POLICY REPORT

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DOE: Mixing Politics and Education

by Jack High

The Department of Education, Pro and Con

"Never will wisdom preside in the halls of legislation, and its profound utterances be recorded on the pages of the statute book, until Common Schools ... shall create a more farseeing intelligence and a purer morality than has ever existed among communities of men."[1] Since Horace Mann's plea for public schools a century and a half ago, our expectations for public education have come a long way — down. The debate over the newly created Department of Education (DOE) exemplifies just how little wisdom — or morality, for that matter — our public schools have imparted to the body politic and how little we have come to expect from our public schools.

Senator Abraham Ribicoff (D-CT) urged the creation of a separate department of education in an article called "A Separate Department of Education: Why Not the Best?" He did not argue that establishing such a department would give the best possible education to children but that doing so would give the educational establishment the highest prestige and the most political pull Washington is able to confer. That is, education would be given the status of a cabinet level department. Says Ribicoff, "We need a Secretary of Education who can operate from strength.... Once that is accomplished, perhaps the average tenure of the nation's highest education officer will stretch longer than a single year."[2]

Jack High, a graduate student of economics at UCLA, is currently collaborating on a book on education.

One can hardly imagine Horace Mann arguing for a Department of Education on grounds of increased tenure.

The proponents' main arguments for a new department were that it would improve the coordination of federal educational programs and enable education to compete better for federal monies. "Providing the chief education officer with cabinet status and giving him or her a clear lead role in the development of education policy is essential to the development of a coherent set of education programs," said James McIntyre, Director of the Office of Management and Budget, in his testimony before Congress.[3] Samuel Halperin, president of the Institute for Educational Leadership, lamented that "Within the budget allocation process of HEW and the Office of Management and Budget, the Education Division annually sustains far larger cuts in its budget requests than almost any other division."[4]

"Since Horace Mann's plea for public schools a century and a half ago, our expectations for public education have come a long way—down."

The opponents of the department denied both these claims. Congressman Rosenthal (D-NY), in opposition to the argument that education is a victim of budget cuts, pointed out that "It is evident from the administration's 1979 budget, which increases education funding by 30 percent, that increased appropriations are not dependent on the creation of a new department."[5]

As it turned out, the arguments against improved coordination of federal educational programs were largely beside the point because many of the programs never made it to the new department. Head Start, the school lunch program, grants for scientific study, and educational programs for Indians could not be taken from the departments that controlled them. The bureaucrats in those departments had too much political power.

Political Power and the New Department

Politics seemed much more relevant to the formation of a Department of Education than did education. Congresswoman Chisholm (D-NY) observed, "... some of us have been led to believe that the Administration's recommendations about which agencies to raid for purposes of inclusion of Federal education programs in this department have been made according to some well-thought-out, coherent, management and enforcement criteria. The naked truth of the matter is that in many instances these recommendations for transferal of certain programs were made based on perceived political muscle of various special

(Cont. on p. 3)

IN THIS ISSUE

EDITORIAL

FCC: Fostering Censorship and Corruption

This January, by a vote of four to three, the Federal Communications Commission declared RKO General Inc. unfit to be the licensee of its television stations in Boston, New York, and Los Angeles. The commission decided in a closed-door session that RKO and its parent company, General Tire, are so closely interlocked that the misconduct of one was shared by the other. The case before the FCC was the license renewal of RKO's Boston station, and the misconduct involved General Tire's bribery of foreign government officials and its illegal political contributions, issues already settled by consent decrees and a payment of $200,000 in fines. The decision also applies to RKO's stations in New York and Los Angeles, however, since they are also up for renewal, and possibly to RKO's 13 other broadcast licenses. The total market value of the licenses involved is over $400 million.

Newspapers and magazines objected most vocally to the FCC decision (see "Bureaucratic Power," *Editor and Publisher*, 9 February, and "By Favor of the King," *Wall Street Journal*, 1 February) while broadcasters were silent. (According to a story in the 4 February issue of *Broadcasting*, most Washington communications sources had no comment on the case. The story went on to quote an anonymous insider as saying, "None of us wants to get into the business of defending a wrongdoer. In defending the worst among us, we all lose.") This silence is not coincidental because the press has little to fear from the FCC and the broadcasters have much.

