Cato Policy Report

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Transition to Freedom: The New Soviet Challenge

In September 1990 the Cato Institute—in conjunction with the Academy of National Economy, the Academy of Sciences of the USSR, the Central Economic-Mathematical Institute, and Moscow State University—sponsored a conference, "Transition to Freedom: The New Soviet Challenge," in Moscow. Speakers included such classical liberal thinkers from the West as James M. Buchanan, Charles Murray, George Gilder, and Peter Bauer, along with leading Soviet radicals such as Gavriil Popov, Anatoly Sobchak, Larisa Piyasheva, Grigory Yavlinsky, and Yuri Kochevrin. Participants included scholars, activists, and businesspeople from the Soviet Union as well as the West. Cato Policy Report *is pleased to present brief excerpts from some of the papers delivered at that conference. In 1991 a complete set of conference proceedings will be published in two books, one dealing with legal and economic issues and the other with defense and foreign policy, in both English and Russian.*

Private Property Is the Solution

by Paul Craig Roberts

Privatization, especially in the context of a system that is failing, cannot be done in piecemeal fashion. The pace and extent of Western privatizations during the 1980s are not a model for the Soviet Union. Those were privatizations of state property carried out in a sea of private enterprise. It was relatively easy to establish valuations that would lead to successful transactions.

In the Soviet Union the absence of private property in the means of production, capital markets, and market prices means that there is no basis for valuation that is obvious to all concerned. No doubt the state could effect some privatizations, but the pace would be too slow to achieve the reform that is required. In the Soviet Union property rights will have to be given to the people before those rights can be sold and capital markets established.

Privatization is the first step of reform, not the last. The ruble cannot be a convertible currency until it can purchase capital in the Soviet Union. If the ruble cannot purchase real resources in the Soviet Union—land, labor, plants, and machinery—it has no basis for conversion into other currencies. If the ruble were linked to a commodity, such as gold, before privatization, the result would be a flight from the ruble to gold. It is the capability of a currency to purchase assets that makes it convertible.

Once property rights are assigned, prices can be freed, and markets will establish values for the shares that have been assigned. Changes in the level and relation of prices will be reflected in share values and earnings, and the population will have a cushion against inflation and unemployment.

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Paul Craig Roberts holds the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies.

In This Issue

Federal Reserve Board chairman Alan Greenspan and former federal budget director James C. Miller III talk with Cato board members David H. Koch and Tucker Andersen at a reception for Cato's Board of Directors.

The Return of Woodrow Wilson

Editorial

In July 1990 the Cato Institute invited journalists and others to an August 7 luncheon at which we would release "America's Peace Dividend," a 64-page study of reducing military spending in the post-cold-war era. On August 2 Iraq invaded Kuwait.

Many of our friends expressed their sympathy, suggesting that our study was no longer relevant. Our timing *was* bad in the sense that journalists mesmerized by the prospect of war were no longer very eager to cover analyses of the new strategic realities that point to a reduced U.S. military presence around the world. But in another sense, our study was perfectly timed—if we are going to withdraw American troops from the far corners of the world and reduce military spending, the Persian Gulf crisis is just the sort of conflict we are going to have to stay out of.

By the time this is printed, the United States may be at war in the Persian Gulf. If things go very smoothly—for either side—the war may even be over. But win, lose, or continue the stand-off, it is probably safe to predict that American troops will be in the Middle East for some time. The 400,000 troops in the gulf or headed there in December constitute the largest concentration of American forces outside the United States since the Vietnam War.

A number of arguments for U.S. intervention have been offered; the most popular seems to be "We just can't let Saddam get away with it." But what is the "it" we can't tolerate? Unprovoked aggression? Condemnable as unprovoked aggression surely is, we tolerate it all the time. In recent years, we have tolerated China's occupation of Tibet, Vietnam's invasion of Cambodia, Russia's occupation of the Baltic nations, Indonesia's invasion and annexation of East Timor, and—in just the past few weeks—the conquest of Lebanon by our new ally Syria. And we didn't complain about Iraq's unprovoked attack on Iran a few years ago.

Though sophisticated defenders of our intervention insist that the issue is not access to oil, it's clear that if the major export from the Arabian Peninsula were coffee we wouldn't have 400,000 troops there. Oil is what President Bush had in mind when he said that we have "to protect our way of life" and what Secretary of State James A. Baker III meant by "in a word, jobs." But as David Henderson demonstrated in a Cato study, and as Robert L. Bradley, Jr., and William A. Niskanen point out in this issue of *Cato Policy Report*, oil is not sufficient reason for war.

The most likely motivation for Bush, Baker, and the rest of the foreign policy establishment is not to punish aggression or to secure access to oil. It is to preserve the military-industrial complex, an inspiration perhaps best explained by scholars of public choice. The United States has recently been spending $300 billion a year on its military and some $20 billion more on the State Department, foreign aid, international lending agencies, and the like. The collapse of the Soviet threat called that spending into question. The Bush administration agreed to reduce the armed forces by 25 percent, and Congress was threatening even greater cuts. Outside experts were questioning the rationale for keeping 320,000 troops in Europe—to defend whom from whom?—and 110,000 in East Asia.

Then Saddam Hussein invaded Kuwait, and the military-industrial complex breathed a sign of relief. The long twilight struggle against communism would be succeeded by an even longer struggle for a "new world order" characterized by "international stability." Of course, the new crusade is supposed to spread freedom and democracy, an awkward point when the immediate beneficiaries are hereditary monarchies, but stability will suffice for the moment.

The ghost of Woodrow Wilson stalks Washington, as policy analysts in the State Department and in think tanks churn out papers calling for a new global strategy of "nation building" and "low-intensity conflict."

The quest for a new world order is a prescription for perpetual conflict. Not only does it provide a pretext for keeping 2.1 million troops under arms, it offers full employment till kingdom come for the State Department, the Agency for International Development, the National Endowment for Democracy, the World Bank, the International Monetary Fund, and all the other members of the military-diplomatic-foreign aid complex.

But there are increasing signs that Americans are growing tired of playing world policeman. As the crisis in the Persian Gulf stretches into a long-term expedition, support for the president's policies is dropping in the polls. Despite the tax rate cuts of 1981, the federal tax burden is now unprecedentedly high, and another tax revolt is brewing. Americans have paid for the cold war for 40 years, and they are ready to collect the peace dividend that should be theirs at the end of that struggle.

To reduce military spending and give that much-deserved relief to American taxpayers, we need to rethink our strategy of global alliances and interventionism. We must accept that the world is full of unfortunate and even outrageous acts that are simply not the business of the U.S. government and recognize that U.S. intervention frequently causes more problems than it cures. If the era of John Foster Dulles is over, we must look again not to the messianic crusading of Woodrow Wilson but to the vision of John Quincy Adams: "America goes not abroad in search of monsters to destroy. She is the well-wisher to the freedom and independence of all. She is the champion and vindicator only of her own."

—David Boaz

From Public Handholding to Insider Trading

Does the Expanding Criminal Law Threaten Freedom?

Crime took on new meaning during the prosperous 1980s. The act, the guilty mind, and even the victim are increasingly difficult to identify in many of today's "crimes," Roger Pilon told the audience in his introduction to Cato's conference on "The Expanding Criminal Law." At the conference, held on November 15 at the Grand Hyatt Washington, 15 distinguished attorneys, law professors, and journalists discussed the expanding list of criminal wrongs, the expanding powers of the prosecutor, the receding role of the judiciary, and the effect of those developments on individual liberty.

Criminal law increasingly promotes authoritarian ideologies, not justice, said Pilon, director of Cato's Center for Constitutional Studies. The drug war, the 2 Live Crew trial, and prosecutions of inside traders point to what Jonathan R. Macey of the University of Chicago called "one of the greatest perversions of the justice system in the history of jurisprudence."

Harvard Law School professor Charles J. Ogletree tells conference participants that recent criminal statutes are expanding the powers of the state in "still unknown ways."

Responding to U.S. attorney Henry Hudson, who distinguished three levels of victims of drug abuse, Nadine Strossen of the New York Law School argued that it is criminalization that creates victims, one of which increasingly is the Bill of Rights. When pornography, sodomy between husband and wife, and even public handholding of gay men are criminally prosecuted, she continued, we have a wave of what Los Angeles attorney Manuel Klausner called "crimes without complainants."

