments for this or that policy alternative that may be under legislative or executive consideration. The constitutional political economists, like the policy economists, may locate themselves at all points along the ideological spectrum. The categorical difference between them arises not from any clear ideological division but from a difference in perspective. Let me try to illustrate with an analogy from sports.

The policy economist stands as a putative or would-be assistant coach on one side or the other in what he sees as a political game. It is as if he sat in a booth high above the field of play itself, observing the game and calling in his advice to the decision maker on the field, the head coach. Although his advice may be ignored more often than

followed, the would-be assistant coach considers himself a potential participant in the game. Such a person's role is his very *raison d'être*. He is *in the game*, and he cannot conceive of any other possible role. The policy economist is in the game of democratic politics, even if he relays his advice from the university's ivory tower.

In stark contrast, the constitutional political economist does not consider himself to be in the ongoing political game that he observes. In a sense, he is in a different game at a different level. To him, the political game is one of a set of such games, all included in a meta-game of sorts. To continue the sports analogy, the constitutional political economist is a member of the committee appointed to revise the rules of the game being played now or to be played in the future, in numerous settings. His role is no less "normative" than that of the policy economist who proffers advice to one side or the other in the political game as ordinarily conceived. The constitutional political economist also gives advice—but not to players or participants on winning strategies. His advice is for members of committees that make the rules, and is based upon criteria for "better games," such as "fairness." The political economist may well also have his own standards for fairness—standards that he introduces to evaluate alternative sets of actual or proposed rules.

After writing out these remarks and reading them over several times, I realize that my analogy with sports is seriously deficient in one critical way, and may well be misleading. The policy economist is "in the game," but not necessarily as a partisan in the ordinary sense of this term. He labors under the intellectual and moral delusion that his side, broadly defined, seeks truth, and that there is only one set of right policy outcomes to be promoted. In this sense, the policy economist seeks not so much to "defeat" anyone (as in sports) as to advance his own version of what he thinks of as "society's objectives."

Just as it would be a serious mistake to interpret this differentiation of roles

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in either ideological or normative-positive categories, it would be equally mistaken to interpret the differentiation of roles on scientific-empirical grounds. The policy economist, offering putative advice to players in the ongoing political game, and the constitutional political economist, offering advice on changes in the rules, may both offer supporting argument based on empirical evidence and on analysis of economic and political interaction. And they may use the same basic evidence and analysis.

not think that proximity to the ongoing political game, and hence the appeals to "policy economists" of all persuasions, will affect my own stance—which remains above, beyond, and outside the fray. I doubt that I shall be any more responsive to invitations to testify on this or that issue before committees, or to prepare position papers on this or that topic of relevance. I hope that at least some of my colleagues in the Center will also remain "constitutional political economists," although I must admit that such a role is easier to

appropriate division of labor among the many centers, institutes, foundations, unions, committees, and agencies that now populate the Washington scene. Is it not possible to offer strong argument to the effect that at least one or two such organizations should try to specialize and provide the door through which genuine constitutional political economy can enter into a dialogue beyond the academy?

There have been some such efforts in Washington for several years. We think immediately of Jim Davidson and the National Taxpayers Union, which has always carried the ball in promoting a balanced-budget amendment to the Constitution. We think of Lew Uhler and the National Tax Limitation Committee, which arose with Proposition 1 in California and has been strong in proposing limits on spending at both the state and national levels. We think of the Heritage Foundation and Richard McKenzie's conference on "Constitutional Economics" in late 1982. We think of the American Enterprise Institute's 1980 conference on the balanced-budget amendment, which was at least a belated attempt to enter the constitutional dialogue. And of course, we think of Cato's January 1983 conference on stable money.

Each and every one of these efforts has my enthusiastic commendation. But I am concerned about seeing such efforts remain mostly peripheral and apart from the main effort of the sponsoring units. Even Jim Davidson, if memory serves me well, entered the game of politics in the battle over repeal of the withholding tax on interest. Naturally, I surely would not expect or desire all of the organizations I named, and others, to suddenly commit themselves exclusively to constitutional political economy. In the political game, such a wholesale conversion of efforts would remove potential intellectual support from one side only without much affecting the other side. What I am suggesting, at least as an idea to be pondered, is that a few of such organizations specialize a bit, that at least one or two of these organizations take a

play in the mountains of southwest Virginia than in the suburbs of Washington, D.C.

