

Cato Policy Report

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Governments in Decline

by Norman Macrae

My favorite anti-every-forecaster story, especially at an inter-American conference, concerns the Canadian politician who once said that his Canada faced a limitless future because it was going to combine American efficiency with the British system of government and French culture.

And then, under his premiership, the poor devils temporarily got British efficiency. And the French system of government. And American culture. The specific forecasts I now offer may in some respects be subject to the same Pickwickian margin of error.

Norman Macrae is the former deputy editor of the *Economist* and author of *The 2025 Report: A Concise History of the Future 1975–2025*. This article is based on his remarks at "Liberty in the Americas: Free Trade and Beyond," a conference sponsored by the Cato Institute and the Centro de Investigaciones Sobre la Libre Empresa in Mexico City, May 19–22, 1992.

In 1981 I was writing a book (published in 1984) that was called in Britain *The 2024 Report: A Concise History of the Future 1974–2024*. And the next year the American version was *The 2025 Report: A Concise History of the Future 1975–2025*. And the French version was *Le Rapport deux mille vingt-six*. In this age of the word processor it is convenient marginally to amend future history as it goes along.

In all versions of the book, fortunately, the main thesis for the first decade proved right. The book recorded in 1981 that communism did not survive the 1980s. In all editions, the old Soviet Disunion had by 1992 broken up into a confederation of 17 successor republics, which were all trying to follow sensible Thatcherite or Reaganite economic policies, although they did not initially work. The name "confederation" and the number 17 have proved wrong, but you can't win them all. In one edition of the book, the Berlin Wall

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came down on Heilige Nacht, Christmas Eve, 1989. Since in real history it came down in November 1989, the optimistic forecasts that I now offer on other matters—including the coming end of politicians—may prove, by that analogy, about six weeks too pessimistic.

In the decade of the 1980s, it was clear that the thing due to disappear, now that the Soviet Union had become a genuinely educated country, was the illogical monster called communism. In the three or so decades from these 1990s, the thing that will disappear, in educated societies, is the illogical monster called government. In the 1870s Gladstone's supposedly very left-wing Liberal government absorbed 6 percent of Britain's gross national product in government expenditure, at a time when it held one-fifth of the world in fee as the British Empire. By the late 1980s Thatcher's supposedly right-wing Conservative government absorbed 44 percent of GNP in government expenditure. All of you could cite similar absurdities in your own countries, which really can't survive now that we've seen what gov-

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Virginia Governor L. Douglas Wilder (right) talks with Cato's Paul Brown and D.C. Councilman Harry Thomas after Wilder's address to a Cato Policy Forum, "How to Balance the Budget without New Taxes."

The Education Establishment under Siege

Editorial



The Berlin Wall has fallen, the Soviet Union has disappeared, countries around the world are privatizing state monopolies, and at last the market-liberal revolution is in shouting distance of one of the last citadels of bureaucratic socialism, the American public school system.

For-profit education companies landed on the front page twice in two weeks—first when Yale University president Benno Schmidt resigned to become president of Whittle Schools' Edison Project to build a chain of for-profit schools around the country, and again when Minneapolis-based Education Alternatives, Inc., contracted to run nine Baltimore schools for the local school board.

Those developments are especially gratifying to us at the Cato Institute, since we've been urging the benefits of for-profit education for some time, especially in a 1986 Policy Analysis and a 1989 book by Myron Lieberman.

Schmidt's decision sent the intellectual establishment reeling. It was one thing that some businessman from Knoxville, Tennessee, was planning to make money selling education. But for the president of Yale University to join the effort constitutes a shot across the bow of the education establishment. Schmidt was treated as a defector, even a traitor. Education and media bigwigs turned on him. How could one of their own set out to undermine the public schools? (Not that any of the establishment would send their children to public schools, at least in big cities.)

The *Boston Globe*, the Mother Church of the liberal establishment, moaned that public schools could never compete with "a private system free of union contracts, bureaucrats and regulation" in which "every student can touch a button on his or her computer and have unlimited access to an electronic library." (Now let's see; why is that bad?) It's "a shabby pursuit for so distinguished an educator," the *Globe* sadly concluded. Russell Jacoby, author of *The Last Intellectuals*, denounced Schmidt in the *New York Times* as having "cast his lot with private enterprise" instead of with "America's finest achievement, its public educational system." (Where do his kids go to school?) The *Times* itself editorialized that "multibillion-dollar investments in education are welcome, but only if they end up supporting, not undermining, public education." Would even the *Times* today write, "Multibillion-dollar investments in communications are welcome, but only if they end up supporting, not undermining, the Post Office"? (And would it be beating a dead horse to ask what schools the editors' children attend?)

What's most exciting about Whittle's project is the radicalism of his discussions of education. A phrase that shows

up frequently in his literature is, "This is not a reform movement. Edison did not merely improve the candle." In speeches Whittle says that "we fundamentally have a compulsory top-down tonality in our educational system . . . eerily reminiscent of" Eastern European socialism. Whittle argues that today's schools are "90 percent ineffective most of the time" and that new arrangements and new technology can dramatically increase the effectiveness of education. Whittle Schools is almost certainly the harbinger of the most important change in American education since the rise of free, compulsory public education a century ago.

Education Alternatives has a more modest goal: to manage public schools more efficiently, making a profit by saving money. In Baltimore, for instance, it has contracted to run eight elementary schools and one middle school, all in the inner city, for the \$26.1 million that the school system presently spends. Its management of South Pointe Elementary School in Miami has generated great enthusiasm, especially for its individualized learning program called Tesseract.

Opponents of school choice frequently claim that inner-city parents wouldn't be smart enough to choose good schools for their children. Yet there is evidence that inner-city families are taking choice into their own hands. Suburban school districts near New York, Chicago, and Washington have put in place elaborate documentation and law-enforcement programs to apprehend inner-city youths who illegally enroll in suburban schools to escape the city schools.

In his moving book *There Are No Children Here* reporter Alex Kotlowitz describes how children intentionally fail their eighth-grade exams or go off to live with relatives in other neighborhoods and even other states to avoid Chicago's inner-city high schools. Chances are they'd try private schools if they could.

The education establishment's response to the growing demand for educational change is revealing. While proclaiming their concern for the desperate state of inner-city children, they hire "bounty hunters" to apprehend those who try to escape to suburban schools. While they write op-ed pieces on the need for bold initiatives in education, they denounce as "shabby" the boldest initiative of all. Many educators have reluctantly embraced the notion of public school choice in order to stave off the real threat of vouchers. And now, faced with the prospect of for-profit schools, the *New York Times* published an op-ed by the president of Education Alternatives criticizing Whittle for planning to "circumvent—to compete with (and unintentionally undermine) the public schools." If the establishment has now retreated to the position that for-profit management of public schools is okay, then the final assault on the citadel is in sight.

David Boaz
—David Boaz

Conference Has Major Media Impact

"Liberty in the Americas" Draws Hundreds to Mexico

More than 500 people from around the Western Hemisphere gathered in Mexico City May 19-22 for "Liberty in the Americas: Free Trade and Beyond," a conference sponsored by the Cato Institute and the Centro de Investigaciones Sobre la Libre Empresa (CISLE).

Conference sessions led the Mexican television news for four days, were broadcast live on radio, and made such an impression that speakers showed up in editorial cartoons. C-SPAN taped several sessions for broadcast in the United States.

At the opening dinner, after Mexico City mayor Manuel Camacho Solís welcomed conference participants, U.S. Ambassador John D. Negroponte introduced Nobel laureate Milton Friedman to deliver the keynote address. Friedman began by urging Latin American reformers not to take the United States as their model—at least not the United States of the late 20th century. Friedman said, "The United States of the past 50 or 75 years has been a country which has been moving away from its fundamental principles of freedom, of private markets, of an open society, and moving increasingly toward a society in which government controls resources, decides what people should do, and tries to run our society."

Among the policymakers speaking at the conference were Mexican finance minister Pedro Aspe and former Chilean finance minister Hernán Büchi, both of whom discussed privatization and the



Luis Pazos de la Torre, Milton Friedman, Roberto Salinas León, Edward H. Crane, Ian Vásquez, and Brink Lindsey answer questions at the opening press conference for "Liberty in the Americas."

changing role of government in their countries; José María Ibarbia, a member of the Argentinian congress; María Teresa Infante, former superintendent of education in Chile; Arturo Fernández, former "deregulation czar" in Mexico; Jaime Mauricio Salazar, vice minister of agriculture in El Salvador; and Enrique Gherzi, a member of the suspended Peruvian congress.