Until recently licensees could be reasonably assured of renewal, a fact noted by a three-judge panel of the Court of Appeals for the District of Columbia (*New York Times*, 7 February). But now licenses are up for grabs. According to Joseph M. Morrissey, the Washington lawyer for Multistate, the firm that successfully sued to acquire RKO's New York license, "The FCC has demonstrated that licenses are not to be automatically renewed every three years." (*New York Times*, 26 January). Last month's editor's column pointed out (*PR*, February 1980) that when government officials can decide who is granted and who is denied licenses worth large amounts, people competing for these licenses may be strongly tempted to bribe the officials and may often succumb to the temptation. The four commissioners' justification for their decision—that the parent company was engaged in bribery—seems disingenuous when you consider that their decision will probably generate even more bribery. As was also pointed out in last month's column, the bribery is often subtle: When their terms expire the officials can take jobs with the favored licensees without breaking any law. The future careers of the four majority commissioners—Charles Ferris, Anne Jones, Tyrone Brown, and Joseph Fogarty—will be interesting to follow.

The decision must be questioned not only because it could cause more corruption but also because it is unjust. Whatever the appropriateness of the laws General Tire had violated, the company has already paid the price. The FCC decision forces it to pay again, and a much larger penalty at that.

That the FCC actively judges the character of license holders is inevitable, given the powers granted the FCC. After all, if the government is to decide which applicants will best serve the "public interest, convenience, or necessity" (the wording of the 1934 Act), then it must use some criterion for its decision. What more obvious criterion than the ethical character of the applicant, even if he has paid the price for past wrongdoings. But applying this criterion has two unfortunate results: (1) Since people differ about who is of good character and who is not, the decisions made are somewhat arbitrary (The FCC renewed two Westinghouse Broadcasting Co. licenses the next week even though its parent company had pled guilty to bribery); (2) Censorship necessarily occurs because the FCC cannot choose between applicants without promoting some ideas instead of others (In 1931, for instance, the FCC refused to renew the license of a man who had attacked Medical Associations because he did not do so "in any high-minded way").

There is a better way of allocating licenses, a way that involves neither arbitrary judgments about character nor censorship of ideas. To begin with, we must challenge the argument that just because broadcast frequencies are limited, they must be allocated by government. The number of printing presses is limited (at any given time there are a finite number of them); must government therefore license people to use printing presses? No. The printing presses are sold to those who value them most. Frequencies could likewise be bought and sold in the marketplace. The government's function in the broadcast field would have to be no more that of a recorder of titles.

It might be objected that private property rights in licenses would not eliminate censorship but would instead make owners into censors since they could broadcast anything they chose. For instance, Mobil Oil Company spokesmen had this concept of censorship in mind when they recently charged that the major television networks censored them by not broadcasting their advertisements. But choosing to use one's resources to broadcast one's views rather than someone else's is an exercise of freedom of speech. Censorship occurs only when someone violates someone else's freedom of speech, and it requires the use of coercion. Freedom of speech does not guarantee the resources to make one's speech heard, any more than it guarantees a functioning larynx.

Government discretion, arbitrariness in decisions, corruption, censorship: These are the results of our present system. No government discretion, allocation of frequencies to those who value them most, freedom of speech: These would be the results of a free market in frequencies. The proper choice for free people is clear. ■

Mixing Politics and Education (Cont. from p. 1)

interest groups and their Congressional supporters."[6]

Political power was the main motive behind both support of and opposition to the new department. During his 1976 presidential campaign, candidate Carter told a meeting of the National Education Association (NEA), a union with two million members, that he would, if elected, create a department of education, something the union had long wanted. The NEA then gave Carter their first endorsement ever of a presidential candidate and contributed $600,000 to various congressional campaigns. After the Department of Education was created an NEA official boasted, "We're the only union with our own cabinet department."[7] Power politics also played a major role in the opposition to the department. Former HEW Secretary Joseph Califano lobbied vigorously against it; losing $14 billion worth of control is no small thing even among the big boys in Washington.