### The Washington Policy Community

But my remarks are directed not at academicians but at those who work in policy, research, and analysis more specifically. Certainly policy-oriented research and analysis are needed on short-run policy objectives, and it is essential for such research and analysis to emanate from all points along the political-ideological spectrum. However, I suggest there may also be an

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more inclusive approach to institutional and constitutional change suited to what I call "constitutional political economy"—a term I now like much better than "public choice," incidentally.

It is much easier to call for such a change of emphasis or direction than to accomplish it. This problem is partly due to the proclivity of funding sources to concentrate on the very short-run, visible effects of policy research and analysis. As we know, some foundations quite explicitly refuse to consider supporting proposals or projects or programs that fail to address specific policy issues. The officers of these foundations are simply not interested in basic institutional and constitutional change. They do not understand and appreciate the central message of the economics of public choice and property rights: Institutions do matter—over the long run perhaps far more than the adoption of this or that policy option or the election of this or that politician or party. In this sense, we academicians have failed in our task, and I acknowledge that we have much work to do in simply promulgating this very elementary principle.

Precisely because "constitutional political economy," with its emphasis on long-run structural change in basic political institutions, in the political rules of the game, is not the hot topic in the media, potential financial supporters shy away. Then they waste millions of dollars in subsidizing duplicatory efforts supporting one side or the other in ordinary partisan politics. But let us face the fact that the financial backers call the tune; and if their demand is for "policy economists" to analyze short-term policy issues, then we shall continue to observe a plethora of "policy economists" working on their position papers throughout the academic and quasi-academic environs of Washington, and elsewhere.

### The Rules Determine the Outcomes

And who am I to tell such sponsors that they waste their funds? After all, it is their money to control, and they purchase with it what they please. In re-

search and analysis, as elsewhere, consumers are sovereign. Yet this is another case of political myopia. At some ultimate level, there is little disagreement as to what we all seek. We want to live in a peaceful world; we want a wide range of individual liberties, minimal governmental intrusions into our lives, protection of persons and property in a functioning legal order, a growing economy, high employment, and money with stable purchasing power. Political activity must always be directed toward ultimately accomplishing these broad objectives. But we get confused and tied up with day-to-day "management" and "manipulation" of matters that we are really powerless to handle.

Constitutional political economy rests squarely on the basic presupposition that only the *rules* of politics matter and that these rules determine the patterns of the outcomes we shall observe, almost independently of whom we may elect and who writes position papers offering policy advice. While mil-

lions of dollars are spent to develop more effective means of manipulation, almost nothing is spent developing more effective rules for the players of the political game. How much has been expended during the past two decades on the construction and use of the large macroeconomic models? How much has been expended in the analysis of alternative constitutional rules for the political economy? Is the order of comparative magnitude here perhaps a thousand to one? Yet it is surely true that the enactment of an amendment to balance the budget or to modify the powers of the monopoly central bank if enforced, would have much more effect on accomplishing or failing to accomplish the agreed-on objectives than all the macroeconomic models combined. Why is this "truth" not more widely recognized? It seems so self-evident. I leave you with the question. The answer to the question and the resolution of the problem remain my primary challenge: I trust that some of you will also join in meeting the challenge. ■



Richard H. Fink of the Center for the Study of Market Processes asks Buchanan a question.

In previous criticisms of the activities of my fellow economists, I have been more strident than in these remarks. I suggest a mutual respect for the division of labor that is necessary, and even more important, I suggest that those on both sides should recognize the differentiation in roles and perspectives.

The Public Choice Center, the institution within which I act as a constitutional political economist (with a fair degree of purity, I hope) has recently shifted its headquarters to the Washington area. This talk is my first post-shift appearance in Washington. I do



Buchanan talks with Walter Wingo of *U.S. News and World Report*, George Pearson of the Institute for Humane Studies, and James C. Miller III of the Federal Trade Commission.

# The Economics and Politics of Race

Every month at its Washington headquarters, the Cato Institute sponsors a Policy Forum where distinguished analysts discuss their findings with an audience drawn from government, the public policy community, and the media. A recent forum featured Thomas Sowell, senior fellow at the Hoover Institution and the author of such works as *Classical Economics Reconsidered*, *Race and Economics*, *Ethnic America*, and *Knowledge and Decisions*. In his talk Sowell discussed some of the themes from his latest book, *The Economics and Politics of Race: An International Perspective*.

**Thomas Sowell:** Why would anyone write another book on race and ethnicity? That question occurred to me and may well occur to other people. At the very least, the fact that I have reached the international level means that there is nothing further for me to do in this area unless space exploration turns up more than we expect.