Norman Macrae, former deputy editor of the *Economist*, cheered participants with his optimistic vision of a world in which coercive governments are becoming increasingly irrelevant. Michael Novak of the American Enterprise Institute discussed the recent pa-

pal encyclical, *Centesimus Annus*, in light of what he called the Catholic Whig tradition of Thomas Aquinas and Lord Acton. Luis Pazos de la Torre, president of CISLE, addressed a closing luncheon by bidding farewell to a "lost decade" of statism and debt in Latin America and stressing the importance of continuing to pursue free-market reforms.

Conference panels dealt with such hemispheric topics as foreign aid, environmental quality, monetary policy, agricultural reform, education, constitutional legitimacy, and the North American Free Trade Agreement and the

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Forums on "Jerry's Tax," Rio Summit

Wilder, Greenspan, Epstein, Wildavsky Speak at Cato

Cato Events

April 17: A Cato Roundtable Luncheon featured Gary Anderson, a public choice economist at California State University, Northridge, who is a visiting scholar at Congress's Joint Economic Committee.

April 20: Gov. L. Douglas Wilder of Virginia spoke at a Cato Policy Forum on "How to Balance the Budget without New Taxes: A View from the States." Wilder is one of the few governors who has cut spending, not raised taxes, to deal with a budget deficit. He suggested that federal officials could learn some lessons from his experience.

April 27: A Policy Forum examined Democratic presidential candidate Jerry Brown's proposal for a flat tax. The forum, "Jerry's Flat Tax: Tax Reform for the 1990s or a Flat Earth Proposal?" featured Cato chairman William A. Niskanen and Norman Ture, president of the Institute for Research on the Economics of Taxation. Calling Brown's proposal the most interesting idea of the presidential campaign, Niskanen said it would increase economic efficiency by lowering the marginal rates and eliminate the bias toward debt financing by business. Brown's tax plan would increase the average tax rate on families making the median income and eliminate the deduction for state taxes, but those changes would in turn create pressure to restrict the size of the federal and state governments. Ture said that although he approves of a single tax rate, he doesn't like Brown's plan because it taxes returns to savings, leading to double taxation. Both economists opposed Brown's proposal for a value-added tax.

April 30–May 1: *Regulation* magazine held its third annual conference, "Bitter Medicine: Insurance and the Regulation of Medical Care." The panels examined the role of government regulation in overstimulating demand for medical services and in restricting their supply. The speakers included Rep. Willis D. Gradison, Jr. (R-Ohio), White House



Economist Richard Timberlake and Progressive Policy Institute president Will Marshall talk with Federal Reserve chairman Alan Greenspan before a Cato luncheon in May.

adviser Gail R. Wilensky, John C. Goodman, Gerald L. Musgrave, George R. Fisher III, Arnold M. Epstein, B. Katherine Swartz, and John F. Holahan.

May 5: Alan Greenspan, chairman of the Federal Reserve Board, was the guest at a Cato Roundtable Luncheon. Greenspan discussed monetary and fiscal issues with the Cato policy staff and guests.

May 5: A Policy Forum entitled "Suing the 'Source': Do Obscenity and Guns Cause Crimes?" examined legislation that would hold manufacturers of pornography and guns responsible for crimes committed by others. The speakers were Marjorie Heins, director of the ACLU Arts Censorship Project, and Stephen P. Halbrook, an attorney and author of *That Every Man Be Armed: The Evolution of a Constitutional Right*.

May 6: A Policy Forum featured a debate on the question "Does Regulation Promote Competitiveness?" Howard K. Face, director of the Office of Economics, Interstate Commerce Commission, discussed a recent ICC study showing that transportation and public utilities became more productive and had lower prices in the 1980s in direct proportion to the amount of deregulation they experienced.

May 11: "Is Wealthier Truly Healthier? The Fatal Consequences of Regulation" was the subject of a Cato Policy Forum with Aaron Wildavsky, a political sci-

entist at the University of California at Berkeley, and John Morrall of the Office of Management and Budget. Both argued that costly regulations promulgated in the name of safety can actually increase risk by stifling improvement in living standards. Wildavsky argued that since America has gotten healthier as it has become richer, the debate over safety regulation is not money versus lives, but lives versus lives.

May 11: A noon Policy Forum examined "The Medical Use of Marijuana: Should Doctors or Bureaucrats Decide?" Lester Grinspoon, associate professor of psychiatry at Harvard Medical School and coauthor of *Marijuana: The Forbidden Medicine*, argued that substantial anecdotal evidence supports the claim that marijuana is useful in the treatment of many diseases. Prohibition, he said, makes it almost impossible to do the necessary clinical studies.

May 13: A noon Policy Forum titled "Russia: Markets or Mafiosi?" featured Judge Stephen F. Williams, U.S. Court of Appeals for the District of Columbia Circuit. Recently back from Russia, he talked about the role of organized crime in the distribution of goods, the reluctance to privatize property, and the problems of the transition from totalitarianism to the rule of law.

May 19–22: Cato and the Centro de Investigaciones Sobre la Libre Empresa (CISLE) of Mexico sponsored a conference, "Liberty in the Americas: Free Trade and Beyond," in Mexico City. The gathering of market liberals from throughout the hemisphere dealt with political reform, trade liberalization, and privatization.

June 1: A noon Policy Forum on the eve of the Earth Summit in Brazil was titled "The End of the World As We Know It? The Apocalypse Lobby Goes to Rio." Cato adjunct scholar Julian Simon, author of *The Ultimate Resource*, said the summit was based on the false impression that human existence and the environment are both deteriorating when in fact all trends in human welfare "point in a positive and benign direction." ■

Deregulate Medicine and Insurance

Government Drives Up Medical Costs, Panelists Say; Deregulation of Medicine and Insurance Would Help

"We don't have health insurance in the United States. We have prepayment for the consumption of medical care," said John C. Goodman, president of the National Center for Policy Analysis, at *Regulation* magazine's third annual conference, "Bitter Medicine: Insurance and the Regulation of Medical Care." At the gathering on April 30 and May 1, 16 medical-policy analysts presented papers on various problems involving the medical and medical-insurance industries.

Goodman said that, unlike other insurance, medical insurance covers common events and even conditions caused by intentional acts. He pointed out that pseudoinsurance—the result of government manipulation of tax and insurance laws—has led to an artificially high demand for medical services. He added that over 95 percent of hospital charges in the United States are paid by the government or other third parties, leading to overuse of medical services and price inflation.

Professor Susan K. Feigenbaum of the University of Missouri, reinforcing Goodman's point, called for the revival of indemnity policies (similar to auto insurance), under which insurance payments are made directly to policyholders after diagnosis. Patients would then have the option of shopping for the best buy in service or abstaining from buying any treatment at all. "I wish to argue that containing cost at minimum harm to beneficiaries requires an expansion, not diminution, of consumer choice in the marketplace," she said.

Economist Gary Robbins of Fiscal Associates pointed out that federal, state, and local governments, which pay for 42 percent of the health care services purchased in the United States, are the source of the rising cost of those services because their programs lower the cost of care to eligible recipients.

The number of people without medical insurance—30 million to 40 million, the Census Bureau says—is often taken as evidence of a problem in U.S. health care. Dr. George R. Fisher III pointed out that only about 9 million of the uninsured are both unable to

afford private insurance and ineligible for Medicaid. Most of those, he said, are young, unmarried, employed people who prefer more income to health insurance. Thirty million of the uninsured, he added, are actually a "suc-



Insurance executive J. Patrick Rooney opens a discussion of alternative approaches to health care and financing at Cato's conference "Bitter Medicine: Insurance and the Regulation of Medical Care."



Rep. Willis Gradison criticizes central planning of medical care at a conference luncheon.

sion of persons without health insurance for an average of four months apiece." He said that one-quarter of the workforce, 63 million people who experience "brief gaps" in insurance, gave "the statistical impression of a lesser number of continuously uninsured people during a 28-month longitudinal study."