Nor did Carter set politics aside after the department was created. He appointed Shirley Hufstedler as Secretary of Education. Ms. Hufstedler has no experience in education, nor does she bring any prospect of stability or continuity to her post since she is a front runner in the race for the next Supreme Court vacancy. Her appointment is intelligible only if we recall that Ms. Hufstedler is a respected figure among liberal California Democrats, a group whose political support Carter badly needed at the time he appointed her.

The *New York Times* (16 January 1978), editorializing against the creation of the department, pointed out some potential political risks: "To achieve a broadly restructured department, the Administration would have to pay a high price indeed. In the face of such a reorganization, the Veterans Administration, for instance—and its interest groups and Congressional supporters—would be just as tenacious in protecting their turf as, say, the National Education Association would be pleased to raid it."

The formation of the Department of Education will not do much besides redistribute political power. Federal spending on education has increased rapidly of late and will probably continue to do so with the new department. The organizational changes won't mean much one way or the other to the coordination of federal programs. The specter of a Federal Ministry of Education, geared to churning out loyal citizens of the state, is not pleasant, but even here the opponents were not convincing. They did not show that a federal overseer would be worse than the present arrangements.

Monsignor Wilfred Paradis, a prominent Catholic educator, testified that the new department would erode "mutual trust and collaboration" among "the home, the school, and the local community."[8] And on 13 October 1978 the *New York Times* asserted, "The strongest objection [to a department of education] concerns the proper role of the federal government in education. Historically, control of education has been left to states and localities.... Congress has taken care to prevent education from being dominated or subverted by federal policy, preserving a wise and precious tradition."

These words of the good Monsignor and the *Times* no doubt surprised a good many parents, students, and local communities. What mutual trust? What collaboration? Certainly there is neither between the Harlem parents who are forming a union to make their views known and the public school officials of Harlem. Nor do the thousands of parents who are withdrawing their children from public schools because of the forced busing, or because their children may become both victims and perpetrators of crime, or because their children are not learn-

(Cont. on p. 4)

POLICY REPORT

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Mixing Politics and Education (Cont. from p. 3)

ing to read and write, feel much trust toward the public schools. The dismal state of public schools mocks any reference to a wise and precious tradition.

The Separation of School and State

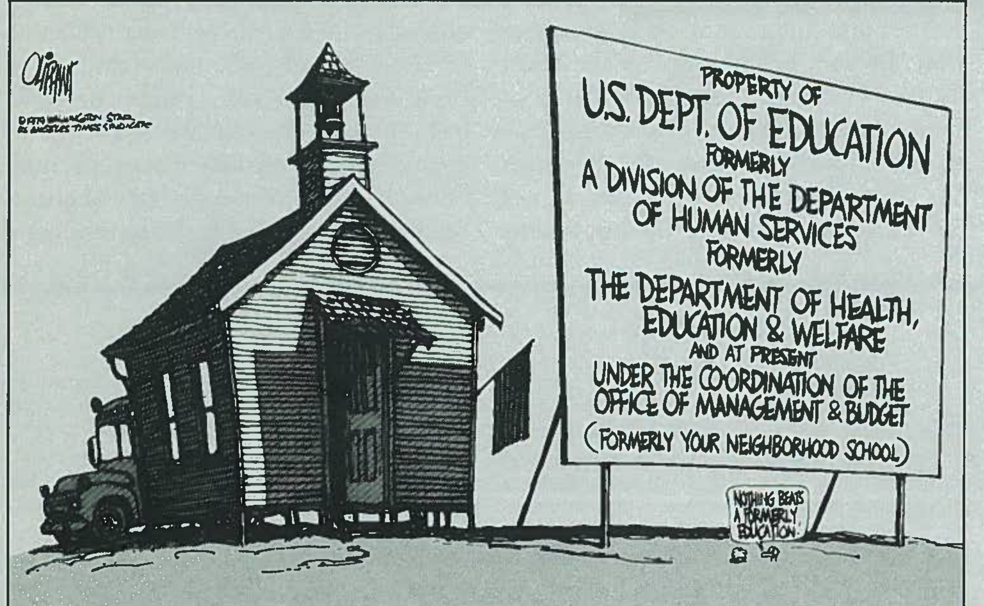
Political expediency seems to have crowded out much concern with principle in the debate over the Department of Education. The principle that most needed stating is that government—federal, state, and local—has no proper place in education. This principle would have given more weight to the opposition's arguments because it would have allowed them to point out the dangers of federal involvement in education without defending the status quo.