L. Gordon Crovitz of the *Wall Street Journal* discussed the Chestman, Newport, Milken, and Drexel-Burnham cases and observed that by wrapping charges in broad categories like "fraud," prosecutors get convictions even when specific wrong acts are hard to find. Arguing that an "equal information" theory is behind the war on insider trading, he asked: who is the victim when brokers simply share information?

Russell Mokhiber, editor of the *Corporate Crime Reporter*, responded by asserting that the function of the criminal law is to define socially intolerable behavior. Occupational homicide, price fixing, and pollution are crimes that are too often ignored, he argued.

The conference concluded with a spirited debate between Dan Polsby, professor of law at Northwestern University, and William Bradford Reynolds, former head of the Civil Rights Division of the Justice Department, on the proposition: "Judicial Restraint Ill-Serves Victims, Suspects, the Accused, and the State." Arguing that the errors of passivism are as real as those of activism, especially in light of passivists' deference to the state, Polsby urged judges to protect rights not found explicitly in the Constitution, such as the right to self-defense. Reynolds responded that the system works best when lawmaking is left to the branch of government best able to balance competing interests.

Federal judge David Sentelle greets attorney Joel Cohen at Cato's conference, "The Expanding Criminal Law," as U.S. attorney Jay B. Stephens looks on.

Other speakers included Whitney Adams, head of the ABA Committee on White Collar Crime; New York attorney Joel Cohen; Miami attorney Jon A. Sale; Robert S. Mueller III, head of the Criminal Division of the Department of Justice; and Bennett Gershman, author of the standard work on prosecutorial misconduct. Federal judges Stephen F. Williams, J. Daniel Mahoney, David B. Sentelle, Alice M. Batchelder, and Howard Markey were panel moderators.

Papers from the conference will be published as a Cato Institute book. ■

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Federal Judge Discusses Hierarchy of Rights

Soviets' 500-Day Plan Debated at Cato Round Table

Cato Events

October 17: More than 300 scholars, policymakers, journalists, and interested Washingtonians joined the Cato Institute and authors Paul Craig Roberts and Karen LaFollette for a reception at Washington's Mayflower Hotel to celebrate the publication of ***Meltdown: Inside the Soviet Economy.*** The authors spoke briefly on the current economic crisis in the Soviet Union and its roots in the centrally planned economy.

October 19: **"Romania: Back to Normality?"** Daniel Daianu, executive president of the Romanian Institute for Free Enterprise, discussed Romania's problems—the country's extreme centralization, the absence of knowledgeable economists, and the lack of alternative institutions—and analyzed the moral crisis caused by lack of trust in a system whose authorities proclaim universal solidarity.

October 29: Cato's James A. Dorn and William A. Niskanen met with leading experts on Eastern Europe and socialist economics for a **round-table discussion of the Shatalin plan** and prospects for reform of the Soviet economy. Most participants were impressed with the coherence, scope, and pace of the proposed reform but skeptical about the likelihood of its being adopted and whether the plan was sufficient to prevent the disintegration of the Soviet Union. Several specific problems were pointed out: Maintaining price controls on strategic materials such as oil would create problems for foreign trade. The privatization program should *give* most state assets to Soviet citizens. And some participants felt the constitutional arrangements were too decentralist. Seminar participants included Peter Boettke of New York University, Chris DeMuth of the American Enterprise Institute, and James Buchanan, Michael Alexeev, and Don Lavoie of George Mason University.

October 29: **"The Radical 500-Day Plan: A Summary and Evaluation."** William

Cato executive vice president David Boaz listens as bioethicist H. Tristram Engelhardt, Jr., argues for contractual arrangements in health care rather than sweeping claims of absolute rights to medical services.

A. Niskanen, chairman of the Cato Institute, outlined the Shatalin 500-Day Plan and summed up the conclusions of the morning's meeting. Edgar L. Feige, professor of economics at the University of Wisconsin–Madison, analyzed the Shatalin plan and concluded that although it has some internal problems, it is a bold and workable plan for the economic future of the Soviet Union.

November 8: **"Is There a Right to Health Care?"** H. Tristram Engelhardt, Jr., of the Center for Ethics, Medicine, and Public Issues at the Baylor College of Medicine, offered a cogent analysis of the argument that man has a natural right to health care. It is characteristic of the postmodern world that people feel they have a positive right to the services of others, he argued, concluding that there are no natural rights to health care, only contractual agreements.

November 15: **"The Expanding Criminal Law"** conference was sponsored by Cato's Center for Constitutional Studies at the Grand Hyatt Washington. L. Gordon Crovitz, Charles Ogletree, Nadine Strossen, Jay Stephens, and other attorneys, law professors, and journalists debated whether the Bill of Rights is threatened by the expanding criminal law.

November 16: **"Patterns of Corporate Philanthropy."** Thomas DiLorenzo, the Scott L. Probasco, Jr., Professor of Free Enterprise and director of the Center for Economic Education at the University of Tennessee at Chattanooga and author of *Patterns of Corporate Philanthropy: The Suicidal Impulse,* argued that corporate funding for "liberal" organizations effectively finances public policies that oppose the free market and its underlying principles of individualism, self-reliance, and personal responsibility.

November 27: **"Problems of Privatization: The Case of Argentina's Telephone Monopoly."** Ricardo Zinn, president of the Fundación Carlos Pellegrini in Buenos Aires, discussed the problems and promises of selling ENTel, Argentina's antiquated telephone monopoly. Gabriel Roth, author of *The Private Provision of Public Services,* argued that telephone service is not a natural monopoly and questioned the rationale for selling private-sector monopoly rights to ENTel buyers as a means of privatization.

Authors Karen LaFollette and Paul Craig Roberts flank a melting ice sculpture at an October reception to celebrate the publication of their new Cato book, *Meltdown: Inside the Soviet Economy.*

November 29: **"Constitutional Protection for Economic Rights: Are Contract and Property Different from Other Civil Rights?"** Judge Pasco M. Bowman of the U.S. Court of Appeals for the Eighth Circuit analyzed the Supreme Court's invention of a hierarchy of rights, the Court's preference for some rights over others, and the legitimacy of that approach to the protection of the rights guaranteed by the Constitution.

December 4: **"No Way Out: Impending War in the Gulf?"** Ted Galen Carpenter, Cato's director of foreign policy studies, analyzed and declared irrelevant the eight justifications offered for intervention in the gulf—to deter Iraq from invading Saudi Arabia, to restore Kuwait's legitimate rulers, to protect the oil, to protect U.S. jobs, to recover U.S. hostages, to avoid repeating the mistakes of the 1930s, to forge a new world order, and to prevent Iraq from acquiring nuclear weapons. Ambassador Charles M. Lichenstein, a distinguished fellow at the Heritage Foundation, concurred with most of Carpenter's analysis. He did argue, however, that the United States should take steps to keep Iraq from becoming a nuclear power, since an Iraqi nuclear capability could destabilize the entire region.

December 13: **"A New Crusade for Free Trade."** Americans have a moral obligation to rid the world of trade retaliation, according to Jim Powell, author of *The Gnomes of Tokyo: Why Foreign Investment Is Good for Us.* Powell argued that trade retaliation prevents millions from buying cheap food and manufactured goods, raises prices, restricts economic choice, and encourages xenophobia. He concluded that the United States must set an example for the world by unilaterally opening its borders to free trade. ■

George Mason University economist Don Lavoie and Nobel laureate James M. Buchanan, both just back from Cato's Moscow conference, discuss the Soviet Union's 500-day reform plan with Edward L. Hudgins of the Heritage Foundation at a Cato seminar on the plan.

CATO INSTITUTE CALENDAR

The Heavyweight Fight of 1991: Reevaluating the 1970 Financial Interest and Syndication Rules
January 31, 1991
Speakers will include Robert W. Crandall, Chip Shooshan, Rick Warren-Boulton, Tom Hazlett, and Barry Adler.

Third Annual Benefactor Summit
The Boulders • Carefree, Arizona • February 7–10, 1991
Speakers will include Warren Brookes, Pete du Pont, P. J. O'Rourke, and Milton Friedman.