Employer-based insurance can also lead to "job lock," which keeps workers who would like to change jobs where they are because medical conditions will bar them from insurance with a new employer. Fisher concluded that government should remove the obstacles to non-employer-based health insurance.

Arnold M. Epstein of Harvard Medical School reported on several studies showing that the uninsured do not get as much medical care as the insured. But he said that since people with insurance might overuse medical services, he could not say that the uninsured get an inappropriate amount of care.

Economist Gerald L. Musgrave, coauthor with Goodman of a forthcoming Cato book on medical care reform, *Patient Power: Solving the Health Care Crisis*, described his proposal for tax-free "medisave accounts." Under his plan, Americans would be able to pay for routine medical care from IRA-type accounts and save insurance for catastrophic illness. Since the money would accumulate tax-free and be available for other uses, people would have an incentive to spend prudently on medical care. That would result in effective cost control without arbitrary government edicts.

Some of the speakers called for an expanded role for government in medical care. For example, B. Katherine Swartz of the Urban Institute told the conference, "The strongest argument for enacting a 'play-or-pay' proposal is that it will enable the country to move from our current patchwork quilt structure to a single, national system with time for creating and implementing an efficiently run public program."

The conference featured as luncheon speakers Rep. Willis D. Gradison, Jr. (R-Ohio), and Gail R. Wilensky, White House adviser on medical care policy. ■

Apocalypse in Rio: The End of the World As We Know It?

Policy Forum

On June 1, two days before the Earth Summit convened in Rio de Janeiro, the Cato Institute hosted a Policy Forum entitled "The End of the World As We Know It? The Apocalypse Lobby Goes to Rio." The speakers were Cato adjunct scholar Julian Simon, author of *The Ultimate Resource* and other books, who earned renown when he won a 1980 bet with environmentalist Paul Ehrlich that the prices of any five resources chosen by Ehrlich would fall by 1990, and Kent Jeffreys, director of environmental studies at the Competitive Enterprise Institute. Excerpts from their talks follow.

Julian Simon: A hundred heads of state plus thousands of delegates and hangers-on are gathered in Rio, talking gloomily about the terrible shape the world is in. Those delegates, besides having a good time, are going to cause economic and environmental trouble for their countries and the rest of the world by getting governments to intervene in peo-

ple's private economic activities. The basis for their recommendations is a set of utterly false assumptions.

The Rio delegates say that the environmental and resource trends are getting worse and that we're heading toward crisis. But *all* the trends point in a positive, benign direction. Every single indicator of human welfare is getting better rather than worse.

The organizers of the Rio summit attribute the "many crises" to "one cause"—population growth, which is my special interest. The draft of the summit's Earth Charter calls for spending \$7 billion yearly on demographic activities—another bill for the taxpayers. But even worse, those funds will be used to coerce poor people to have fewer children than they want.

The plain fact is that the gloom and doom about our environment is all wrong. Even our Environmental Protection Agency acknowledges that U.S. air and water have been getting cleaner. Every agricultural economist knows that the world's people, on average, have been eating better rather than worse since at least World War II. Every resource economist knows that all

natural resources have been getting more available rather than more scarce, as measured by their prices. And every demographer knows that the world's death rate has been falling astonishingly. Life expectancy is now almost triple what it was just 200 years ago in the rich countries. And in the poor countries life expectancy has almost doubled in just the few decades since World War II.

Before I review the facts, I want to say one word about the limits-to-growth thinking that is the backbone of the Rio summit. Four years after *Limits to Growth* appeared in 1972, the sponsoring Club of Rome "reversed its position" and "came out for more growth." But that about-face got little attention, even though it was written up in such places as *Time* and the *New York Times*. And so the original message of gloom and doom remains with many people. The explanation of that amazing reversal, as reported in *Time*, is a masterpiece of face-saving double talk.

The Club's founder, Italian industrialist Aurelio Peccei, says that *Limits* was intended to jolt people from the comfortable idea that present growth trends could continue indefinitely. That done, he says, the Club could then seek ways to close the widening gap between rich and poor nations—inequities that, if they continue, could all too easily lead to famine, pollution and war. The Club's startling shift, Peccei says, is thus not so much a turnabout as part of an evolving strategy.

In other words, the Club of Rome sponsored and disseminated untruths in an attempt to scare us. Having scared people with their lies, the Club of Rome could then tell people the *real* truth. And now, 20 years later in 1992, the people who the Club of Rome said lied then are back with another volume of the same material. Interestingly, the new version is dedicated to the same Peccei.

One can only get away with that kind of nonsense when the whole world is so convinced of a doctrine that facts never get in the way—which is the sit-

uation of the so-called environmentalists in Rio now.

On the other hand, there is some hope. Twenty years ago there was no forum at which to criticize scientific nonsense of the *Limits to Growth* type. The critics, scattered across the country, could be counted on two hands. Now Cato and many other respected groups speak the truth about the environment and natural resources in connection with a free economic system, and our views even appear on television and in newspapers. So people at least know that there is an alternative to the conventional Malthusian belief system.

Here is my central assertion: almost every economic and social change or trend points in a positive direction, as long as we view the matter over a reasonably long period of time. To properly understand the important aspects of an economy, we should look at the long-term trends. But the short-term comparisons—between the sexes, age groups, races, political groups, which are usually purely relative—make more news. To repeat, just about every important long-run measure of human welfare shows improvement over the decades and centuries, in the United States as well as in the rest of the world. And there is no persuasive reason to believe that those trends will not continue indefinitely.

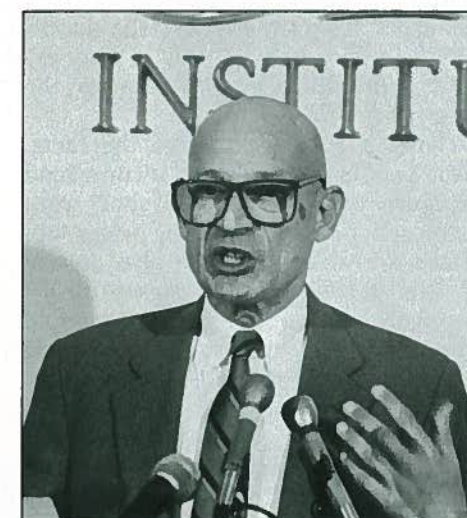
I'll bet you a week's or month's pay that I'm right. Pick any trend pertaining to human welfare, pick any year in the future, and I'll bet you that the trend shows improvement relative to now, rather than deterioration. I'm talking about material welfare, not emotional or spiritual or sexual welfare, and I'm talking about things that affect us: not ozone, but cancers; not global warming, but agriculture.

Most people would say that the accompanying graph shows the population of the world. Actually, it shows the life expectancy of human beings. It took thousands and thousands of years for life expectancy of people at birth to go up from the low 20s to the high 20s. All of a sudden about 200 years ago life expectancy took off and soared from under 30 all the way up to the 70s. Even in places like China, where life expectancy didn't take off until after World War II, it's way up now.

The shape of figures like this one is

used to scare people. One like it got me interested in the "problem" of population growth in the 1960s and prompted me to enlist in the great war to reduce the world's population. But the obviously *benign* effect shown in the chart—people living longer—should convince you that the mere shape of the curve means nothing bad whatsoever. In fact, the most important and most amazing fact of our lives is the decrease in the world's death rate. We have won a victory over death. That is why the world population has grown so much.

Consider this: One hundred fifty years ago this planet of ours could only support about 1 billion people. Ten



Julian Simon: "Every single indicator of human welfare is getting better rather than worse."

thousand years ago our planet could only support 4 million people. Now we have 5.5 billion people living longer and more healthily than ever before.

I would expect lovers of humanity to be jumping up and down, saying, "Isn't this wonderful?" Instead, people wring their hands and say, "How terrible." They regret the decrease in the death rate, and thus approve of the Chinese, Indonesian, and other programs that deny people the liberty to make one of the most personal decisions: the decision regarding the number of children to bring into the world.

Let's turn to natural resources. Throughout history the supply of natural resources has worried people. Yet the data clearly show that, against all common sense, the availability of natural resources, as measured by cost, has been going up.

Take the price of copper relative to wages. Two hundred years ago in the United States, it took about 20 times longer than it does today to earn the money needed to buy a ton of copper. That trend has been going on for thousands of years. Two thousand years ago, at the time of the Roman Empire, it cost about a hundred times more than in the United States now. In the time of Hammurabi it cost perhaps two thousand times more. The cost of every single natural resource has declined.