One of the frequent criticisms of my work is the charge that I'm attributing to various groups patterns that are actually a product of a society in which they live, that society shapes these groups and is both causally and morally responsible for what it has shaped. So I decided to find out whether there was evidence to support this charge. I looked up nonindigenous ethnic groups in various countries to see whether there are patterns that follow these groups around the world or whether the group reflects the society in which it lives.

Obviously, I found both explanations true. The question is, Which do you find more of? And what I found most was that the group patterns tend to be dominant: If you look at Germans in these various countries (let's say compared to Italians), you find the Germans are joiners. Germans create all kinds of organizations that transcend the family (not in the sense that they are put ahead of the family, but in the sense that they are not based upon purely family connections). Whether it's bowl-

ing leagues, choral societies, or rifle clubs—almost every conceivable kind of organization—Germans have such organizations, and they have them in countries around the world. Italians typically do not have such organizations, and they do not have them around the world. Even when the Germans and the Italians are both successful economically in a society, they tend to be successful in different ways.

It shouldn't surprise anyone to find the Germans, for example, over-represented among technical industrial people in Latin America, in Australia, in Russia, in the United States. But the Italians, no one should be surprised, have

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made a contribution in wine production, not only in California, but in Argentina and in Australia. They have made contributions to architecture not only in Brazil but in Russia. Indeed, since the communists have copied the style of the Czarist era in their buildings, even now Russian architecture reflects what the Italians did centuries ago in Russia. On the other hand, in the science and technical area, at one time most of the members of the St. Petersburg Academy of Sciences were German, while Germans made up about 1 percent of the Russian population.

One of the other points I wanted to look at was an assumption that underlies much social policy—that without institutional policy to the contrary, groups tend to be evenly spread across occupations, institutions, and income brackets, and that one can measure the degree of discrimination by how far such distributions deviate from this supposed norm. I find no evidence of this supposed norm—not even in activities that are totally within the control of people themselves. For example,

if you look at the people who watch "NFL Today," those who watch "Sesame Street," and those who watch "Dallas" (the soap opera, not the football team), you will find great differences. In fact, a whole industry exists just to study such differences because advertisers have an interest in knowing those kinds of things. Even though people have the free choice to turn that dial to wherever they want, they all turn them to different points.

Another pattern I wanted to look at was the pattern of discrimination. How common is it, how pervasive is it, how much hostility is there? What I find is that discrimination has been pervasive almost everywhere, almost as long as history. The question is whether it has been pervasively effective, which is something else again. For example, many people have argued that when comparing blacks and members of various European immigrant groups in the United States, I have overlooked the fact that blacks are physically different. It is amazing that they think I have overlooked this fact! I have looked at various groups that are physically different and groups that are not physically different, and I cannot see that it makes any difference. In the Holocaust, when 6 million innocent people were slaughtered, they looked so much like the other people that you had to have documents and tattoos and insignia to tell them apart.

One of the major themes of the book is the conflict between politics and economics. In many cases, groups that are very important economically, having created whole industries in a country—the Chinese in Southeast Asia, the Jews in Europe, the East Indians in East Africa—are often among the most hated. I can see the politics of it. That is, the more rare the skills they have in a given society, the greater their income is likely to be compared to that of the average member of the society, and therefore the more hated they are likely to be. In the first generation, people in Southeast Asia could see that it was the

Chinese who created the rice mills and understand that the Chinese thus owned the mills. But two or three generations later, people born into a world with all these rice mills raise the question, Why do Chinese own so many of them? It's as if the rice mills were just there, somehow, and the Chinese happened to own them. Politics rewards the mobilization of resentment, whether by a majority or a minority, so there are always incentives for people to mobilize resentment against groups.

There is also, I think, some implication that reaches beyond race and ethnicity, in the fact that people who are more productive are more likely to be hated. I think this reality has some implications for the survival or non-survival of the existing economic system in the United States.

Another important question is whether there really is a vicious circle of poverty explaining why groups in a given country or countries of the world are poor, or whether there is some alternative explanation that fits the facts better. The alternative explanation that I see is what economists call human capital. The long-run prosperity of any country depends not upon physical capital but upon the ability to reproduce that capital. So merely transferring capital from one country to another is not significant. The capital that you transfer is going to be exhausted after some number of years, and the real question is whether you have transferred the ability to reproduce or even maintain that capital. David Lamb's recent book on Africa gives many tragic examples of the results of not considering that question—machinery deteriorating, planes rusting on airport runways, and so on.