Many opponents argued that federal involvement in education stifles diversity. They could have added that *any* government activity in education stifles diversity. The supposed pluralism of American education would be a bustling fact of educational life if education were left entirely to the voluntary conduct of students, parents, teachers, and school administrators. The potent energy of free choice and competition would provide the variety and abundance of services that it has provided in—say—transportation, clothing, or food. Private education was a reality for all social classes in both England and America in the nineteenth century, before the government interfered.[9]

Historically, much of the motivation

"It is time we bestowed the same respect and dignity on education that we have given to speech and religion."

for public schooling has been to stifle variety and institute social control. Thus laws have been passed that prohibited blacks from attending schools or teaching;[10] that required poor Catholic immigrants to attend schools that inculcated Protestant values;[11] that took educational control out of the hands of parents and put it in the hands of state certified experts;[12] that, by means of the system of testing, subsidies, and draft deferments, sorted out the brighter children and channeled them into technical occupations that would help America fight a cold war with Russia.[13]



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The attitude underlying all of these actions, an attitude that has been widely held by advocates of state schooling, was well expressed by founding father Benjamin Rush: "Let our pupil be taught that he does not belong to himself, but that he is public property."[14]

Social control is not the only motive behind public schooling; money is another. The American public showed a lively interest in education long before the introduction of public schools. The early public schools were run by the state, but they were not tax-supported and therefore public schools had to compete with private schools to attract students. The imposition of taxes on *all* parents—whether or not they sent their children to public schools—put private schooling out of the reach of poor and middle income families, increasing the flow of children into public schools and financially benefiting the public educators. This elitist system is still with us, and public educators are among the most vigorous opponents of giving tax credits to parents who do not use the public schools.

Compulsory schooling laws also had their origin in the financial advantages to public educators. Professor E. G. West pointed out that in the state of New York, after tax-supported schools had all but eliminated private schools, public school teachers and administrators started agitating for compulsory attendance laws.[15] Since public money was distributed to schools according to the numbers of students in attendance, these laws had the effect of increasing the demand for public school teachers.

Public schools have a long history of benefiting elite power brokers at the expense of most of the rest of us. The formation of the Department of Education is just one more chapter in that history, and the chapters will continue to be written as long as government is involved in education.

Americans traditionally have valued freedom of speech highly enough to keep government from legislating against it. We have valued freedom of religion enough to prohibit government from interfering in its free exercise and from establishing a state religion. These traditions recognize the dangers of letting government arbitrate in the realm of ideas. It is time we bestowed the same respect and dignity on education that we have given to speech and religion. It is time that we establish freedom of education, which, after all, intimately involves both speech and religion, and banish government from this realm altogether. By so doing, we may not be able to realize Horace Mann's dream of establishing wisdom in the halls of the legislatures, but we can certainly establish a more farseeing intelligence and a purer morality than now exists. ■

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[1] Horace Mann, *The Republic and the School,* ed. Lawrence A. Cremin (New York: Teacher's College of Columbia University, 1957), p. 7.

[2] *Change,* February 1978, pp. 27–28.

[3] Testimony before the Committee on Governmental Affairs, United States Senate, 14 April 1978, *Congressional Digest,* November 1978, p. 274.

[4] *Change,* February 1978, p. 26.

[5] Dissenting views filed with the report of 25 August 1978 of the Committee on Government Operations, U.S. House of Representatives, *Congressional Digest,* November 1978, p. 271.

[6] Testimony presented before the Subcommittee on Legislation and National Security of the House Government Operations Committee, 1 August 1978, Ibid., p. 277.

[7] *Newsweek,* 12 November 1979, p. 41.