Look at the price of natural resources such as copper relative to the prices of consumer goods. All consumer goods have been getting cheaper because we know how to make them better. Nevertheless, the price of natural resources has been falling even faster than that of consumer goods.

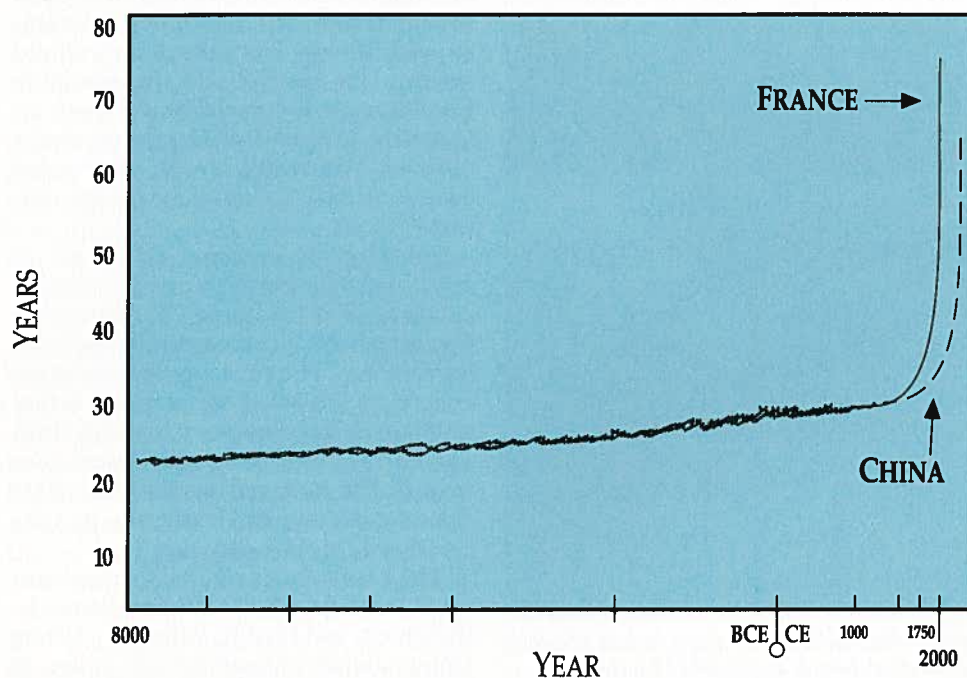
This is especially true for food. The prices of wheat, corn, and rice have been going down. What about oil? The price of oil has fallen below what it was before the price hikes of the 1970s. And there's no reason to believe that the overall supply of energy is finite, anti-common-sensical though that may seem.

There is, however, one important resource—the most important—that is getting more scarce: people. True, there are more people than ever before. But if we measure the scarcity of people the same way we measure the scarcity of everything else—by how much you have to pay for a person's services—we can see that people are getting more scarce. You have to pay more to hire a cook now in Washington or in Bombay. You have to pay more for a doctor, even for an economist, thank goodness. Yes, we have more people. But they are becoming more scarce in economic terms.

People think that because of the growing population, pollution is getting worse. Yet in the rich countries the air and water have been getting much cleaner over the last three decades. For hundreds of years pollution got worse, until people became rich enough to turn their attention to cleaning up the environment. About 30 or 40 years ago our U.S. environment started getting much cleaner. That process has not yet begun in some of the poor countries, because they're still focused on the other part of the development process. Even-

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LIFE EXPECTANCY



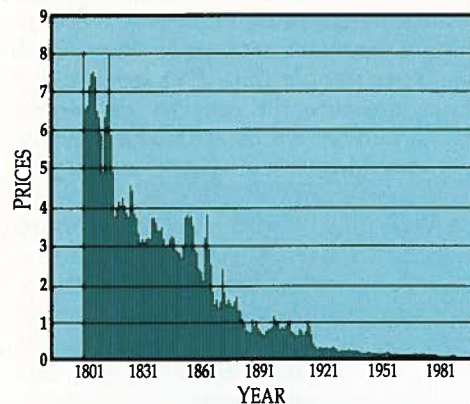
Apocalypse (Cont. from p. 7)

tually they will get cleaner air and water, just as we have.

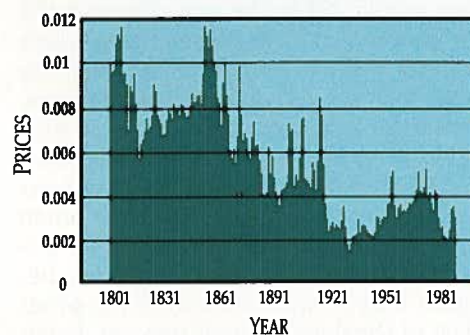
It is also clear now that population growth does not hinder economic development. A dozen competent statistical studies, starting in 1967 with a study by the great economist and Nobel prize winner Simon Kuznets, agree there's no negative statistical relationship between population growth and economic growth.

In the 1980s there was a reversal in the consensus among population economists about the effects of more people. In 1986 the National Research Council of the National Academy of Sciences almost completely overturned the older official view that population growth stops economic development. They stated that "the scarcity of exhaustible resources is at most a minor restraint on economic growth." But that U-turn by the scientific consensus has gone wholly unacknowledged by the press, the anti-natalist environmental-

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ist organizations, and our agencies that foster population control abroad, such as the U.S. Agency for International Development and the World Bank.

The scientific community agrees with almost everything I have just said. My comments do not represent a minority view, amazing as that is to people who confine their reading to the popular press.

All this sounds very anti-common-sensical, so we need some theory to explain it. How can economic welfare grow as population grows, and why didn't humanity long ago reduce itself to misery and poverty?

The Malthusian theory of increasing scarcity is based on supposedly fixed resources. That's the theory the doom-sayers in Rio rely on. But it runs exactly contrary to all the data for the long run.

Here's a theory that fits the facts. More people and increased income tend to cause problems in the short run. Increased demand pushes prices up. That's a problem, but it's also an opportunity. Higher prices present profit opportunities to imaginative people who try to find new ways to provide resources. Most of those people fail, but they pay the price themselves. A few succeed. The extraordinary aspect of the process is that the solutions that people find to the problems caused by increased population and income leave us better off in the long run than we would have been if the problems had never arisen. That explains the course of history.

I should add that this happens best in a free society where people gain the benefits of their risks and discoveries. The key elements for such a framework are economic liberty, respect for property, and fair and sensible rules of the market that are enforced equally for all.

Contrary to Malthus, people don't find resources. They create them. You can test this theory for yourself. Ask yourself, if the population of the world had remained what it was (say) 10,000 years ago, would we be sitting in this comfortable room with electric light and television cameras, and either the air-conditioning or the heat keeping us between 69 and 71 degrees? I don't think so.

Progress doesn't come about automatically. My message is certainly not

one of complacency. I'm not saying we can sit on our hands and wait for good things to drop from heaven, because they don't drop from heaven. Here I agree with the doomsayers—that the world needs the best efforts of all human beings to improve our lot. Where I part company with the doomsayers is in their thinking that no matter what efforts we make, we'll eventually come to a bad end, and that the best we can do is to hold back the flood for a little while. I believe that we have every reason to expect a continuation of humanity's history of successful efforts.

I also believe that the doomsayers' message is self-fulfilling. If you think you're going to come to a bad end, you'll feel resigned, and then you'll resign from the job. But if you're convinced that your efforts will make things better, you can tap wonderful reservoirs of strength and enthusiasm.

The ultimate resource is people, especially skilled, spirited young people who are endowed with liberty, people who will exert their wills and their imaginations for their own benefit, and so inevitably will benefit not only themselves but the rest of us as well.

Kent Jeffreys: The problem with things like the Rio conference and *Beyond the Limits*, the sequel to the Club of Rome's *Limits to Growth*, is that they see limits to capitalism but not to government. The people responsible for such things act as if they've read Malthus but not Adam Smith. Back in the 1960s we were told that we had to export capital, but not capitalism, so that the Third World and the developing countries could build up an industrial base. Now in the 1990s we're told to export capital, but not capitalism, so that the Third World will not develop an industrial base. That is eco-imperialism; it is what Rio is really all about.