This problem is not unusual in history. The Romans invaded Britain in the first century A.D.; when they left in the fifth century, the Britons were unable to maintain what the Romans had created. The buildings, statues, and roads began to fall into disrepair. Even 500 years after the Romans were gone, when the Britons had finally reached the point of wanting to restore some of

this construction, they had to send to the continent of Europe for people capable of doing the restoration, because they still didn't know how to build, repair, or maintain stone buildings, which the Romans had known centuries earlier. So it is by no means surprising that you see such a pattern in Africa, which was under colonial rule for only about two generations, as compared to Britain, which was a colony for centuries.

One of the other differences between the vicious-circle theory and the human-capital theory is that if you bring more poor people into a country that is poor, then according to the "vicious circle of poverty" theory you



Thomas Sowell: "What people believe is all-important in politics, but in economics reality has a way of making itself felt."

would expect that country to become poorer. In reality, in the history of Latin America we see colonial countries in dire poverty absorbing many poor immigrants, particularly Italians, who then caused the country to rise to affluence, along with the immigrants themselves. Again, this is much easier to understand in terms of human-capital theory: Here were people who had the human capital, but who in their own land lacked the fertile soil that was available in this new continent. Once turned loose here, they found it very easy to create this affluence. But according to the vicious-circle theory, this never should have happened.

**Q.** What broad policy implications do you draw from this fascinating material for the near future in American domestic policy?

**Sowell:** Very easy question to answer—I draw no policy conclusions from it. There is no shortage of people eager to make policy, particularly in this field. What there seems to be is a shortage of knowledge of what does and doesn't work on the part of those people. So I see my role as trying to shed whatever light I can on that process.

**Q.** Most economists use the term "human capital" fairly narrowly to mean education, experience, and so on, but I think you are using it in a much broader way to include also the political institutions—such as sanctity of contract and private property. Where do you put the emphasis, and what other factors would you include in the term?

**Sowell:** The degree to which people obey any sort of rules in society varies enormously. It always amazes me when people think that human beings become homogenized by crossing some political boundary. It is safer to cross the main street of Zurich at the height of the rush hour against the light than it is to cross a street in Paris with the light, and these cities are part of the same European civilization.

Human capital could include a lot of things. I argue that formal education has been greatly overrated, and that in fact it can be counterproductive. In some countries of the Third World particularly, and here as well, what education gives is an enormous sense of entitlement, of superiority to the common herd, so that there are kinds of work that one is just superior to. There are all sorts of feelings of entitlement—not only to money but also to power over other people. In countries where education is something new, this feeling is likely to be especially strong. The education that is given is often of the kind that provides no skills to create the wealth to pay off these expectations. In countries such as India and Malaysia, people may specialize in subjects that give no skills of economic value, that

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will never be rewarded in the marketplace at anywhere near the rate that people feel entitled to. Therefore, inevitably such people will be hired by the government; bureaucracies must grow just to furnish employment for people who want something that cannot be obtained in the marketplace. What the bureaucracies themselves often do is become an impediment to the people who do have the skills, the entrepreneurship, to produce the real wealth. So in Malaysia, for example, where the Malay students specialize in Malay studies and Islamic studies and where the Chinese specialize in science, technology, and medicine, the Malays staff the bureaucracies, which impede the Chinese in getting the work of the society done.

I suspect that there are places in the United States where that's also quite true, that we are turning out people who have nothing to contribute to society economically but who feel enormously entitled to something from society. It is really a question of what kind of education you are talking about, as to whether or not it is economically productive, when you discuss human capital.

**Q.** What have you found out about the possible correlation between religion and capitalism?

**Sowell:** Nothing. I wish all questions were that easy. When I was doing some research at Catholic University 10 years ago, I was struck by how much of the "Protestant work ethic" there seemed to be. It is like so many phrases we use—a misnomer. Take for example the expression "middle-class values"—I don't know of any evidence showing that certain sets of values today are more prevalent in the middle class than in other classes. The problem with such labels is that after a while we start taking them seriously. If someone has much evidence on the correlation between being Catholic or Protestant and having capitalist values, I'd be very interested in seeing it. I haven't seen it so far.

**Q.** But look at the structures of the two faiths and ask whether Catholicism has a hierarchical and extensively orga-

nized bureaucracy and passes that on to government, while Protestant countries develop an inept and thus less damaging bureaucracy.

**Sowell:** The Protestant countries have shown great ingenuity in creating secular bureaucracies, often ones that are more important for economic development. As I listen to the talk about industrial policy, I'm reminded not of Japan but of China, where industrial policy has held sway for centuries. In fact, it is one of the reasons China has gone downhill from where it was at one time, beginning with the Ming Dynasty. It may be that Confucianism has had a negative effect on economic development. In that system of values, businessmen and the pursuit of personal gain are very low on the totem pole. And one of the consequences of this world view is that the government has had a policy of harassing businessmen for centuries. Bureaucracy may be relatively new in the West, but the bureaucracy of China is older than any nation in the western hemisphere. I don't think that bureaucracy has become more efficient with the passing of centuries. Rather, it has become more efficient at being bureaucratic, and thus at stifling economic development.