Money, Macroeconomics, and Forecasting
Ninth Annual Monetary Conference
Capital Hilton • Washington, D.C. • February 21–22, 1991
Speakers will include Rep. Stephen L. Neal, Wayne Angell, Bruce Kovner, Jerry L. Jordan, Allen Sinai, Bennett T. McCallum, Eduard Bomhoff, Donald McCloskey, Paul Craig Roberts, Lawrence Kudlow, David Ranson, and Leland B. Yeager.

Making Sense of Safety
Annual Regulation Magazine Conference
Madison Hotel • Washington, D.C. • March 21–22, 1991
Speakers will include John Graham, Kip Viscusi, Paul Rubin, Henry Grabowski, Joann Siegel, Lynn Weiner, Lester Lave, and Margaret Maxey.

Computers, Freedom, and Privacy
Cosponsored with Computer Professionals for Social Responsibility and other groups
San Francisco Airport Marriott • March 25–28, 1991

Global Environmental Problems: Environment, Science, and Politics
Washington, D.C. • June 5–6, 1991

Summer Seminar in Political Economy
Dartmouth College • June 30–July 6, 1991

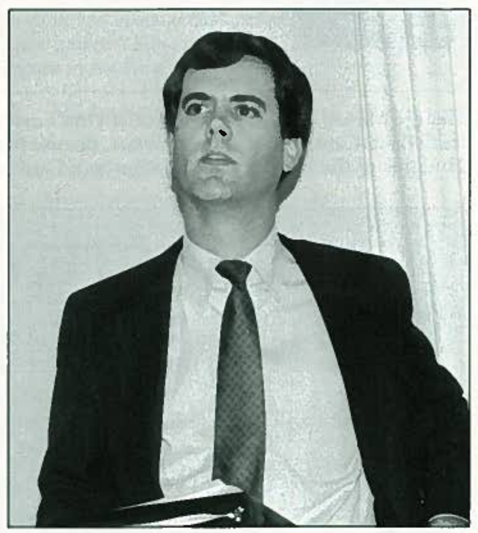
Oil, War, and the Persian Gulf

Policy Forum

From time to time the Cato Institute sponsors media briefings on current policy issues for members of the Washington press corps. A September briefing dealt with world energy supplies in light of the Iraqi invasion of Kuwait and the U.S. response. Commenting were Robert L. Bradley, Jr., president of the Institute for Energy Research, an adjunct scholar of the Cato Institute, and author of The Mirage of Oil Protection, *and William A. Niskanen, chairman of the Cato Institute and former senior member of President Reagan's Council of Economic Advisers.*

Robert L. Bradley, Jr.: How is the embargo of Iraq affecting oil prices? The calculation is a little tricky. You have to try to determine what the cost of crude oil would have been if the invasion hadn't taken place. In late July, as you remember, OPEC reached an accord, with Iraq calling most of the shots, that increased the price of crude some 40 percent over the mid-June price—a significant increase. Yet product prices did not increase significantly before the invasion. Even if the invasion hadn't taken place, a lot of industry analysts think that the price of gasoline, heating oil, and other oil products would have increased about 10 cents a gallon. So a conservative estimate of the cost of the embargo to U.S. consumers is about 10 cents per gallon. That translates to a burden of about $70 million a day on U.S. consumers, given that consumption during the first six months of this year was about 17 million barrels a day. Annualized, that's about a $25 billion burden. Of course, other energy prices have also gone up because of rising oil prices. For instance, in Florida natural gas prices are tied to the price of residual fuel oil. So the total energy cost of the embargo is really more than my estimate.

How has the market performed during the current supply dislocation? I would like to argue that the U.S. petroleum market has performed very well. Let's put the current crisis in perspective. The present dislocation of some 4 million barrels a day of Iraqi and Kuwaiti crude oil and refined product is the greatest shock since the Suez crisis in 1956–57. According to the Department of Energy, our loss from the Arab embargo in 1973–74 was about 1.6 million barrels a day, and the supply dislocation from the Iranian revolution in 1979 was 3.7 million barrels a day. Of course, it's still early; we're just in the second month of the dislocation, so the jury is still out on the total effect. But at least prospectively the oil shock that we're going through now is the worst we've been through since the mid-1950s.



Robert L. Bradley: "Entrepreneurs were buying low in the hope of selling high, so they have enough supply to cushion both present and future dislocations."

Given such a major supply dislocation, I'm impressed that there are no lines at service stations. The only uncertainty for consumers is the price of gasoline, not its availability. And I would argue that gasoline is never more expensive than when it's unavailable or available only at great inconvenience. What we're going through now is by no means an energy crisis like the one we went through in the 1970s. Certainly, it's an economic burden on consumers to pay an extra 20 or 25 cents a gallon for gasoline and heating oil. But we don't have queues, we don't have fuel riots, we don't have truckers' strikes and snipers and all the other horrors we had in the 1970s.

Lately, we've been hearing charges of industry price gouging. But it's clear that product prices have gone up a lot less than crude oil prices. Since the tranquil days of mid-June, crude oil prices have gone up about 110 percent, to $33 from $16 per barrel. Gasoline prices have gone up only about 20 percent and heating oil prices 40 percent. Clearly, the industry is not in a position to pass through all foreseeable costs.

The 5- to 15-cent increase that occurred at many gas stations just hours after the invasion was economically desirable, given the supply dislocation. That pricing response headed off any potential panic on the part of consumers. There wasn't much tank topping. Gas stations also had good market reasons for increasing prices quickly. Today retailers have sources of information that they did not have in the 1970s: a crude oil futures market, which signals prices very clearly, and a much more developed spot market, which gives retailers a very clear idea of what prices are going to be. Retailers are concerned about protecting their inventory; they don't want to price much lower than competing stations and attract hordes of price-conscious motorists who buy up their supply and leave their regular customers without gasoline. Retailers can be expected to price according to the competition, not underprice or overprice. They were also, of course, aware that replacement costs could be much higher, so increasing prices when they did prepared them for their next invoice.

In what other ways has the market worked? I think it's an impressive statistic that on the eve of the embargo world crude oil inventories were at their highest level in history. One estimate is that there were some 100 million to 300 million barrels of surplus inventory worldwide. That inventory, of course, is being drawn down now. In other words, entrepreneurs were buying low in the hope of selling high, and because they bought low in the spring and the early summer, they have enough supply to cushion somewhat both present and future crude and product dislocations.

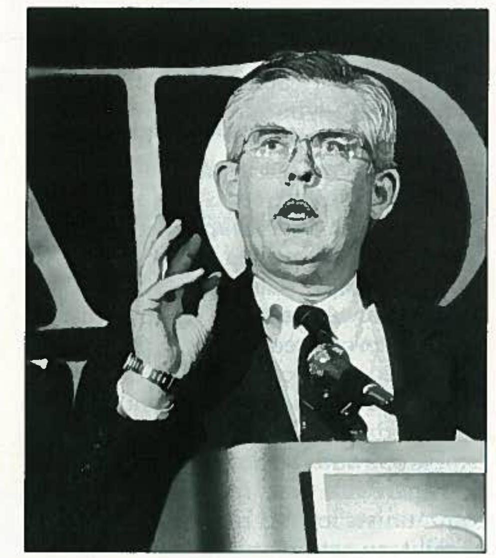
Another thing to keep in mind is that sudden price increases are not the end of the world. They set into effect market processes that make things better in the future. The higher the price from lowered supply, the greater the incentive for new supply. Certainly we are seeing increased exploitation of slack, or underused, capacity around the world. Saudi Arabia will increase its production by 2 million barrels a day, and Venezuela and the United Arab Emirates will each increase theirs by maybe 500,000 barrels a day. Approximately half of the lost Iraqi and Kuwaiti oil is already being replaced, and by the end of 1990 the entire 4 million barrels a day will be replaced by a surge in production in those countries and by smaller increases in the United States and elsewhere. In short, the oil market has responded to dislocation very well.

I would be much more critical of the federal government's response than of the oil industry's. The worst aspect of the government's response was President Bush's call for pricing restraint on the part of the oil industry. What is disturbing about his request is that it sets a precedent for the government's influencing oil prices. That's very disconcerting because of what we went through in the 1970s when we had formal price and allocation regulation that turned the supply dislocation into a full-blown crisis with much greater economic costs than we are experiencing today.