I find two major problems with *Beyond the Limits* and the Earth Summit. The first is their doom and gloom assumptions, which cloud their vision of the future. The other is an absolutely astonishing failure to mention property rights.

As the title *Beyond the Limits* indicates, the authors believe that man has exceeded the carrying capacity of several fragile resource cycles of the bio-

sphere. Where has man exceeded the limits? In the great global commons, the oceans and the atmosphere, and the great national commons such as the tropical rain forests. We've exceeded the limits, not of privately owned and managed resources, but of politically controlled resources. The authors use fisheries as a case study. Actually, they present a fairly decent statement of the problem. They say that fish are a common resource and that there's no corrective feedback to keep competitors from overexploiting it. On the contrary, the system actively rewards those who get there first and take the most. But then the authors of *Beyond the Limits* assert that only political constraints can protect the resource.

That is not a solution. In Japan's coastal regions, for example, where there is a much more robust fisheries industry than in the United States, the Japanese apply a property rights approach. Village cooperatives work together in small areas to manage and harvest the resource, which is steady and stable, in a word, sustainable.

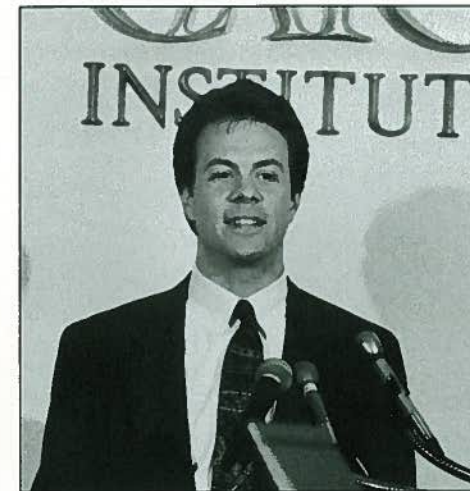
Let's turn to the ozone scare. The ozone layer is composed of unstable oxygen molecules that react with almost anything. Solar energy, ultraviolet-B radiation, breaks apart and recreates ozone molecules in a continuous process of equilibrium. The apocalyptic theory is that certain manmade chemicals, chlorofluorocarbons (CFCs), interfere with that reaction and reduce the number of ozone molecules. Why do we care? By reacting with UV-B, ozone molecules keep some of the radiation from reaching the earth's surface. Interfering with that reaction, it is argued, will allow more UV-B to reach the surface. UV-B gives you a suntan. Heavy, continual doses can lead to some types of skin cancer, though not to fatal melanomas. We have seen skin cancer rates go up. Everyone admits that that has nothing to do with ozone depletion because depletion hasn't really occurred yet. It's the result of a change in lifestyle.

The National Aeronautics and Space Administration calls periodic press conferences about ozone in order to justify bigger budgets. The media and policymakers respond. NASA called a press conference back in February to warn that an ozone hole could open over the

Northern Hemisphere this spring, and within about 48 hours the Senate voted 96 to 0 to accelerate the phaseout of CFCs.

I asked Dr. Robert Watson, who heads the NASA ozone study, what increase in the average exposure to UV-B a person would experience if the projected depletion occurred today. He admitted that it would be equivalent to moving about 100 miles south. In other words, the sum total of the ozone scare is that people in Washington, D.C., would be exposed to the same amount of ultraviolet radiation as people who live in Richmond, Virginia.

That is not a crisis. If you moved the



Kent Jeffreys: "We've exceeded the limits, not of privately owned and managed resources, but of politically controlled resources."

Antarctic ozone "hole" to Oslo, Norway, it would be equivalent to moving the people of Norway to northern Germany. What's the problem? Is it something to be concerned about? Probably. Let's look at it, let's study it, and let's be rational about it. But that's not good enough for the environmental movement.

On the basis of that dubious scenario, environmentalists want to ban CFCs and other classes of chemicals that have valuable uses, as refrigerants, for example. We're rich. We can afford to ban CFCs. The Third World can't. It is just now obtaining refrigeration to protect food supplies and medicines. CFCs happen to be the best refrigerants. Too bad.

The real environmental problems we confront are the same as those confronted in Biblical times: tainted food

and water supplies. Those problems are not being addressed at the Rio conference. The kind of things the conferees are talking about are things that aren't problems. Why? Because they want to create perpetual employment for the bureaucracy. If a bureaucrat solves a problem, he's out of work. So he never solves a problem. Even better, he identifies something as a problem that's not, and he's permanently employed. ■

Regulation on Deregulation Of Utilities

Federal and state deregulation of the generation of electricity would "reduce electricity costs and foster reliance on a more diverse set of generating alternatives," concludes Paul L. Joskow in the Winter 1992 issue of *Regulation*. Joskow, a professor of economics at the Massachusetts Institute of Technology, writes that barriers to competition are maintained by state governments, by the federal rate regulation of wholesale transactions, and by the Public Utility Holding Company Act (PUHCA), a 57-year-old law that "impedes the entry of many independent power producers as potentially efficient suppliers of generating capacity."

Also in the issue, the theme of which is electric power deregulation, are articles by Richard L. Gordon on repeal of PUHCA, R. Richard Geddes on the history of utility regulation, Douglas A. Houston on user-ownership of transmission grids, and Geoffrey Rothwell on nuclear power.

Editor William Niskanen opens the issue by pointing out that "in the name of a kinder and gentler America, the Bush administration has encouraged or allowed a rapid increase in federal regulation."

The issue also includes Robert J. Smith's article "The Endangered Species Act: Saving Species or Stopping Growth?" and Peter Samuel's discussion of the dangerous (flammable) alternatives to chlorofluorocarbons being forced on the market by the Environmental Protection Agency. ■

Governments (Cont. from p. 1)

ernment expenditure does to steelworks in Omsk. Once we are educated—which may mean once we have moved education in the system that provided state steelworks in Omsk to a market or voucher system—we the people won't allow politicians to spend so much of our money for us any more. That change was already certain before its prospects were speeded by the third and greatest transport revolution.

The first transport revolution dated from Watt's invention of the steam engine in the 1780s. As the consequent railways exploded across Britain, the first Duke of Wellington, he of Waterloo, warned, "My lords, these iron horses will enable the working classes to move about." Which was very shrewd of the old boy. Before then the average Englishman never moved more than six miles from his birthplace, so he pulled his forelock to the local squire or duke. The railways created the Americas, and did all sorts of other disturbing things, but I am glad they did. The second transport revolution started by coincidence in the 1880s when two Germans, Daimler and Benz, who I think never met, invented the internal combustion engine, and then Henry Ford put civilization on wheels. That changed all our lives until this third and greatest transport revolution, which started by coincidence in the 1980s.

The third transport revolution is telecommunications allied with the computer. The crucial change that revolution brings is that the majority of brainworkers are not going to have to live near their workplaces. They are going to be able to stare into computer screens and communicate through them, from their own homes in pleasant parts of the world, with the cost of communication not depending on distance. "Brainworkers" will at first mean the majority of decisionmaking workers—zapping at a keystroke across the world, not merely instructions and market orders, but capital, knowledge, patents, accounts, analysis, knowhow. Some time in the next century "brainworkers" will plausibly mean the majority of all workers in rich areas. If politicians try to boss us or charge too high taxes, brainworkers will go away and telecommute

from Tahiti. Countries that choose to have too high taxes or too fussy regulations will be residually inhabited mainly by dummies.

Life in the 2020s

I have been playing in my mind with likely social patterns of the 2020s for quite a while now, and I have altered my original concepts sufficiently little to have more or less come to believe in them. So here goes. I will start in the 2020s with a family called McGonagle. That is a Scottish name, and I place the family initially in Scotland, although they could well be the Gomez family of California or Acapulco. But you will be better able than I to ponder what will by then be the rather small differences between such mobile brainworkers

"The third transport revolution will mean that the majority of brainworkers are not going to have to live near their workplaces."

as the Gomezes and the McGonagles, and I hope you realize that the worst forecasts at the start of a transport revolution are from those who get into intellectual bed with the cautious. In 1903 the Mercedes company said, amid many "hear, hears," that it realized there would never be as many as 1 million automobiles worldwide. The reason was that it was implausible that as many as 1 million artisans worldwide would be trainable as chauffeurs.