In the late 19th century, it finally occurred to someone that it was an ironic situation for Europeans and Americans to be running railroads and industrial plants in China while the overseas Chinese were running railroads and factories in Southeast Asia. Someone thought that some of the overseas Chinese should be brought back to run China's railroads and factories. Among the few overseas Chinese that were optimistic enough to try this, the first ones were ruined—by the bureaucrats. When this program finally had some modest success after many years, it was only by means of exempting the overseas Chinese from the rules that still applied to the native Chinese businessmen! It never occurred to China's bureaucrats to release the native Chinese from such rules in order to get the same effect.

So this evidence suggests to me that

politics is ultimately capable of stifling any people. The overseas Chinese are remarkable in that they are prosperous in countries all over the world, although in China they were poor for centuries. Similarly, the Indians are prosperous almost everywhere except India. The West Indians do quite well in the United States but not in the West Indies.

**Q.** How do you account for such a perverse development as the growth of bureaucracy?

**Sowell:** Politics responds to different incentives from economics. What people believe is all-important in politics, but in economics the underlying reality has a way of making itself felt. Ford might have wanted us to believe that the Edsel was going to be the car of the future—it was one of the most thoroughly researched marketing programs ever done—but when the cars started piling up in the yard, Ford said, "We've got to scratch this thing before we get wiped out." With bureaucracy, you don't have to scratch a bankrupt policy. You simply pump more money into it. And even when it fails, its advocates say it would have succeeded if there had been more commitment. I suppose the horse and buggy would have survived with enough subsidies.

**Q.** Can you think of any country that has moved from the developed category to the less-developed category?

**Sowell:** Those categories are fairly new, so I'm restricted to considering the last 30 years. One example of such movement is China. Some five centuries ago, China was in the forefront of world civilization, and it managed to move backwards in that sense.

**Q.** Backwards in ranking or backwards in absolute terms?

**Sowell:** Backwards in ranking certainly. I'm not sure whether the data are good enough for us to say in absolute income.

There is a real question in my mind as to whether a glorious past is more of an asset or a liability. What I can't seem to find are countries that had a glorious past, declined, and then rose again to preeminence. I can find countries with

very unpromising pasts that suddenly rose to prominence—England, Scotland, and so on. One of the problems of the glorious tradition is that it binds you to ideas that were once good but don't work anymore. The Chinese in the late 19th century, for example, in their military-promotions tests, required applicants to recite verbatim from a classic work on the military written in the fourth century B.C. This was right after the Chinese had been thoroughly shellacked by the Japanese army. The Chinese soldier was also supposed to be able to show how he

various ethnic groups?

**Sowell:** Yes—the differences are enormous. For example, Hispanic Ph.D.'s in the United States outnumber Asian Ph.D.'s by 2 to 1 in history, but Asians outnumber Hispanics 10 to 1 in chemistry. So even among people who get a doctorate, there are still profound differences from one group to the next. Over half of all black and American Indian Ph.D.'s are in the field of education. In 1980, no American Indian Ph.D. was recorded as having been earned in mathematics or physics. Among the Asians, of course, about



Cato Adjunct Scholar Earl Ravenal talks with Thomas Sowell as Janet Nelson greets guests.

could fire a bow and arrow while on horseback. The Japanese, of course, were not firing bows and arrows from horseback. So the Japanese got ahead.

**Q.** The two biggest minority groups in the United States, Hispanics and blacks, are generally thought of as being wedded to the Democratic party. What would it take to make those groups two-party groups?

**Sowell:** Time, people, and intelligent conservatives. You may attach your own probability as to each of these eventualities.

**Q.** That means not in our lifetime?

**Sowell:** We each have our probabilities.

**Q.** Have you ever looked at data on the educational fields chosen by people of

half the degrees are in fields like that.

It's one of the problems in attempts to win court cases or battles of public opinion by throwing numbers around that everything depends upon the level at which you aggregate the data. The same problem applies to figures on the education of men versus women; men outnumber women about 2 to 1 among Ph.D.'s in the social sciences, but about 4 to 1 in economics, and about 10 to 1 in econometrics. So the question is, what is the relevant available supply?