If you look at the history of the U.S. oil market and at the periods of shortage and crisis, you find that during every one of them there has been some sort of government influence on pricing. Along with formal price and allocation regulation, there have been one or two instances of jawboning in which informal price interference has created the same kind of shortages that formal price regulation would have.

For instance, right after World War II, oil prices were deregulated, but in 1946 and 1947 President Harry S Truman, in a very vigorous anti-inflation campaign, did some jawboning of the industry that kept oil prices down. The presidents of the major oil companies such as New Jersey Standard were saying, "Yes, we need to price our product a little higher, but we can't. We are being investigated; the political climate is very negative; and we have to hold the line on prices." During that period, therefore, there were spot shortages of gasoline and heating oil.

The Bush administration has gone beyond jawboning. The Department of Energy also is asking for price restraint. Soon after the invasion, the DOE said, "Uncertainties in the Middle East do not necessitate increases in prices for American consumers." That was untrue. The DOE should have explained why prices needed to go up and why in fact they were going up. Instead, the DOE has come out with some rather trivial recommendations for conservation: inflate tires, take carpools or vanpools to work, observe speed limits, use blended fuels. For advice like that we have a multi-billion-dollar Department of Energy?



William A. Niskanen: "The oil price increase to date is a consequence of U.S., not of Iraqi, action."

Also, there is a fundamental contradiction when the DOE and the Bush administration urge price restraint on the one hand and conservation on the other. The only conservation policy of the government should be to encourage market-clearing prices. Consumers will conserve when faced with higher prices.

Arco, for political reasons, decided to freeze prices in response to Bush's request; the policy lasted a week or a little more, and then Arco had to abandon it because every day 160 of its stations were running out of gasoline. Were the consumers who were buying gasoline from Arco at prices as much as 13 cents below the market conserving gas? Did they eliminate their Sunday drives, as the government would like them to do? Probably not. Such are the contradictions of government energy policy.

Finally, what are the implications of the Persian Gulf crisis for energy policy? Unfortunately, we are seeing proposed legislation that would be very detrimental to consumers—antiprofiteering legislation, for instance. If that legislation had its intended effect and held prices down for consumers, once again we would face the threat of underpricing and gasoline queues. High-profile segments of the industry would have to keep their prices down, but middlemen would come into the industry to buy underpriced crude or product and sell it at the allowed markup of 5 or 10 percent, or whatever. We would have a "daisy chain" effect that would result in higher consumer prices. That certainly happened in the 1970s when we had price controls on the traditional segments of the industry and some 400 oil-reselling firms jumped in to buy underpriced crude and sell it and resell it till its price reached the market level.

There's a lot of talk about new energy taxes. There's even talk of both a tariff to set a price floor and a windfall profits tax to set a price ceiling. That would be particularly dangerous since there would be constituencies that favored each of those taxes. Independent producers would defend the floor and conservationist and consumer groups would back the ceiling.

It seems to me that taxes are already too high. Motorists are paying about 25 cents per gallon in gasoline taxes, and that amount will increase if the politicians have their way. Gasoline taxes went up much more than inflation in the 1980s. Gasoline prices, adjusted for inflation, have gone down this decade. Even with the invasion and the severe supply dislocation, prices today, adjusted for inflation and taxes, are about 40 percent lower than they were in 1981.

Let me end on a free-market note. What's discouraging about the current debate is that everyone is giving up on the idea that we can have competitive, pro-consumer oil prices. A *Washington Post* editorial concluded: "The reality is higher prices. The only question is

(Cont. on p. 8)

Persian Gulf (Cont. from p. 7)

whether those price increases are going to go to oil producers around the world or, in the form of taxes, to public purposes here in this country. That's the question that American politics has been ducking for nearly two decades." In other words, we'll never have prices in the teens again; indeed, we shouldn't have prices in the teens. That view is very anti-consumer. We need to realize that with the right foreign policies and free-market domestic energy policies, we can once again put pressure on OPEC and keep prices affordable for U.S. consumers.

For instance, we need to allow more drilling on public land. The American Petroleum Institute has estimated that between now and the year 2005 we can increase domestic production between 2 million and 5 million barrels a day, or between 12 and 29 percent of national consumption, by opening to drilling the outer continental shelf, Alaska, and federal lands that are now off limits in the lower 48 states. As Sam Fletcher of the *Houston Post* asked, "Why are U.S. leaders more willing to risk spilling American blood on the sands of Saudi Arabia than oil on the beaches of California and Florida?"

We shouldn't give up on lower oil prices. We can have them if we follow the right policies. It would be a shame for consumers to resign themselves to current oil prices.

William A. Niskanen: The primary theme of my remarks is that oil is not worth a war. There may be several legitimate reasons for America's risky new venture in the Middle East, but the price and availability of oil are not among them. It's important to recognize that the oil price increase to date is a consequence of U.S., not of Iraqi, action.

The Iraqi invasion of Kuwait on August 2 did not by itself reduce the world's supply of oil. The Iraqis and the Kuwaitis had been squabbling, because the Kuwaitis apparently were exceeding their production quotas under the OPEC agreement. That was nothing new. Most of the OPEC countries cheat on their quotas. And at most, if Iraq's invasion of Kuwait had reduced their combined oil output, the decrease would have been a minuscule amount. It is the U.S.-coordinated embargo of all exports from Iraq and Kuwait that is the primary source of the oil price increase. The thing to watch with oil prices, as with those of any other commodity, is whether a particular action changes world demand for the commodity or changes world supply of the commodity. The Iraqi action by itself did not reduce the world's supply of oil. It is the U.S.-coordinated embargo on oil exports from Iraq and Kuwait and the threat of war that have been the primary reasons for the oil price increase.

There was real concern that the Iraqis might continue their invasion and take over Saudi Arabia and the United Arab Emirates. But if the Iraqis controlled all of the oil in the gulf except that of Iran, the profit-maximizing price level would probably be less than the prices we are now paying. In other words, the effect of the embargo, which cuts out roughly 3.8 million barrels of exported oil a day, on oil prices is almost sure to make them higher than would be the case if Iraq controlled all of the oil in the gulf except that of Iran. Before the invasion on August 2 Iraq and Kuwait together produced about 7 percent of what used to be called the noncommunist world's oil supply. (I mention that because during a month I spent in Eastern Europe and the Soviet Union, I noted that there are very few acknowledged communists left.) If Iraq had continued its military action and taken over Saudi Arabia and the emirates, it would have controlled something like 21.5 percent of the noncommunist world's supply.

The Justice Department approves mergers of that size every day, so there is reason to question whether the monopoly power associated with that increase in market share is likely to be very substantial. Economists have a variety of estimates of the profit-maximizing price that would result from that increase in control, but the numbers work out to be less than $30 a barrel. The spot price of oil in late September is $33 per barrel, and interestingly enough the price of oil to be delivered in October 1991 is on the order of $25—a very big spread between the spot and the futures market. So the futures market, even discounting the possibility that things may get worse, is betting that the price of oil will fall sharply.

The irony of the whole situation is that it is Iraq, not the United States, that is especially vulnerable to interruptions in the oil market. Almost all of Iraq's exports are oil, and almost all of its exported oil (except the small amount that goes to the Jordanian refinery) comes out through three points that are all fairly easy to close—the Turkish pipeline, the pipeline across Saudi Arabia, and the gulf ports. The consequences for us of the oil embargo or even Iraqi control of the whole of the gulf except Iran are fairly small.

There are several domestic policies that we ought to be thinking about. Over a dozen years ago, during the Carter administration, the United States embarked on an extensive program of filling what is called the Strategic Petroleum Reserve. We now have about 600 million barrels of oil in that reserve. After all this time, the Department of Energy has yet to formulate and announce a release policy for the SPR. And their reaction this summer has been to act as if somehow the SPR is like the gold reserve at Fort Knox—a national asset that is never to be used. They won't tell us the conditions under which they would release oil from the SPR. The presumed purpose of the SPR was to avoid price spikes, so a 100 percent price spike in a matter of six weeks ought to be enough to trigger the release of some oil.

Second, we should rethink our policies on drilling in the Alaskan national wildlife preserves and offshore. We have every reason to be sensitive to environmental concerns in both places but no reason to regard the issue as an all-or-nothing proposition. We are not constrained to allow either unlimited drilling activities or none at all. Yet that seems to be the position that we have drifted into.