[8] Testimony presented to the Senate Subcommittee on Governmental Affairs, 21 March 1978, *Congressional Digest,* November 1978, p. 283.

[9] Edwin G. West, *Education and the State,* 2nd ed. (London: Institute of Economic Affairs, 1970); Otto Kraushaar, *American Nonpublic Schools* (Baltimore: Johns Hopkins University Press, 1972); Zachary Montgomery, *The Poison Fountain* (San Francisco: published by the author, 1878).

[10] Thomas Sowell, "Choice in Education and Parental Responsibility," in *Parents, Teachers and Children* (San Francisco: Institute for Contemporary Studies, 1977).

[11] Ray Allen Billington, *The Protestant Crusade, 1800–1860* (Chicago: Quadrangle Books, 1964).

[12] Joseph M. Cronin, *The Control of Urban Schools* (New York: McMillan, 1973).

[13] Joel Spring, *The Sorting Machine* (New York: David McKay Co., 1976).

[14] Quoted in George H. Smith, "Education and the State," unpublished manuscript, 1980, p. 3.

[15] Edwin G. West, "The Political Economy of American Public School Legislation," *Journal of Law and Economics* 10 (October 1967):101–28.

The "Windfall Profits" Tax

by David R. Henderson

At this writing, House and Senate conferees are working on a bill to impose a "windfall profits" tax on U.S. oil companies. Although it is as yet uncertain what shape the final bill will take, the broad outline is clear: The alleged windfall profits tax will really be an excise tax on oil, the magnitude of which will vary with how recently the oil was discovered. "Old" oil will be taxed at a higher rate than "new" oil, the idea being that, unlike a tax on oil yet-to-be-discovered, a tax on oil already discovered does not significantly affect production. The excise tax will be a percentage of the difference between the world price and a base price of anywhere from six dollars to twenty dollars. With a world price of $30, the tax on a barrel of oil could be as much as $18.[1]

Proponents generally justify the tax on one of two grounds: (1) since the OPEC cartel, which is responsible for the high price of oil, is not a free-market phenomenon, U.S. owners of oil should not be allowed to benefit from OPEC's actions; or (2) that no matter what caused the high oil prices, allowing owners of oil to keep all the proceeds unjustly benefits them at the expense of nonowners.

There are many problems with the first argument, not the least of which is its implications for other areas of the economy. Many people gain from anti–free market activities. For example, the government's interference in energy creates a demand for energy economists, land use restrictions limit housing construction and benefit homeowners, and theft creates a demand for burglar alarms. According to the argument the oil excise tax proponents use, therefore, a special tax should be levied on energy economists, homeowners, and burglar alarm producers. But I doubt that most people who favor the tax on oil would also favor these taxes. They would not begrudge energy economists, homeowners, or burglar alarm producers their benefits, but they would object to the interference with the free market that created those benefits. In the case of oil, then, they should object to OPEC, not to the domestic owners of oil who benefit from OPEC. It is not usually thought that one expresses one's objection to a cartel by taxing suppliers who are competing with it.

As for the argument that owners of oil benefit unjustly, here again applying the argument to other markets yields some distressing implications. If it is unjust to benefit from a price change for oil, then it is unjust to benefit from *any* price change. All prices should be fixed forever, or price changes should be allowed but taxed at 100 percent. Since the free market uses price changes as a means of signaling people about what to produce, the free market would cease to function in this role. In other words, an implication of the argument that price changes should not benefit producers is that there should not be even a semblance of a free market. I doubt that most proponents of the excise tax would want to eliminate the free market completely—even the planners in socialist countries understand the value and importance of a price system. More fundamentally, what is unjust about people benefiting at the expense of others through a change in price of a good they sell? If the owners acquired the good by peaceful means, why shouldn't they be allowed to sell it for whatever it is worth?