**Q.** Advocates of economic freedom, particularly those who are concerned about the plight of minorities in America, have vigorously supported education tax credits, because we're con-

cerned that most minority groups get very poor education in government schools. But I get the impression from some of your books that education doesn't generally lead to affluence as much as the increasing affluence of a group leads to more education. So does it make sense to put a lot of effort into getting better education for the poor?

**Sowell:** I think so. Insofar as a group has entrepreneurial skills, it doesn't really matter that much to what extent that group has acquired either the education or the acculturation. German groups can live in a country successfully, sometimes for generations, still speaking only German, still having all-German communities, still marrying only among themselves. The Germans were in Russia for about 100 years, and yet when they emigrated to the United States, they were still speaking German. That is because those Germans had skills in farming and crafts; they were self-sufficient.

But if you have to be hired by others, especially in a credentialist society like ours, then you do have to have education and acculturation. In fact, I would argue that unless the high level of semi-literacy among blacks is overcome, it isn't going to matter what other policies are followed. I would argue in this case that education is very important. Tax credits would be one good idea, vouchers would be another. Even open enrollment in the public schools—allowing parents to enroll their children in any public school in the city—would be a big improvement on what we have right now.

**Q.** Following up on your work that shows the connection between traits of ethnic groups, how much holds up several generations later, particularly among people who are children of marriages between ethnic groups?

**Sowell:** Well, obviously it varies. Many times the outward forms change with intermarriage. But in many cases, the economic patterns remain a century or more later. The rate of homogenization is fairly slow, and certainly the rate is much slower than is at all relevant for political policy. ■

# The Debate over Natural Gas

**The Deregulation of Natural Gas**, edited by Edward J. Mitchell (Washington, D.C.: American Enterprise Institute, 1983), 165 pp., \$15.95/\$7.95.

Amid the constant stream of economic sophistry that the public is exposed to, the notion that deregulation of natural gas is inimical to the consumer's interest certainly receives great media exposure. So this wide audience is taken advantage of and misinformed by the strong lobbying coalitions (including "consumer advocates" and labor unions). Such groups not only seek to block further deregulation of natural gas but also want to roll back the existing partial deregulation.

The reader looking to find in this volume the economic ammunition to fight such efforts is likely to be disappointed. Nowhere in this volume of four articles will you find anything that approaches the lucidity of Tom Bethell's classic article in *Harper's*, "The Gas Price Fixers," in explaining the basic history and economics behind the deregulation of natural gas. It is unlikely that this book will explain to the general reader how partial deregulation of gas caused last winter's price spike (which might not have occurred under complete deregulation). But for the reader who understands these basic issues, this volume provides a useful though somewhat technocratic approach to aspects of deregulation.

In his opening essay, Milton Russell of Resources for the Future attempts to determine, among other things, what the price of natural gas might be in 1985 if Congress fails to modify the Natural Gas Policy Act (NGPA). He contrasts that with a projected price under full decontrol. Another question Russell tries to answer is, Will the economy be subject to a price spike in 1985 under the NGPA? Some free-market readers who believe in dealing with issues qualitatively and who are skeptical of economic forecasting will be disappointed in Russell's approach.

Proponents of regulation have found

a new issue in the so-called contracts problem. In their well-reasoned paper, "Pitfalls on the Road to Decontrol: Lessons from the Natural Gas Policy Act of 1978," Catherine Abbott (formerly with the Department of Energy and now with the Interstate Natural Gas Association of America) and Stephen Watson of the Department of Energy recognize the pitfalls of using yet more regulation to relieve the problems that may be caused by oil-tied and indefinite price-escalator contracts signed during regulation. They explain excellently a major flaw of partial deregulation—pipelines with uneven endowments of regulated gas.

## Policy Report Reviews

Robert Means of the Federal Energy Regulatory Commission offers a discussion of the relative bidding positions of interstate and intrastate pipelines. He concludes that interstate pipelines have a bidding advantage under the rules of the NGPA and that this advantage affects the allocation of natural gas.

The defects of this volume are best seen in the concluding essay, by Henry Jacoby of MIT and Arthur Wright of the University of Connecticut. Summing up the possible policies for dealing with difficulties caused by the NGPA, Jacoby and Wright state that "quick deregulation serves more as an economist's bench mark than as a live option." Although they claim to favor deregulation, Jacoby and Wright come up with a thoroughly technocratic policy: "A three-part package of de-cushioning, a three-year phase-up and a matching three-year windfall tax might be politically viable."

—Barry Brownstein  
University of Baltimore

**Industrial Renaissance: Producing a Competitive Future for America**, by William J. Abernathy, Kim B. Clark, and Alan M. Kantrow (New York: Basic Books, 1983), 194 pp., \$19.00.