So, in summary, we needn't have risked a major military confrontation over oil. The United States is not especially vulnerable to anything that the Iraqis could do. The increased price of oil to date has been a consequence of our actions, not Iraqi actions. And even if Iraq had proceeded to control all of the gulf oil except that of Iran, the consequences would have been less onerous than the effects of the U.S.-coordinated embargo, let alone a war. ■

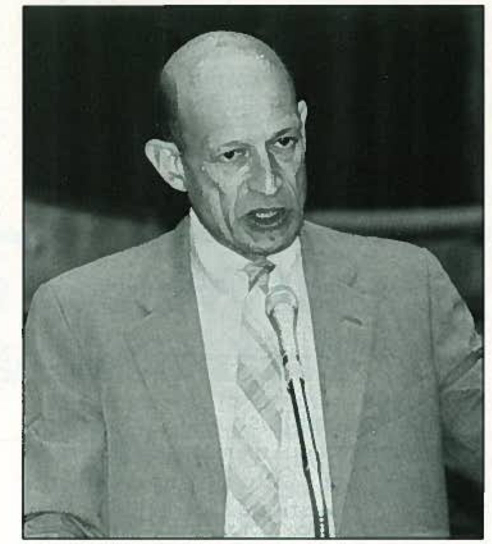
Cato Books Go to Eastern Europe

Cato Scholars Visit South Africa, Appear on PBS, and Win a Bet on Natural Resources with Paul Ehrlich

Cato adjunct scholar Julian L. Simon, author of *The Economic Consequences of Immigration* and many other books, is $576.07 richer. What makes the money particularly satisfying is that it came from doomsayer Paul Ehrlich as payment for a bet Simon and Ehrlich made in 1980. To back up his point that natural resources are getting less scarce—a phenomenon that would logically be reflected in declining prices—Simon offered to bet any Malthusian that *any* natural resource would be cheaper at *any* future date. Ehrlich took him up on it, chose five metals (chrome, copper, nickel, tin, and tungsten), and set a date 10 years in the future. By October 1990 the prices of all five metals had fallen—nickel by 3 percent and all the others by a lot. Ehrlich paid up, but without any letter or public admission of error. Simon thanked him and offered to raise the wager to $20,000; again Ehrlich would choose the resources and the time frame. The whole story is told in glorious detail in the December 2, 1990, issue of the *New York Times Magazine*.

Simon's work, particularly *The Economic Consequences of Immigration*, has been cited in the press recently as playing an important role in changing the intellectual climate and making possible the 1990 bill that expanded immigration.

For the second time in a year, two Cato scholars have articles in a single issue of *Foreign Policy* magazine. The lead article in the Winter 1990–91 issue, on the need for a noninterventionist policy in the changing world system, is by Earl C. Ravenal, a Cato senior fellow and pioneering critic of global interventionism. In the second article, adjunct scholar Leon Hadar argues that U.S. aid skews Israel toward socialism and an aggressive foreign policy. The Winter 1989–90 issue of *Foreign Policy* contained articles by senior fellow Doug Bandow and adjunct scholar Christopher Layne, and the Summer 1990 issue included an essay by adjunct scholar Stanley Kober based on the research he is doing for a forthcoming Cato book.



Cato adjunct scholar Julian L. Simon is $576.07 richer, thanks to a bet with doomsayer Paul Ehrlich on the ten-year price changes in natural resources.

Ted Galen Carpenter, Cato's director of foreign policy studies, says, "These articles demonstrate the increasing respect in the foreign policy community for the validity of the noninterventionist perspective."

Cato's director of fiscal policy studies, Stephen Moore, has an article on tax increases in the December issue of

Cato adjunct scholar Walter Williams, author of *South Africa's War against Capitalism*, made a speaking tour of South Africa in late October.

Reader's Digest, the magazine with the largest circulation in the country. In "Higher Taxes Aren't the Answer," condensed from an earlier article in *Reason*, Moore points out that increases in government revenue always lead to increases in spending and argues that "over the long haul they will usher in budget crises worse than those they were intended to solve."

Cato adjunct scholar Walter Williams, author of *South Africa's War against Capitalism*, visited South Africa recently to promote his book. He spoke at major universities, including Witwatersrand, and other forums arranged by the Free Market Foundation.

Large quantities of several Cato books—including *National Economic Planning: What Is Left?* and *A Tiger by the Tail*—have been shipped to Eastern Europe as part of a Laissez Faire Books project. Laissez Faire is opening branch stores in Warsaw, Prague, Moscow, and Budapest, where local classical liberals will sell free-market books.

An American Vision: Policies for the '90s is being used as the textbook in a University of California–Irvine class on modern libertarian thought taught by economist Daniel Klein. Many Cato books are used as supplemental readings in college classes.

An op-ed by associate policy analyst James Bovard that appeared in the *New York Times* several years ago was featured in a *Times* special section on its best op-eds of the past 20 years on September 30, 1990.

Cato board member Richard J. Dennis's article "The Economics of Legalizing Drugs" in the October *Atlantic* argues that the net social gains of "drug peace" would be $25 billion per year, assuming that drug addiction rose by 25 percent. If addiction did not rise, total gains could be as high as $50 billion per year. Dennis and Cato executive vice president David Boaz were two of the panelists on a recent edition of "America's Drug Forum," a weekly television program seen on some 80 PBS stations nationwide. The show dealt with different models of drug legalization. ■

Studies Call for Term Limitation, End to Textile Quotas

Recent Cato Institute studies discuss the current movement for term limitation and analyze the textile quota bill's potential costs to U.S. businesses and consumers.

Creating a Citizen Legislature

The most significant political movement in America today is the call for limits on the terms of state and federal legislators, writes John H. Fund of the *Wall Street Journal* in Policy Analysis no. 141, "Term Limitation: An Idea Whose Time Has Come."

Once immersed in the "culture of ruling" that permeates state capitals and Washington, D.C., legislators seek to "codify their opinions on everything under the sun," oblivious to the impact of legislation on the people who must live under it. The present perverse preselection process diverts government from the path it would take if legislatures were filled with individuals more representative of society in general.

Fund calls for a six-year limit on congressional terms so that "citizen-legislators" would replace the "congressional careerists" who now hold our nation's legislative reins. Congressional reelection rates have risen from 83 percent in 1981 to over 92 percent in 1989, Fund notes.

"Franking privileges, huge staffs, liberal travel funds, easy access to the news media, and unfair campaign finance laws" have turned Congress into a self-perpetuating institution. Limiting terms of office would permit greater competition in elections, which should increase voter turnout and allow "assignments such as committee chairmanships to be awarded more on the basis of talent and leadership qualities than on someone's staying power in office."

Protecting Textile Companies from the Market

President Bush recently vetoed a bill that would have further curbed textile imports in order to preserve a share of the U.S. market for domestic firms even if their products are vastly inferior to foreign products in price, quality, variety, and timeliness of delivery.

That protectionist bill would have increased prices of imports and domestic goods competing with imports, forced U.S. businesses to cut production and employment because of higher costs, and provoked retaliation from countries currently exempt from import quotas, Thomas Grennes, a North Carolina State University economist, argues in "The Collision Course on Textile Quotas" (Policy Analysis no. 140), issued shortly before the president's veto.

Bush should next negotiate an end to the Multifiber Arrangement, which would gain U.S. exporters greater access to world markets, Grennes urges. It's time to let the American textile industry face the free market, he says.

These studies are available from the Cato Institute for $4.00 each.

Gulf "Victory" Could Lead to Entanglement, Study Says

As President Bush ships more and more young Americans to the front line in the gulf, Cato Institute scholars continue to question U.S. foreign policy.

"It is time to . . . stop using the concept of vital interests promiscuously," Cato adjunct scholar Christopher Layne declares in "Cold War's Over, Supercop Can Go Home," the second in his three-part series on the Persian Gulf in the *Los Angeles Times*. Layne argues that putting the ideal of world peace into practice on a global scale, as the Bush administration has done in reacting to Iraqi aggression, is both unrealistic and dangerous.

We must be wary of "again sliding inexorably into a war the Congress has not sanctioned," warn Layne and Ted Galen Carpenter, director of Cato's foreign policy studies, in their *Los Angeles Times* op-ed "Don't Rush into Folly in the Gulf."