Once the bill is passed, Congress and the President will have sent a clear message to domestic oil suppliers: In the future they should not expect to gain much from a decrease in foreign supplies. Suppliers will act accordingly and be less inclined to build up sup-

(Cont. on p.7)

✓ Washington Update

✓ The Senate Judiciary Committee is expected to vote by 15 March on a resolution proposing a constitutional amendment to restrain federal tax increases and balance the budget. It would provide that federal expenditures must not increase as a proportion of national income unless Congress votes on the record for the increase. It also requires that Congress annually project a balanced budget, but that requirement can be waived by a three-fifths vote. A Senate Judiciary subcommittee approved the resolution by a 5-2 vote in December.

✓ Federal employee unions are mounting a major effort to stop moves to include Federal workers in the social security system. Each of their members must pay 2 cents a month to the campaign, giving their lobbying group an annual budget of $360,000. A congressional panel studying mandatory social security coverage for government workers will make its recommendations to Congress in the spring.

✓ An unlikely alliance of conservative and liberal political activists is challenging several aspects of the federal campaign laws. The coalition includes, among others, former senators Eugene McCarthy and James Buckley, the major participants in the 1976 *Buckley v. Valeo* decision that struck down portions of the Federal Election Campaign Act. Plans for lawsuits against the FEC include challenges to provisions of the campaign law that grant postal subsidies to Democratic and Republican candidates but not to those of minor parties, limit what individuals can contribute to candidates, and restrict contributions to challengers and minority party candidates.

✓ The Carter administration is now revising its earlier view that "windfall profits" tax money should be spent solely on energy programs and is considering using the money for general revenue purposes or an election-year tax cut. Because of recent oil price increases, experts now expect the tax to generate much more money over the next decade than originally expected—possibly hundreds of billions of "windfall" dollars.

✓ For years the basic measure of the country's money supply has been known as M1, a term designating the amount of currency on hand plus the amount held in checking accounts in commercial banks. Now M1 has been phased out in favor of a new term: M1-A, which eliminates checking deposits of foreign banks and institutions and further narrows the basic money supply definition.

✓ A bill to deregulate portions of the telecommunications industry was approved by a House subcommittee in February. The legislation would remove many of the telecommunications regulations established since 1934 and allow the telephone monopoly, AT&T, to compete against other firms in such fields as data processing. Several private communications companies in competition with AT&T opposed the bill, arguing that it would not prevent the Bell System from undercutting its competitors.

✓ Four electric utilities have shelved their plans to build nuclear power plants because of "political and regulatory uncertainties" that have arisen since the accident at Three Mile Island. Cleveland Electric Co., Toledo Edison, Duquesne Light, and the Ohio Electric Co. said their total investment of $7.3 billion for four plants would be too risky and not cost-effective under present conditions.

✓ U.S. steel manufacturers have started an elaborate political and public relations effort to rebuild the steel industry. Only weeks after congressional approval of the Chrysler loan guarantees, the American Iron and Steel Institute proposes further regulation in the form of permanent protection against imports and government aid for research and development and deregulation in the form of liberalized tax laws and relaxation of environmental regulations.

✓ Federal Reserve Board Chairman Paul Volcker urged Congress to halt the flight of member banks from the Fed system. He told the Senate Banking Committee that in the past few months 69 banks with aggregate deposits of $6 billion have notified the Fed they are withdrawing from membership, citing high reserve requirements, among other factors, for their action. Volcker said another 670 banks are considering withdrawing from the system, a move that would "seriously disrupt monetary management of the economy."

✓ Predictions are that by next year the food stamp program will cost over $10 billion—nearly $4 billion above its legal spending limit for 1981. That represents an 82 percent increase in costs over just three years. The food stamp program will probably be the most expensive federal welfare program by next year, exceeding outlays from both AFDC and Supplemental Security Income.

✓ President Carter already holds the authority to resume draft registration for men. However, a Congressional spending authorization for the now dormant Selective Service System is required before registration resumes. Hearings on Carter's $20.5 million request for the reactivated registration program begin late in February or early in March in the House Appropriations Subcommittee on HUD and Independent Agencies chaired by Congressman Richard Bolling (D-MO). If the full House approves the spending request, a filibuster by antidraft forces is expected in the Senate. A separate bill that would for the first time register women for the draft is given little chance of passage by the congressional leadership. ■

plies in anticipation of a foreign oil cutback. This hampering of U.S. oil suppliers will make Americans more dependent on foreign supplies.