Abernathy, Clark, and Kantrow have produced a book that avoids all the pitfalls of contemporary economic literature. The book carefully integrates history and theory, but the theory used is designed specifically for the purposes of the book. Instead of borrowing superrefined models from the academic community, they present a conceptual framework built upon common sense, their own extensive knowledge of their topic, and basic economic principles. The good sense of the authors, all Harvard Business School professors, also comes through in the remarkably literary style of the book.

As *Industrial Renaissance* tells us, American industry reached a peak in the postwar era and maintained that high level of prosperity for three decades. Industry reached and settled into a state of "maturity," as the authors put it. In the evolution of an industry, systematization and standardization are slowly developed. They cannot be securely anchored, however, until the "core" technological concepts are established. Then the secondary technological factors can be layered on top. Before an industry has reached a state of maturity, companies compete by offering technologically different products. Eventually, the best technological system comes to the fore and the alternatives fall by the wayside. The core technological concepts have, then, been determined. Industry becomes more standardized, the less central technological factors are determined in the same way, and competitiveness becomes a matter of efficiency and cost cutting, rather than major product differentiation. The industry reaches a state of maturity when production becomes standardized.

The authors' main case study, the auto industry, has exemplified Ameri-

can industry and played a prominent role in its development. In its early stages, the auto industry's direction was unsettled. "There were cars powered by electricity, steam, and gasoline; cars with three wheels and four; cars with a wheel for steering and cars with a tiller. . . . No one knew for sure what buyers' preferences would be or what technologies would be best able to meet them." Then there developed "a general convergence on the design of all-purpose road-cruisers that would dominate the industry for three decades." In the industry's mature phase, high-volume production was emphasized (to take advantage of economies of scale) and industrial hierarchies were developed. But the Golden Age came to an abrupt end. Consumer demand shifted to lighter cars with better gas mileage and smaller engines, which European and Japanese companies were happy to supply. A crisis faced the mature American automobile industry. The only way to survive was to change "core" concepts and thus reorganize the entire production process.

The authors of *Industrial Renaissance* believe that American business is facing the new challenge of international competition. What business is learning, they say, is a new approach to personnel relations and the management of production. The exemplar of this approach is Japanese production. American industry must move away from hierarchies and volume production and toward a fluid and cooperative relationship between personnel at all levels. This way technological change can be made intelligently and quickly.

The authors describe numerous instances in which this approach is being institutionalized successfully. The book's emphasis is on economic analysis, not political conclusions.

**National Health Insurance: A Pragmatic Perspective**, by Harry Schwartz (Dallas: National Center for Public Policy Analysis, 1983), 56 pp., \$5.00.

Since 1921, many groups with diverse interests have been pressing U.S. legis-

lators to pass a comprehensive system of national health insurance (NHI). Now the idea has reappeared, this time advocated by Senator Edward Kennedy, and it may become one of the major political issues of the 1980s. Kennedy advances no new ideas, but presents three traditional arguments: (1) The health of Americans is unsatisfactory; (2) Many Americans cannot afford to pay for the health care they need; and (3) National health insurance can make good health care available to all citizens, while controlling costs. This book proves conclusively that not one of those arguments is valid today. Harry Schwartz, a health economist at Columbia University and author of 19 books, deftly dissects these arguments by means of economic principles, powerful reasoning, and a barrage of statistics.

Schwartz uses straightforward charts and graphs to support a recent surgeon general's report that concluded: "The health of the American people has never been better." Drawing extensively on empirical work and opinions of renowned experts on health, Schwartz shows that the health of Americans has little if anything to do with how much health care they consume. As Eric Cassell states: "Having many doctors and hospitals does not necessarily make people healthy. A healthy population is more likely [to be] one in which people do not get sick in the first place, rather than [one in which they] get sick and then get better."

In precise, nontechnical prose, Schwartz directly refutes Senator Kennedy's assertion that America's poor cannot afford the medical care they need. Not only do 96 percent of Americans have more than adequate health care, but on the average those with the lowest incomes see more physicians than any other group does.

The cases of NHI in Britain, Canada, and Italy show that significantly extending Medicare and Medicaid would cause much overutilization and skyrocketing medical costs. The effects of Italy's "free national health service" (instituted January 1, 1980) have been dis-

astrous: "Now Rome's hospitals are bursting at the seams. Nurses have been joining forces with patients to keep out new arrivals. Ambulances charge frantically across the city trying to find hospitals for their patients. Beds jamming the corridors have been thrown out of windows by angry nurses." If the United States instituted NHI, not only would other social programs suffer but a new problem would arise—how to ration medical care without a price mechanism. In most circumstances, the politically powerful would probably be given preferential treatment.