"The Cold War's exigencies upset the delicate constitutional balance" between the president as commander in chief and Congress, whose upper house has the power to declare war and ratify treaties, Layne and Carpenter write. "In a nuclear world, it was said, the President needed a free hand to respond quickly to global crises. In the Persian Gulf crisis, however, there are no compelling arguments for allowing the Administration to start a war without first obtaining congressional consent," they argue.

Bush must stop obstructing efforts to compromise with Iraq and begin withdrawing U.S. troops if we are to avert a war in the Persian Gulf, Layne and Carpenter write in "Arabian Nightmares: Washington's Persian Gulf Entanglement" (Policy Analysis no. 142). The current situation is but the prelude to a dangerous, open-ended U.S. military presence in the gulf region, they argue.

"Bush's uncompromising demands for an unconditional Iraqi withdrawal, as well as his more recent dark hints that Iraq should be required to pay reparations for the occupation of Kuwait and that there should be a Nuremberg-style war crimes trial of Saddam and his associates" leave the Iraqis little choice between a humiliating surrender and war, Layne and Carpenter write.

"Saddam Hussein's vaunted 'oil weapon' is a dud," writes David R. Henderson, former senior energy economist with President Reagan's Council of Economic Advisers and professor of economics at the Naval Postgraduate School in Monterey, California, in "Do We Need to Go to War for Oil?" (Foreign Policy Briefing no. 4).

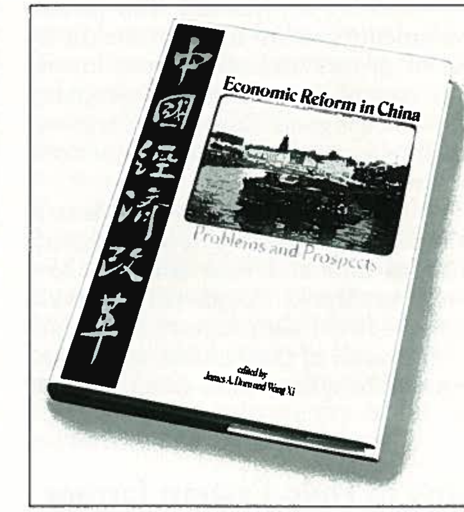
Even should Iraq keep Kuwait and snatch up Saudi Arabia and the United Arab Emirates, thus controlling all Middle Eastern oil outside Iran, Saddam would have no effect on the world price of oil if he continued production at today's rate, according to Henderson. Because the short-term elasticity of the demand for oil is −0.15 (i.e., a 1.5 percent decrease in supply causes a 10 percent increase in price), a 6.7 percent drop in world oil production (the greatest cut Saddam could make and still turn a profit) would cause a 50 percent price hike. Hence, absent U.S. military intervention, the world oil price would have risen to only about $30 a barrel, Henderson concludes.

Cato scholars have been voicing their opposition to Bush administration policies on the air as well. Carpenter spoke on CNN's "Crossfire," "American Interests" on PBS, and "NBC Nightly News with Tom Brokaw" in November. Both Carpenter and Doug Bandow, a senior fellow at Cato, were seen on the C-Span coverage of a recent Persian Gulf media briefing. And Bandow has addressed U.S. foreign policy in the Persian Gulf on "Crossfire" and the "CBS Evening News with Dan Rather."

Former UN ambassador Charles Lichenstein (right) makes a point to Ted Galen Carpenter, Cato's director of foreign policy studies, after their debate on the Persian Gulf at a Cato Forum in December. Writer Michael Lind listens.

Friedman in New Book

Free Markets and Property Rights Needed in Chinese Economic Reform



With the country's tax system in tatters and debate over its economic and political direction fermenting, China's Central Committee planned a December meeting to discuss the relationship between the wayward provinces and the central bureaucracy. A new book from the Cato Institute examines how China's 10-year struggle for economic reform culminated in the current crisis and discusses economic options for China in the next decade and beyond.

In *Economic Reform in China: Problems and Prospects*, edited by James A. Dorn and Wang Xi, distinguished Chinese and Western scholars address reform proposals and the chances for returning to the course of openness and opportunity China followed before the June 1989 crackdown in Tiananmen Square.

Nobel laureate Milton Friedman observes in his essay that, in setting a framework for reform, it is important to realize that a viable market requires transferable ownership rights and freedom of contract—neither of which yet exists in China on a large scale. "There is no magic formula for shifting painlessly from a command to a voluntary exchange economy. Nonetheless, the potential rewards are so great that, if the shift can be achieved, transitional costs will pale into insignificance," Friedman writes.

"China's deep and basic needs now are the privatization of state-owned enterprises and the demolition of state-created monopolies," activities that are being slowed by those who currently enjoy monopoly privilege, according to Steven N. S. Cheung of the University of Hong Kong.

"Reality requires that China recognize the death of communism . . . [and] embark on thorough-going reform or face the prospect of being left behind in the wake of the liberal revolution that is now sweeping the globe," writes Nien Cheng, author of *Life and Death in Shanghai*.

Other contributors include He Weiling, Alvin Rabushka, George Gilder, William Niskanen, Richard Y. C. Wong, Christine I. Wallich, Justin Yifu Lin, Ted Galen Carpenter, Don Lavoie, David M. Lampton, Pu Shan, Yun-Wing Sung, and John G. Greenwood.

Dorn is vice president for academic affairs at the Cato Institute and coeditor of *The Search for Stable Money; Economic Liberties and the Judiciary;* and *Dollars, Deficits, and Trade*. Wang is a professor of economics and history at Fudan University. Wang's publications include *U.S.-China Economic Relations: Present and Future* (coedited with Richard Holton) and *International Trade and International Economic Cooperation*.

Economic Reform in China, published by the University of Chicago Press, is available from the Cato Institute for $17.95 (paper).

Call for Papers

The Cato Institute seeks papers on public policy issues for the *Cato Journal*, *Cato Policy Report*, and the Policy Analysis series. Send papers or proposals to Editor, Cato Institute, 224 Second St. S.E., Washington, D.C. 20003.

Transition (Cont. from p. 1)

There cannot be markets without property, and prices cannot be free before resources are free to follow prices. Investments have to move in the direction of profits and away from losses. That cannot happen unless property rights are assigned. Economists and bureaucrats cannot perform the functions of owners.

Private property is not the problem. It is the solution. Once rights are assigned, attitudes and activities will be completely reoriented. People will scramble to ensure that their property has value, and the result of their efforts and incentives will be a successful economy. ■

How to Help Eastern Europe

by Peter Bauer

Western subsidies to reformist governments in Eastern Europe are not generally necessary for the prosperity of those countries and the survival of their governments. The contribution of such subsidies is at best very limited, and they are more likely to be damaging to the prospects of those countries.

"Foreign aid" is a misleading term that prejudges results; after all, nobody is against helping the less fortunate. The term has therefore promoted an unquestioning attitude, so that in academic, political, and public discussion, it is widely accepted that the case for subsidies is self-evident. That attitude has permitted conspicuous anomalies. In the name of "aid," large subsidies have gone to governments pursuing economically destructive and morally barbarous policies; often those subsidies have kept such governments afloat and enabled them to continue their policies.

The principal argument for foreign aid has always been, and still is, that without it poor countries cannot progress, and that their progress is of vital political and economic importance to the West. Subsidies are deemed indispensable to the progress of poor countries because they cannot themselves generate the capital required for their advance. That argument, popularized as the vicious circle of poverty, was the central theme of development economics from the 1940s to the 1970s.

The vicious-circle hypothesis is belied by the existence of developed countries, all of which started poor and developed without subsidies. External donations have never been necessary for the development of any society anywhere.

What can the West do to promote economic advance in Eastern Europe and improve the prospects of the reformists? The most effective contribution the West could make to economic advance in Eastern Europe would be to reduce trade barriers against exports from Eastern Europe.

Reduction of trade barriers could do much for economic advancement in Eastern Europe and for the cause of the reformists. In the course of the last 100 to 150 years, international trade, direct investment, and local response to them have transformed much of the Third World. That has come about because international trade and direct investment serve as a channel, not only for goods and services but also for new ideas, methods, attitudes, and techniques. Such flows could play a similar role in postcommunist Eastern Europe.