Some argue that the tax will not affect oil companies' exploration and production because it will still leave them with billions of dollars in profits. That this argument has been made is understandable because many oil company executives have argued that their companies should be able to keep their profits to finance exploration. Naturally, their opponents respond that the tax will still leave them with the billions they need. Both sides miss the point. Firms produce not because they are wealthy but because they want to add to their wealth. The more they can add to their wealth, the more they will produce. High-cost areas that oil firms would have explored if there were no excise tax will not be explored when the tax passes. The firms would have produced high-cost oil if there were no excise tax that they will not produce when the tax passes. Thus, addition to wealth, not wealth, is the incentive.

The taxation-induced dependence on foreign oil has foreign policy implications. The more dependent we are, the more favorable are many Americans to the idea of going to war if foreign supply is threatened. Even before the Iranian crisis and the Soviet invasion of Afghanistan, top government officials such as Defense Secretary Harold Brown, then Energy Secretary James Schlesinger, and President Carter's Assistant for National Security Affairs, Zbigniew Brzezinski, were calling for serious consideration of U.S. military intervention on the grounds that the United States had vital interests in the Middle East oil fields.[2] The windfall profits tax may turn out to be more than the moral equivalent of war. ■

[1]Richard Corrigan and Dick Kirschten, "Some Results are Finally in Sight for the Moral Equivalent of War," *National Journal*, 5 January 1980, pp. 4–10.

[2]Juan Cameron, "Our What-If Strategy for Mideast Trouble Spots," *Fortune*, 7 May 1979, p. 155; Roy A. Childs, Jr., "Energy and American Foreign Policy," *Libertarian Review*, July/August 1979, p. 76.

Briefs

☐ Daniel Yergin, whose co-written book, *Energy Future*, was dissected in these pages (Alan Reynolds, "Energy Backwards," *PR*, January 1980), has come up with a novel argument for gasoline rationing. He writes in "Hostages of Energy," *The New Republic*, 2 February 1980, that by reducing consumption, rationing "would save this country a pile of money—almost $500 million a week." By the same logic, reducing our consumption of oil to zero would make us all better off, saving us tens of billions of dollars per year. It would also cause many people to freeze to death. The fact of the matter is that people value the gasoline more than the dollars they use to pay for it or else they would not buy it. To admit that rationing would reduce consumption is to admit that it would make us worse off.

☐ A recent study published by the American Enterprise Institute, *Pensions and New York City's Fiscal Crisis*, lays much of the blame for New York City's fiscal problems on the large pensions granted city workers. Between 1961 and 1977, total pension costs increased at a real annual rate of 8 percent. The author, Professor Damodar Gujarati, points out that the actuarial data on mortality used by the pension fund are taken from the period 1908–1914. Since people live longer now, the pension plans are significantly underfunded. This does not augur well for the Big Apple's future.

Although pensions have ballooned, labor costs as a percentage of the city budget have fallen from 55% in 1961 to 46% in 1975. The big increase has been in welfare. Welfare spending as a percentage of total spending has risen from 15% in 1961 to 29% in 1976. The percentage of the city's population receiving some type of government welfare jumped from 4.4% in 1961 to 16.5% in 1975. Gujarati points out, however, that this component of spending is not easily controlled by the City government since the New York State government determines eligibility and grant levels.

☐ The fact that the minimum wage prices low-productivity workers out of the market has been well documented (see David R. Henderson, "The Minimum Wage," *PR*, December 1979). This effect is no longer controversial—even Secretary of Labor F. Ray Marshall, one of the strongest proponents of the minimum wage, admits that it has this effect but justifies it on the grounds that it forces such workers into programs run by the Labor Department like the Youth Entitlement Program and the Job Corps. (See *A Conversation with Secretary Ray Marshall*, Washington, D.C.: American Enterprise Institute, 1978.) Carleton University economist Edwin G. West, in "The Unsinkable Minimum Wage," *Policy Review*, Winter 1980, has taken on Secretary Marshall with his usual incisiveness. He points out that Marshall's position is "brazen elitism." Professor West goes on to argue that even given Marshall's assumption that low-wage workers cannot make wise job choices and should get formal education instead of work experience, his argument is defective because the minimum wage often deprives youth of part-time jobs that would enable them to stay in school. In response to Secretary Marshall's argument that not increasing the minimum wage is unfair since the average manufacturing wage has been increasing, Professor West argues that Marshall overlooks the fact that minimum wages exclude many workers from getting *any* wages. In West's words, "Any claims of a victory of 'equity' seem debatable, to say the very least." West's essay, although too complex to discuss further here, is well worth reading.