In the concluding chapter, the implications and the likelihood of adopting NHI in the United States are discussed. America as a whole, it seems, has had enough of nationalized medicine. Schwartz asserts, "Experience with private health insurance, Medicare, and Medicaid, has taught most Americans some important truths. We live in an era when even a Senator Kennedy argues for NHI as a means of limiting health costs. But inevitably, that claim is unlikely to inspire the fervor and zeal that NHI inspired in an earlier and more innocent era." This volume is required reading for anyone interested in a medically safe and free America. As Schwartz writes, "It would be wrong to assume that NHI is a reform whose time has passed and shall never return. Our review of its history shows that NHI is a phoenix which rises again and again."

### Coming in Policy Report:

Michael Munger on the  
costs of protectionism

John Goodman and  
Robert Helms on  
Medicare

# "To be governed . . ."

## Another whistle-blower in trouble

Opposition parties [in Japan] today demanded that Justice Minister Akira Hatano be fired for telling an interviewer that expecting "honesty and purity from politicians is like looking for fish at a vegetable store."

—*Washington Post*, Nov. 6, 1983

## The bright stuff

At a forum in Syracuse in September, Glenn hoped to differentiate himself from both Mondale and President Reagan by arguing that the next election should not be a choice between the policies of the 1920s and the 1960s. But his prepared speech read "1930s," not "1960s," and the candidate delivered it as written, to the confusion of the audience.

—*Washington Post*, Nov. 1, 1983

## Reagan's deregulators

Who is the villain chasing "Hard Hat Mack," the electronic apotheosis of the Puritan work ethic?

None other than the dreaded "OSHA," a glowing, pointy-headed bureaucrat billed by Mack's public relations assistants as the "arch governmental enemy." . . .

But Thorne G. Auchter, the Florida construction executive turned administrator of the Occupational Safety and Health Administration, was not thrilled to find his agency cast as the bad guy in a video game.

Informed of the game by his aides last month, Auchter dashed off a letter of complaint. . . .

"'Hard Hat Mack' is a lot safer on the job with OSHA around. . . .

"If I ever run into 'Hard Hat Mack' on a video screen, I'll cheer for the OSHA character," he added.

—*Washington Post*, Nov. 2, 1983

## Trimming the fat from government

James A. Buford, unhappy with his job as director of the hard-to-manage D.C. Department of Human Services, resigned last May and opened a private consulting firm. . . .

The District of Columbia has awarded Buford three contracts totaling \$91,000 to advise his successor at DHS. . . .

Buford's old job paid \$56,301 annually. . . .

Former officials hired as consultants include Robert L. Moore, former director of the Department of Housing and Community Development at an annual salary of \$56,301, who was paid \$39,000 for six months. . . .

Brian Lederer, the outgoing people's counsel, has accepted a \$63,000-a-year contract to advise his successor. He made \$63,700 as people's counsel.

—*Washington Post*, Nov. 24, 1983

## Capitalist pigs

After two months of bitter negotiations, the headquarters staff of the 205,000-member American Federation of Government Employees walked off their jobs yesterday in the first strike against a major labor union in recent years.

The striking workers, members of Local 2 of the Office and Professional Employees International Union (OPEIU) circled the union's Thomas

Circle headquarters shortly after noon, singing, chanting, and vowing to stage an extended strike if AFGE does not accede to their basic demand for job security. . . .

AFGE also hired several uniformed security guards. . . .

"I see (OPEIU leaders) as a small group of people who have indicated that they want the right to run this union," [AFGE president Kenneth] Blaylock said. "And I am not going to turn the policy-making of this union over to a handful of dissenters." . . .

If OPEIU demands a no-layoff clause, it must sacrifice elsewhere—with a wage freeze and reductions in certain pay and benefit provisions, AFGE negotiators said.

OPEIU estimated those concessions at more than \$1 million.

—*Washington Post*, Nov. 15, 1983

## You could have fooled us

[The Departments of] Treasury and Commerce are infested by persons who think that the purpose of government is to get out of the way of commerce.

—George F. Will in the *Washington Post*, Nov. 27, 1983

## The week in review

In the last week, the government has searched for a unicorn in Virginia, placed decals of windows on abandoned houses in the Bronx and shipped State Department secrets to Lorton Reformatory.

—Richard Cohen in the *Washington Post*, Nov. 15, 1983

## POLICY REPORT

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