People can advance from poverty without subsidies if they are motivated to improve their economic condition, if property rights are protected, and if the government pursues a liberal economic policy. Subsidies can do little to promote that process and are more likely to inhibit it. ■

Peter Bauer is an emeritus professor of economics at the London School of Economics.

Private Property and Perestroika

by Edward H. Crane

It is common to point out these days that Mikhail Gorbachev's political popularity is considerably greater in the West than it appears to be in the Soviet Union, or even in Russia. Perhaps it is not so difficult to understand why that is true. As a Westerner, I can tell you that I consider Gorbachev a statesman of enormous stature who has played a uniquely important role in bringing about the end of both the cold war and the insane nuclear arms race. The prospects for the human race have been greatly enhanced by his actions.

Edward H. Crane: "Let the rallying cry of the new perestroika be 'Free to choose!'"

At the same time, his policy of perestroika, of restructuring the Soviet economy and domestic policies, must objectively be viewed as a monumental failure.

I was struck by the similarities in the arguments of the paper prepared for this conference by Abel Aganbegyan, one of President Gorbachev's chief economic advisers, and those of Gorbachev's own 1988 book entitled *Perestroika*.

When he lists four reasons for the failure to date of perestroika, Aganbegyan speaks of inadequate state planning; of the "evil system of economic incentives in construction"; of poor wage regulation policy; and, incredibly to me, of "errors in the second stage of the anti-alcoholic campaign." There is no mention of the failure to switch from a socialist command economy to a free enterprise system.

I hope that if this conference achieves nothing else, it acts as a pointed reminder that this is not the time for ambiguity, obfuscation, halfway measures, or flowery rhetoric. Too much suffering has resulted from the Soviet economic policies of the past and present. Marxist economics is mysticism. It is the economic equivalent of phrenology. Now is not the time to tinker with those foolish policies, or to merge them with another system. Now is the time for clear-eyed radicalism, for an assessment of the real world and how it works. Now is the time for an immediate and total break from the absurd socialist policies of the past.

Freedom is one indispensable element of economic progress. The other is an institution described by two words. They are words that must find their way into the Soviet lexicon if there is to be economic progress. They are words missing from the speeches of Mikhail Gorbachev and the paper by Abel Aganbegyan. They are "private property." Without private property and human liberty as cornerstones, perestroika will continue to fail. It is no coincidence that Marxist ideology had no room for either private property or true political freedom. Each requires the existence of the other.

Private property means that the factors of economic growth—labor, resources, and capital—must be privately, that is individually, owned. Ownership implies the right to buy, control, and sell property without government interference. The tugging and pulling of human and natural resources in a society in which individuals are free to choose creates something more sophisticated than any supercomputer ever invented: the price tag. A simple price tag in a free-market economy contains information central economic planners can only dream of possessing.

Anatoly Sobchak: "The system of blind universal guarantees for any worker, even a lazy one, must give way to a contractual system under which a worker who does his job poorly or sloppily will lose it."

The great opportunity for the people of the Soviet Union is that you are living in one of those rare historical periods when the fundamental nature of your society is being openly debated. If institutional changes are implemented here that create private property, that reward hard work and entrepreneurship, that allow people to take responsibility for their own lives—rather than grant the state that responsibility—if a new constitution strictly limits the size and the power of both the Soviet government and the governments of the republics, then there is no reason you cannot achieve a level of prosperity and human happiness that transcends the achievements of the West.

When looking west you must reject those who promote democratic socialism, or the welfare state of the Scandinavian countries, or even the so-called mixed economy of the United States. Yours is a unique opportunity to reject all forms of statism, whether in its most pernicious form, communism, or its more insidious form, the mixed economy. With all due respect to those involved, you must reject the timid halfway measures put forth by Gorbachev and Aganbegyan. Radical restructuring based on private property, the profit and loss system, and individual liberty—the sooner the better—is the answer to the problems that confront the Soviet Union. Let the rallying cry of the new perestroika be "Free to choose!" ■

Edward H. Crane is president of the Cato Institute.

Melanie Tammen, director of Cato's Economic Liberty Project, talks with Peter J. Boettke of New York University and Edgar Feige of the University of Wisconsin at Cato's seminar on the Soviet Union's radical reform plan.

Creating a Market Economy

by Anatoly A. Sobchak

The Soviet Union is facing a choice about the path its further economic development will take. Today, virtually everyone—the economists who for decades have insisted on the need for transition to a market economy, the politicians who as recently as six months ago denied the necessity and the possibility of such a transition, and the overwhelming majority of the population—seems to have arrived at the same conclusion: the transition to a market economy is inevitable; it is the only way to economic revitalization for this country.

For decades in our country we have fostered a beggar-consumer mentality: the state will provide and decide everything for you—poorly, perhaps, but equally. That parasitic mentality is very widespread here. Yet a market economy, in order to function, requires a very different type of mentality: enterprise, initiative, responsibility, every person solving his own problems. The government's role in economic life must be drastically reduced, or there can be no market economy. And that requires

(Cont. on p. 14)

Anatoly A. Sobchak is a member of the Supreme Soviet and chairman of the Leningrad City Council.

Transition (Cont. from p. 13)

a revolutionary transformation in the minds of people, in their psychology.

To create the legal foundation for a market economy, we also need to fundamentally transform the legislative regulation of the economy. What are the principal characteristics of Soviet legislation regulating economic relations today? It strives for total control over economic relations, subjecting all aspects of economic relations to government regulation in the minutest detail. It tries to decide by state planning how much of what each enterprise must produce, on what terms it must sell its product, and how it is to handle relations with buyers and suppliers. Administrative rules directly regulate all economic relations, all economic ties, in the country from above.

Transition to a market economy will require economic ties based on horizontal relations between independent economic agents—that is to say, between free producers of commodities.

It is necessary to make changes in the way enterprises are launched and closed down. The overwhelming majority of enterprises in our country today are opened and closed by administrative decision, but tomorrow that should be done on a contractual basis.

The transition to a market economy will require a fundamental change not only in civil and economic legislation but in labor laws as well. The present system of blind universal guarantees for any worker, even a lazy one, must give way to a contractual system under which a worker who does his job poorly or sloppily will lose it.

Larisa Piyasheva: "Socialist ideology has proven to be destructive of economic well-being because it has rooted out all the productive segments of society."

Another question of extreme importance for the transition to a market economy is property rights. A law on property that allows a variety of forms of ownership has been adopted, but such basic legislation must be carefully developed, and more work is needed on all the secondary statutes that would give the property owner full right to control, possess, and use the property that belongs to him. ■

The Pursuit of Happiness

by Charles Murray

Without arguing about the conditions that actually prevailed in the 19th century, it is safe to say that, empirically, socialism failed to deliver on its promise of classless, harmonious human relationships. That is no accident, nor is it the result of a failure to implement socialism properly. Rather, I will argue that the moral ideals of socialism are themselves to blame. The ideals of socialism push people apart. Socialism atomizes.

The ideal of egalitarianism is perhaps the major cause of dissension. One of the most divisive of human emotions is envy, and the ideal of egalitarianism, translated into political terms, is an engine for generating the maximum amount of envy.

The problem lies in this. If equality is a moral ideal, any specific instance of inequality is morally suspect. It is impossible to be innocently better off than another person. Under a state with an egalitarian ideal, envy is entirely understandable. If one person has a Mercedes when his neighbors still have to take the bus, then he is behaving "wrongly"—in violation of a moral ideal—no matter how he got the money to buy it. How is a good citizen supposed to react to such inequality? Suspicion and envy are not only the logically correct reactions, they are the correct *moral* reactions.

The envy generated by the ideal of egalitarianism explains the phenomena that the Soviet Union is now encountering. Consider, for example, the reaction of many Soviet citizens to the "cooperatives." According to the stories reaching the West, the successful cooperatives are causing widespread resentment among Soviet citizens. The source of the resentment lies ultimately in the assumption that equality is morally desirable. ■

Charles Murray is a resident scholar at the American Enterprise Institute.