Anyway, my McGonagles of 2020 are a typical nuclear family of father and mother plus two early-teenage children. Left-wing sociologists say the nuclear family is due to disappear. That is not the only reason for supposing the nuclear family will make a dramatic comeback right across the world. Another reason is that father and mother will more often be working from home in the telecommuting age, just as they did at the beginning of the 20th

century when more than 70 percent of North American families were being brought up on farms, and children had chores to do. That is a recipe for closer knit nuclear families. So is fear of awful sexual diseases, the Hegelian cycle between puritanism and prurience, and much else.

In 2020 Mrs. McGonagle has a rather well paid market research job. She sits at her computer in her village in Scotland analyzing figures from computerized check-out points all over the world and advises small, and some large, businesses what and where the market opportunities are for just-in-time inventory rebuilding. To Father McGonagle in 2020 I'll give the lower powered because less do-it-this-instant job of helping to fill one of umpteen competitive international databases. Mr. McGonagle thus has more time to be housefather to the young teenagers. I'm putting the McGonagle family in 2020 in a community in Scotland that centers particularly on a golf course and a renownedly good village school, because I know such a community. The village school does not yet telecommute into the learning-system database most suitable for each individual child, but by 2020 it will.

By 2020 my guess is that this sort of Scottish or California or Mexican community will quite usually have chosen as its local government rule by an insurance company, perhaps Dutch founded but turned fully international. Lots of insurance companies will be offering contracts on roughly the following lines: we will take from you such and such a level of property tax or poll tax and make a profit from that while offering you (a) environmental services that receive at least an AB rating from your and our choice of environmental audit agency, plus (b) a crime rate that will not exceed such and such, plus (c) various other measured services. If performance falls below targets, the insurance company will have to pay back some of the property tax already levied. If the Bush administration fails to cut drug-related crime, it does not—watch its lips—have to pay back some of your wasted taxes.

The McGonagle family in 2021 has a problem because the elder teenage boy has committed some hooligan or vandal offense. The Dutch insurance com-

pany therefore wants to impose a special surcharge on the McGonagles' property tax, and this Dutch company does not keep such offenses secret as some other insurance companies do. The McGonagles therefore feel they want to move out. They call up one of the databases that put several thousand lifestyles all over the world on offer.

Those range from rather authoritarian, expensive lifestyles to rather hippie communes. The authoritarian lifestyle might be in an expensive hotel. If a reader celebrated my glad tidings about 2020 by rising delightedly in a hotel dining room and streaking naked round the tables, I suspect that the hotel management would suggest diplomatically that he leave tomorrow, even if the request was undemocratic because a majority of the diners liked the sight. At the other extreme there might be some communes of bearded vegetarian pacifists who bicycled around forbidding automobiles and allowing free marijuana and enforcing free love. If people wanted such lifestyles well away from me, it would not be for me to forbid them, although I would personally prefer that entry to such communes be permitted only after a certain age. Perhaps after people had made the metamorphosis from teenagers to human beings.

Between those extremes there will be lots of alternative versions of the insurance company—ruled communities and even weirdo communities that prefer to elect local politicians. The McGonagles could take their choice, and they might perhaps move to New Zealand or Rio de Janeiro or one of what will by then be the 13,000 lovely tropical islands of Indonesia. Mother and father could continue their present employment from there, and there would not even be interruption of schooling, because it will be possible to telecommute into learning systems. One snag is obviously that the very popular communities will not want many more people streaming in. There will therefore be some version of a transfer fee, with the Dutch insurance company saying delightedly, "Three more families want to join our community and are offering to pay an entrance fee of such and such, which will cut your property tax and aid our profit." Other communities will be positively wanting new

entrants because they will not be viable at their present size.

Free Trade and Future Prosperity

You will ask whether, above local rule by insurance companies or whatever, there will not have to be some more central government for some purposes, especially redistribution of income from the rich to some of the poor. Yes indeed, and I am fearful of appearing to repeat the famous sermon by a Scots divine: "Fifteenthly, ma friends, we come here to a verra great deeficultee. Let us look it firmly in the face, and pass on." At present I feel that I have a duty to talk more directly of a free-trade area for the Americas, and how you can best fit it in with the marvelous choice of lifestyles to come.

"Whereas in 1984 military expenditure took around 5 percent of gross world product, I think by 2024 it takes only about 0.01 percent."

I am an ardent supporter of a free-trade area for the Americas—a big one from Hudson Bay to the Horn, not just the piddly one from Yukon to Yucatan. You have some lessons to learn from our European Community, mostly negative ones. The first lesson is, "For God's sake don't have a coordinating body of bureaucrats like the Brussels Commission, or a Parliament of the Americas, or nonsense organizations like that." We set up a free-trade area in Western Europe and then created a Brussels Commission to turn it back into corrupt protectionism. Brussels's Common Agricultural Policy consists of paying five times the world price to farmers in rich countries and blocking cheaper food imports from more efficient poor countries. We thereby impede the development of farming in poor areas where the main threat to health is undernourishment, while piling up huge food mountains in areas where

the main threat to health is obesity.

Within the Americas you should go for full free trade in everything. You should try to abolish nontariff barriers, even if at first the abolition cannot be very well policed. Contrary to the EC model, I do not think you should have a common external tariff against the outside world (e.g., I do not think Mexico's tariff or other barriers against Japanese or Taiwanese goods need be the same as U.S. barriers). Our experience in the EC is that a common external tariff brings the worst protectionist pressures against American and other goods, pressures that are usually muttered to Brussels in French. Indeed, I think it could be sensible for some countries to be in the free-trade area of the Americas, while also individually having free trade with all the world, including sensible "encouragement of dumping" legislation. If some fool of a country is subsidizing its exports of particular things, they will almost always be things going into glut, so developing countries should avoid those industries and might as well get for their own people the nice cheap goods that foreign fools of taxpayers help provide.

I know that some old-fashioned people will ask, "What is the point of a free-trade area of the Americas, if other countries are to have free-trading access to parts of the bloc?" I believe such people totally misunderstand the future of successful business corporations. There are not going to be nationally based corporations anymore, and they aren't going to have long-lasting lines of production in settled places. To me the business of the future is in some way exemplified by the American garment seller called The Limited, although I am sure its model can be improved. Each evening The Limited gathers from its stores across the United States the computer check of the clothes sold that day. That computer printout becomes the cutting order for workshops in Asia the next day. Four days later, a Boeing leaves Hong Kong carrying the replenishment for The Limited's inventories just in time. That will be the pattern of tomorrow's manufacturing, and several huge factors are about to accelerate it.

Two, Three, Many Hong Kongs

One is that vast India and China are about to enter that sort of subcontract-

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ing world. With Hong Kong and Taiwan you ain't seen nothing yet. In Western Europe we can see the educated ex-communist world to our east. A highly skilled worker in Czechoslovakia today has one-fifteenth of the average wage of a German worker, who is often a guest worker less educated than the Czechoslovak. Of course, the whole German automobile industry is going to move east. With a free-trade area of the Americas, I am sure that some Mexicans hope that Detroit will move to Mexico. God help you; have you seen Detroit recently? The automobile industry of tomorrow will make components in many different places. In the General Motors building in Detroit, executives sit above the assembly line and pass labored analyses to each other by hand. Their equivalents in Toyota in Japan give their production orders to any point on the globe with a few strokes on their computers.

You in Latin America may say some of this is bad news. You will not be intending to drop to a Chinese or even ex-communist standard of life. But I think you underestimate the extent to which you will have advantages, provided a free-trade area of the Americas helps establish English and Spanish as the world's two main business languages. You may also underestimate the speed of change. One Japanese machine toolmaker says that, compared with the early 1980s, a component factory in a developing country already needs only about one-fifth as much space and about one-sixth as many workers, but tighter tying in to schedules and much greater flexibility of manufacturing because established lines of production are not going to last as long. Compared with distant China or Prague, Latin America will have advantages for U.S. corporations.

I agree that American business habits bring one disadvantage, together with many advantages. The more successful experience of Japan suggests that there is one profession in which America has 20 times more incumbents than a civilized country should. "The first thing we do," recommends the admirable leader of the peasants' revolt in Shakespeare's *Henry VI*, "we kill all the law-

yers." That sensible social reform does not need to be carried to extremes, but the United States is overrun with lawyers, like Australia used to be with rabbits. You should not allow your free-trade area of the Americas to fall prey to that affliction.