"To be governed..."

Theory and practice.

According to a CBS–New York Times Poll, a two-to-one majority of Americans favors mandatory wage-price controls. A representative sample of 600 American economists reveals a larger majority—three-to-one—*opposed*. As Federal Reserve Board Governor Henry Wallich recently wrote, "We economists have much to be modest about," and it is tempting to cite economists' opposition to controls as a major argument in favor of imposing them. But there are more powerful arguments....The primary purpose of controls is to smash the self-fulfilling expectation that inflation will persist or get worse. By focusing on this objective, we can make controls work.

—Shlomo Maital, Technion-Israel Institute of Technology, *New York Times*, Jan. 13, 1980

Israel's Central Statistics Bureau reported today that consumer prices had risen by a record-breaking 111.4 percent during 1979.

—*New York Times*, Jan. 16, 1980

Just as long as Dr. Maital isn't chairman

I generally oppose any suggestion to initiate another government agency. However, circumstances—particularly Sen. Edward M. Kennedy's (D-Mass.) recent clarion call for wage and price controls—have compelled me to imagine the need for yet one more: What the United States needs now is a new agency to analyze, evaluate and ultimately approve or disapprove economic policies proposed by presidential contenders.

This federal agency would be the equivalent of the Food and Drug Administration, only it would monitor economic panaceas, not drugs. If a Federal Bureau of Economic Policy Evaluation existed today, proposals for wage and price controls would be banned, just as surely as thalidomide is.

—Arthur B. Laffer, *Los Angeles Times*, Feb. 7, 1980

And heavy objects fall because it is their nature to do so

Why does [the price of] gold go up? Because it goes up!

Why does gold go down? Because it does.

—Paul A. Samuelson, recipient of the Nobel Memorial Prize in Economic Science, *Newsweek*, Jan. 14, 1980

Why do baked beans go up? Because they go up!

"When the stock market was in free fall in mid-1974," recalls *Investors Chronicle*, a lively British financial publication, James Slater,...now identified as an "ex-financial wizard," suggested "four disaster hedges. These were a tin of baked beans (to feed you if runaway inflation proved insoluble), a bicycle (for transport when Middle East oil runs out), Krugerrands, and a shotgun (for self-defense against insurrection or mob rule)."

While the Slater portfolio was conceived in jest, the *Chronicle* notes that all told, the four recommended investments had risen at nearly double the rate of inflation. Baked beans were the worst choice, Krugerrands the best.

—Alan Abelson, *Barron's*, Jan. 21, 1980

With friends like this...

Life moves at a meandering pace in this little crossroads community in Virginia's bucolic heartland. Folks here are an informal lot, paying little heed to what passes for progress in Washington.

Take, for example, Carrington's Wayside Mobile Home Sales. A. Preston Carrington, president and owner, always kept things informal at this small company. When Allye Payne, the bookkeeper, wanted an afternoon off for some shopping in town, she got the time off. But if Mr. Carrington needed her on a Saturday morning, she was always there. Lewis Martin, an avid deer hunter, worked a little extra here and there for several months before the deer-hunting season so he could get off to the woods for a week in November.

A. P. Carrington's employees seemed to like that system, but there's a problem with it: It's against the law. That was explained to Mr. Carrington recently by a man from the U.S. Labor Department, who then informed him that he owed six current and former workers $6,220.44 in back wages.

—Robert W. Merry, "Long Arm of Law Rubs Some People the Wrong Way," *Wall Street Journal*, Jan. 30, 1980

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