No Compromise

by Larisa Piyasheva

Within the monolithic ranks of our economists, three distinct kinds of thinking—though not yet schools of thought—have taken shape. The first is represented by the currently unpopular conservative bloc of traditional Marxists who defend our socialist achievements and want stabilization within the framework of state ownership and a planned economy. The second kind is that of market socialists of social democratic orientation, who are seeking all sorts of compromise combinations of free markets and our current structures of property and power (they are the absolute majority today and form part of the Gorbachev team). Finally, there is the thinking of market radicals who are calling for straightforward privatization of property and free markets. They are a tiny minority.

I consider myself a member of the last group. I reject all models of socialism, including the Marxist-Leninist and the social democratic. I believe that all attempts to find a "third way" are headed for a dead end. I would recommend that our government adopt Erhard's model of a "social market economy" for the transition to a market economy and use Friedrich Hayek and Milton Friedman, or their disciples and followers, as consultants and advisers. I am absolutely and firmly convinced that our country has a large reservoir of unutilized creative and entrepreneurial initiative that, provided our totalitarian administrative mechanism is quickly dismantled and people are given their civil rights and freedoms, can bring about radical changes in our lives.

With very few exceptions, our scholars are advocates of a regulated economy of the leftist-Keynesian type. The idea of social justice, and its socialist, distributive interpretations, continues to stir their minds, prevailing over the principles of equal opportunity and freedom of private enterprise. If, five years ago, our scholars had approached their task responsibly, we would not be on the verge of economic bankruptcy today. In five years of perestroika not a single Western textbook of economics has been translated here.

Socialist ideology has proven to be destructive of economic well-being precisely because, for several decades, it has fought private enterprise and rooted out all the productive groups and segments of society: industrialists, bankers, craftsmen, traders, and peasants.

The victory of socialism was its ability to lumpenize virtually the entire populace, parceling out the functions of the entrepreneur to different parts of the administrative system and thus destroying entrepreneurial initiative. As a result, all citizens—blue-collar workers, white-collar workers, and peasants—were deprived of property rights and of the right to enterprise and self-enrichment.

That was the principal cause of our decline before perestroika, and it continues to be to this day.

In five years of talk about perestroika, not a single practical step toward a market economy has been taken in this country. The monopoly structure of power and ownership remains intact. The network of ministries in charge of various branches of industry has not been eliminated. Our economic structure is still the most monopolistic in the world. Not a single enterprise has been allowed complete economic self-sufficiency.

If we adopt a five-year transition strategy, I have no choice but to advise those who intend to give us credit to wait five years, until the day individuals and enterprises are given the right to freely exchange rubles for hard currencies. I would also recommend that credit be extended only for very specific objectives and only to the private sector, not to government or pseudo-social institutions.

The first condition applies only to a five-year transition, the second to any option that is adopted. Credit should be extended for specific objectives only, and only to the private sector. ■

Larisa Piyasheva is a senior researcher at the Institute of International Labour Movement.

Impertinent Security Threats

by Charles William Maynes

The principal postwar concern of the superpowers has not been "pertinent" security threats but "impertinent" security threats. After World War II the United States and the Soviet Union repeatedly proclaimed that their security was threatened by impertinent security threats. The United States went to war twice in Asia, more to fight a perception—that a conspiracy was attempting to conquer the world—than to defend real interests. In a cold-war context, every piece of territory in the world acquired significance because the perceptions of power became more important than the realities of power.

Since the superpower agreement in 1962, Cuba has basically been a nuisance to the United States, the most impertinent on any list of impertinent threats. U.S. policy toward such Third World states as Chile under Allende, Grenada under Bishop, Panama under Noriega, or Libya under Qaddaffi can be explained in a similar way. All were impertinent, not real, threats.

Of course, Soviet policy has not been immune to the tendency to be more concerned about the impertinent threat than the real threat. The efforts of the East Europeans throughout most of the postwar period to assert their national identities presented no real security threat to the Soviet Union. None of them were strong enough to attack the Soviet Union, and none of them would have been foolish enough to try to associate themselves with an anti-Soviet front. Hindsight makes it clear that Soviet leaders ill-served Soviet interests: freezing the status quo in Eastern Europe also froze it in the Soviet Union, delaying for decades some of the measures needed to prepare Soviet society for competition on the international level.

Charles William Maynes: "With the end of the cold war, can the superpowers adopt a more relaxed posture toward acts of geopolitical impertinence?"

We are left with the question: with the end of the cold war, can the superpowers adopt a more relaxed posture toward acts of geopolitical impertinence? The brief answer seems to be that the Soviet Union is largely cured of that postwar disease and the United States may be following in the Soviets' footsteps, although the evidence is mixed.

For most of the postwar period the cause of peace seemed to be served by making the bipolar alliances as tight as possible. That way, no one could doubt the effect of challenging the other side, but the whole system rested on the assumption that rational authorities at the center could remain in control of policy and that they alone could decide whether to challenge the existing order. In the years to come, the cause of peace will be served if the alliance systems can be loosened, because change is more likely to come from below than above. The peace of the world cannot rest on whether the people of Kosovo province are willing to act in ways that contribute to international stability. NATO advocates are wrong when they say that the enemy in Europe is now anarchy if they mean that NATO can play a major role in suppressing anarchy. We do not want U.S. troops in Transylvania.

An unprecedented opportunity lies ahead. For the next several years the great powers of the world should be able to devote more of their energy and resources to the solution of real problems than to the management and manipulation of geopolitical perceptions. ■

Charles William Maynes is editor of *Foreign Policy*.

"To be governed..."

The budget can't be cut

[Rep.] Bob Walker rose to offer an amendment to cut the agriculture appropriations bill by 0.0000002 percent.

"In total," Walker announced, "this amendment will cut $19.90 from the [$9.9] billion appropriation. . . .

"Mr. Chairman, I take a back seat to no one in trying to have a balanced budget," said Jamie Whitten (D-Miss.), the ancient chairman of the Appropriations Committee, "but I do not believe in doing it at the expense of programs that are absolutely essential to the well-being of the American people."

—*Washington Post Magazine*, Nov. 4, 1990

The National Endowment for the Arts has awarded funds for the first time to support an arts program run by a private corporation, giving $50,000 to the Rouse Co. [annual sales, $388 million] to fund arts projects in Rouse shopping malls.

—*Washington Post*, Nov. 9, 1990

Congress can't find its way clear to agree on a budget, but it has been able to come up with half a million dollars to make a tourist attraction out of former bandleader Lawrence Welk's Strasburg, N.D., birthplace.

—*Washington Post*, Oct. 23, 1990

The bipartisan conferees approved a $2.5 billion, 18.8 percent increase in federal aid to states for highway and bridge construction; channeled $125 million to the electrification of the Northeast rail corridor between New Haven and Boston; and directed the Department of Transportation to spend more than $30 million to study magnetic levitation trains and "intelligent" cars.

They threw in $1 million to develop a "national transportation policy" on bicycling and walking.

—*Washington Post*, Oct. 21, 1990

Despite Congress' concentration on ways to reduce the federal budget deficit in the final weeks of this session, the three appropriations measures contained their share of special projects for individual members [such as] an $89.8 million account for 10 university research centers, most of them located in the districts of lawmakers on the House and Senate appropriations committees.

—*Washington Post*, Oct. 20, 1990

Virginia Gov. L. Douglas Wilder's attempts to hold the line on state spending have meant hard times for the Cooperative Extension Service and folks out on the Northern Neck. Complained one Extension spokeswoman, "Last week I got a call from someone who wanted to know something about Angora goats. I tell people to have patience. I'll get the answer, but it may take longer than normal."

—*Washington Times*, Nov. 9, 1990

Talk about leaving office broke

All that any of us have after public office is our record and our reputation.

—Sen. Alan Cranston in the *Washington Post*, Nov. 17, 1990

Beyond the pale

"For the first year-and-a-half [after a 1978 property tax cap] there was legitimate waste-cutting," [Prince George's County, Md., executive Parris Glendening] said. "After three or four years, however, there were serious cuts and actual firings."

—*Washington Post*, Oct. 28, 1990

A vision for America

"The middle class have no more to give," [Sen. Barbara] Mikulski said. "The poor have nothing to give. So let's go and get it from those who got it."

—*Washington Post*, Oct. 19, 1990

Except Vietnam, Syria, China, the Soviet Union . . .

"When this is over, the world will say thank God the United States made it clear that no country can bully or take over its neighbor," [President] Bush added.

—*Los Angeles Times*, Oct. 27, 1990

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