You will note that I have assumed a free-trade area will have free movement of goods, capital, and knowledge, but not I fear of people. I think inflow of people will be controlled by very local governments, who, unfortunately, will do it more efficiently than national governments whose border guards happily can't succeed. There is also the problem that lines of products will be shorter lasting, here today and in India tomorrow, so people doing manual jobs will be out of work more frequently. But there will be mitigations; Latin American businesses will be well placed to profit from the work of market researchers such as Mrs. McGonagle, who determines what American inventories suddenly need to be filled where. I think the new plants and other workplaces will be able to switch products more quickly. As a last resort, I also think people will be more mobile. If underemployment hits some areas, the people will be studying databases to find out where jobs are; and retraining through computer-based learning will be quicker.

Finding Tasks for Central Government

The final question is what jobs central government—or regional or international government—will still do. I think there are two: (a) defense and (b) what we call redistribution in English, but you in America call welfare, with a snarl.

As regards defense. In my *Report 2024* the 1990s are called the decade of the gunboats, with the sole superpower the United States (supported by the ex-Soviet Disunion) firing conventional missiles, down individual windows from 500 miles away, to kill Third World dictators or the terrorists they support, especially when they are about to develop nuclear arms. Something like that is liable to be needed with Saddam, maybe soon with North Korea, and maybe together with peacekeeping forces in parts of the Soviet Disunion if its breakup goes awkward with all those nuclear warheads lying around and unemployed nuclear scientists hireable

cheap. In the book there is an outcry during the next decade that too much of the world policeman's role is being undertaken by the United States and ex-Soviet Union, so (and I quote) "a demand goes up that the gunboat role be internationalized without anybody at first being clear what that could conceivably mean." I envisage that by 2024 the nearest thing left to an army or navy or air force anywhere is an anti-emergency force paid on performance contract by some very much reformed United Nations.

I made some other naughty forecasts about defense, and (very broadly) still stand by them. Whereas in 1984 military expenditure took around 5 percent of gross world product, I think by 2024 it takes only about 0.01 percent. We should henceforth get weapons in the cheapest market. Because Japan has been active in consumer electronics but not in defense electronics, consumer electronics have got cheaper and cheaper and defense electronics more and more expensive, often without working. The soldiers of the anti-emergency force will come from people who like to be soldiers, Gurkhas and various warlike tribes in India. The demise of national armies, to quote again, "does not take place because of any great international conference. It comes because owning national armies is absurdly uneconomic." I'm afraid I particularly criticize some Latin American governments who seem to me to have kept large conscript armies mainly to fight their own people.

We turn to redistribution. I think the world will need some sort of numéraire for international transactions—maybe the dollar or some replacement for the dollar in a free-trade area of the Americas, an ecu in a widening European Community, perhaps special drawing rights on the International Monetary Fund if we happily go very international. I am not saying local currencies should have a fixed exchange rate against those numéraires; I hope and believe they will float. But I do think we will have to end aid from the governments of rich countries to the governments of poor countries; one reason for the poverty of the latter is that government spends too much of national income already.

I would hope for IMF help along the following lines. First, if poor countries

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House Follows Super Collider Advice

Tax Cuts Worked, Foreign Aid Didn't, Cato Studies Say

Cato's policy programs continue to turn out studies on a wide variety of topics. Subjects of recent publications have included the effect of taxes on consumer prices, foreign aid to India, Pentagon budget cuts, and the real story of the 1980s.

India: Foreign Aid Disaster

U.S. foreign aid to India has been "an unmitigated disaster," Shyam J. Kamath of California State University at Hayward writes in "Foreign Aid and India: Financing the Leviathan State" (Policy Analysis no. 170). Kamath reviews the experience of India, the country that has received the most foreign aid (\$55 billion since 1951), and shows that the result has been one of the non-communist world's largest and most inefficient public sectors.

Pentagon Cuts Misleading and Inadequate

The Department of Defense is misleading the American public about its 1993 spending reductions, which would be inadequate even if they were accurate, Cato foreign policy analyst Jeffrey R. Gerlach writes in "Pentagon Myths and Global Realities: The 1993 Military Budget" (Policy Analysis no. 171).

According to Gerlach, the reductions are from mid-1980s levels, historic highs for peacetime military spending. The United States would continue to spend more, in both absolute and per capita terms, than any other industrial power.

The administration and the DOD remain committed to the old Cold War national security strategy, writes Gerlach, adding that if that strategy were changed to fit today's world, military spending could be reduced by nearly 50 percent.

Were the 1980s That Bad?

Many policy commentators have given Americans a distorted impression of the 1980s, Richard B. McKenzie writes in "America: What Went Right?" (Policy Analysis no. 172). According to McKenzie, an economist at the University of California at Irvine, a more complete analysis of the best available data indicates that the United States did much better than people are usually told.

For example, McKenzie shows that

America did not "deindustrialize." The overall industrial production index rose by 29 percent, and the manufacturing index rose by 37 percent. Real GNP rose by 30 percent, per capita GNP by 18 percent.

The author also argues that the rich got richer—and so did everyone else. The average income of the lowest and second quintiles of households actually rose by 11.1 and 10.1 percent, respectively, between 1983 and 1989.

How Taxes Hike Consumer Costs

In high-tax states such as New York and California the "true" price of consumer products is twice the retail price, according to "A Consumer's Guide to Taxes: How Much Do You Really Pay in Taxes?" by George Nastas and Stephen Moore (Cato Briefing Paper no. 15). The study presents a new and easily understood method of measuring the impact of taxes on the finances of American workers. The authors write

that "in an average-tax state a middle-income worker with earnings of \$34,000 will need \$17,038 to purchase a \$10,000 car" thanks to federal, state, and local taxes—the sales tax on the car and the income and payroll taxes on the additional income needed to buy the car.

Questioning the Super Collider

Congress should end the Superconducting Super Collider, the \$11 billion Department of Energy atom smasher, writes Kent Jeffreys in "Super Boondoggle: Time to Pull the Plug on the Superconducting Super Collider" (Cato Briefing Paper no. 16). Jeffreys, director of environmental studies at the Competitive Enterprise Institute, writes that the SSC "appears to be an ill-conceived project with weak economic justification but a tremendous amount of special interest support."

Several weeks after the paper's release, the House reversed its previous vote and voted to kill the SSC. ■

Papers from Moscow Conference Are Published in *Cato Journal*

The papers from Cato's historic 1990 conference in Moscow have been published in the latest two issues of the *Cato Journal*. Because of the timeliness of the topic, the two issues, volume 11, numbers 2 and 3, have been published simultaneously. As editor James A. Dorn writes in his opening note, at the time of the conference "the Soviet Union found itself at a critical juncture. . . . The economic and political crises were worsening and a decision had to be made whether to move ahead with radical reform or take a more conservative path toward democracy and the market. The papers in these two issues of the *Cato Journal* provide . . . an analysis of the fundamental problems that continue to plague the transition from plan to market."

The papers cover the constitutional, institutional, legal, philosophical, and social problems involved in that transition. "Thus," writes Dorn, "the papers have great relevance for understand-

ing the transition process and the challenges that face the post-Soviet leaders as they try to move toward a free and civil society."

The first issue includes papers by St. Petersburg mayor Anatoly A. Sobchak, James M. Buchanan, William A. Niskanen, Charles Murray, Alexei M. Yemelyanov, Dorn, Alexander M. Tsypko, Larisa Piyasheva, Jan Winiecki, and George Gilder on the politics of a market order, the pursuit of happiness under socialism and capitalism, perestroika, a constitution of liberty, the survival chances of economic reform, and privatization.

The papers in the second issue deal with foreign aid, individual rights, money, glasnost and knowledge, and institutions. The authors include Moscow mayor Gavriil K. Popov, Peter Bauer, Oleg T. Bogomolov, Roger Pilon, Ralph Raico, Paul Craig Roberts, Peter Bernholz, Don Lavoie, Fred L. Smith, Jr., and Douglass C. North. ■

Mexico City (Cont. from p. 3)

question of whether to work toward a hemisphere-wide FTA or press for unilateral trade liberalizations instead. A panel on the expanding drug war in the hemisphere sparked heated debate. In a paper written and submitted to Cato several weeks before the Peruvian coup, Ghersi charged that the U.S.-



Manuel Ayau of Guatemala and Cato's David Boaz listen as María Teresa Infante discusses Chilean education reform.

Governments (Cont. from p. 12)

are adopting policies that would genuinely bring noninflationary growth, and if they are held up only by the fact that those policies would initially turn them into external deficit, then I could see special drawing rights being created for them. Some say that such deliberate creation of credit would be very inflationary. In the *2024 Report* I say optimistically that in only one year between 2000 and 2024 has the creation of new IMF credit increased world money supply by more than 0.2 percent, and I admit I would accept that level of inflation.

Second, and more important, I envisage performance contracts round the world. At present, if a medical team keeps an 87-year-old millionaire in Texas alive in great pain for an extra three weeks, it is liable to draw \$50,000 from his catastrophe insurance. If a team sharply cuts death rates in poor areas of Africa by introducing cheap and probably computerized medical facilities, by changing diets and fresh water systems, there is no market mechanism

backed drug war in Peru was leading to the militarization of Peruvian society and would probably result in some sort of coup. Economist David Henderson and Ted Galen Carpenter of Cato laid out the economic and foreign policy case against drug prohibition, and a lively question-and-answer period followed.

Highlights of the conference included Paul Craig Roberts and Alberto Benegas



Argentinian congressman José María Ibarbia, Michael Walker of Canada, and Cato's William Niskanen discuss hemispheric free trade.

whereby it can earn a penny. I think we will move to performance contracts, which will have the great advantage of keeping politicians in the poor countries further out of the way. I don't think those contracts can be offered by institutions based on one man, one vote. They will more likely be based on systems of one dollar, one vote, which to some extent the IMF already is. I could see the system moving toward contracts for raising earning power in the poorest parts of the world above minimum human needs. But if we are going into such international welfare systems, it will be important to remember the new research on poverty. Although 14 percent of the people in the United States are said to be below the poverty line, an American runs less than a 1 percent risk of staying long in poverty, provided she or he does three things: completes high school, gets and stays married, and sticks for a year in a first job even if it pays only minimum wage. In spreading assaults on poverty round the world, I think we will have to introduce performance contracts geared to those criteria.

I always like to end my pontificating

Lynch, Jr., on how foreign aid has led to statism and mercantilism in Latin America, Roger Pilon and Armando de la Torre on the legal underpinnings of a free society, and Arnold C. Harberger's review of the lessons of successful liberalization efforts in Latin America.

The conference was organized by Melanie Tammen and Ian Vasquez of Cato's Project on Global Economic Liberty and Roberto Salinas León of CISLE. Conference participants came from the United States, Canada, Mexico, Venezuela, Brazil, Colombia, Argentina, Peru, Ecuador, Chile, El Salvador, Guatemala, and Cuba.

Cato president Edward H. Crane said: "We are delighted with the success of the conference in bringing together so many of the important market liberals from across the hemisphere, from Vancouver to Buenos Aires. After taking the idea of a free society around the world to Shanghai and Moscow, it's good to be back in our own neighborhood, working with the people who are bringing private property, free markets, and the rule of law to all the countries of the Americas." ■

with an anti-pontificatory story. When President de Gaulle carried out his state visits to Latin America in the 1960s in a French battle cruiser, it is said that he stood beside his admiral as the cruiser came into the main port of Ecuador and asked, "Do you know the name of the president of this little country?" The admiral replied that he didn't, but they had a chap back at Admiralty who knew that sort of thing. So the message went out. "Make from the president of the French Republic to Captain Henri Dubois, Quai d'Orsay, top presidential priority. Message: 'Do you know the name of the president of Ecuador?'—signed de Gaulle." Well, the captain was thoroughly intimidated so he spluttered out a terse one-word reply, "Oui." The next message was more in the style of the de Gaulle we newspapermen knew. "Oui, quoi? Imbécile." As they approached the saluting base on shore, the terrified bureaucrat's second replay came. "Oui, mon général." I think we will have to stop saying, "Oui, mon général," and I rejoice that our hosts and perhaps our conference here are blazing the way like a meteor toward just that. ■

Scenes from "Liberty in the Americas," May 1992



Ian Vásquez listens as Enrique Ghersi, a member of the suspended Peruvian congress, discusses the drug war and the militarization of Peru.



Nobel laureate Milton Friedman delivers the keynote address at "Liberty in the Americas: Free Trade and Beyond," a conference in Mexico City on May 19-22 sponsored by the Cato Institute and the Center for Free Enterprise Research (CISLE) of Mexico and attended by more than 500 people from around the Western Hemisphere.



Melanie Tammen shares a joke with Michael Novak and Norman Macrae at dinner.



Norman Macrae, former deputy editor of the *Economist*, warns conference participants not to set up "a Parliament of the Americas, or nonsense organizations like that."



Journalists surround Mexican finance minister Pedro Aspe as he leaves the conference after his talk on privatization.



Milton Friedman introduces Mario Jaramillo of Colombia, Enrique Ghersi of Peru, and David Henderson of the United States at a panel on drug prohibition.



María de los Angeles Murillo of Peru discusses the Andean Pact at a panel on free-trade agreements.



Former Chilean presidential candidate Hernán Büchi describes Chile's economic success.

"To be governed..."

If you can read this, thank the recession

New York City yesterday reported a significant decline in the number of students dropping out of high school, putting it ahead of other major cities that have also noted such declines. Board of Education officials claimed credit for the change. . . . But they acknowledged that a sluggish economy, with diminished job prospects, might be partly responsible for the improvement.

—*New York Times*, May 20, 1992

Environmentalists call for shutdown of Western economies to forestall global warming, er, cooling

The global warming trend of recent years appears to have reversed course late last year, sending the Earth into a period of global cooling that would continue for the next two to four years, a panel of scientists convened by the American Geophysical Union reported yesterday. The cooling . . . is being caused by a fine mist of sulfuric acid that has permeated the upper atmosphere since the eruption last June of Mount Pinatubo in the Philippines. . . . The resulting cooling effect is now estimated to be about twice as powerful as the warming effect caused by all the carbon dioxide put into the atmosphere since the beginning of the Industrial Revolution.

—*Washington Post*, May 19, 1992

Creating affordable housing

What if you inherit rental property with low income tenants who are paying rent at below the market rate? To claim rental expenses other than real estate taxes or mortgage interest, you must increase their rent or find other tenants that are able to afford the going rental rate. If you do not, and the IRS examines your return, it will disallow the expenses.

—*J. K. Lasser's Monthly Tax Letter*,
May 1992

Who needs cost-benefit analysis?

[George Will] has now focused on a single central issue: Is public television an essential service, deserving of federal support? . . .

I don't know how to put a dollar value on inspiring a child in Wyoming or Watts to become a teacher; I do know that it is worth the public's support.

—*Sharon Percy Rockefeller in the Washington Post*, May 15, 1992

Our starvation program is easing the burden on agricultural lands

Cuba's economic difficulties are turning the nation into one of the greenest and healthiest in the world. . . . Petrol supply has dropped by two-thirds in the last two years. . . .

Those who do not stick to their allocated quota [of electricity] risk having their power cut off for up to a

week, with escalating penalties for consistent offenders.

Three years ago, President Fidel Castro's government introduced a new transport policy for the island that is based on bicycles. . . . City bus services have been cut by half. . . .

The measures, which have made traffic jams a thing of the past and cleaned the city's air, have captured the imagination of environmental groups throughout the world.

In March, a delegation calling itself The World of the Bicycle Group travelled to Havana to see if Cuba's bicycle programme could be implemented elsewhere.

—(Windhoek, Namibia) *New Era*,
Apr. 30, 1992

Rearranging deck chairs on the Titanic

For a principal who lost five of her students to violent deaths in a single week last month [and 50 murdered in her five years on the job], Carol A. Beck is a decided optimist.

Ms. Beck is the principal of Thomas Jefferson High School in Brooklyn, which became a national symbol of growing in-school violence when two students were fatally shot in its corridors last month. But instead of dwelling on the tragedy, Ms. Beck has begun to focus on her next project: creating a garden out of a garbage-strewn lot that adjoins the school.

—*Education Week*, Mar. 25, 1992

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