Cato Policy Report

May/June 1993 Volume XV Number 3

The Road to High-Performance Computing: An Entrepreneur Endorses the Invisible Hand

by T. J. Rodgers

My company, Cypress Semiconductor Corporation, makes data-communications chips used in electronic data superhighways, memory chips for supercomputers, and microprocessor modules for massively parallel computers. We would benefit greatly if billions of taxpayer dollars were showered on the various technology projects favored by the Clinton administration. It would be easy for me to support those projects. I could spend one minute talking about our products; a few more minutes discussing the wonders of the basic technologies; a few more on the serious peril we face from manufacturers in other countries, especially the government-financed Japanese and Europeans; and finally, I could ask for a dole—to save American high technology.

But I want to say that such subsidies will hurt my company and our industry, because they represent tax-and-spend economics—a brand of economics that is a known failure. The men and women of our company do not want handouts. And if Congress wants to help American high technology, handouts are the wrong way to go—especially if they are funded with huge increases in taxes on individuals and corporations.

T. J. Rodgers is president and CEO of Cypress Semiconductor Corporation in San Jose. This article is based on his remarks at a Cato Policy Forum and in congressional testimony, both delivered on March 25.

The Clinton Program: Three Misconceptions

Let me begin by correcting a serious, albeit politically useful, misconception. The administration would have us believe that the business leaders of Silicon Valley stand unanimously behind its program. The image of John Sculley, CEO of Apple Computer, sitting beside the First Lady and applauding the State of the Union address has been beamed far and wide by White House political operatives. During the last week, I corresponded with directors, founders, and CEOs of 10 high-technology companies. Not one agreed with the proposition that the right way to enhance America's technology leadership is to increase individual and corporate taxes to finance government megaprograms—even if the megaprograms support technologies being developed by those companies.

There is a second dangerous misconception about the president's economic program. It, too, serves a useful political purpose. Indeed, it is a game as old as politics itself: divide and conquer, or, as Gil Amelio of National Semiconductor says, preaching the politics of envy. Yes, the White House tells the American people, we plan to increase spending by hundreds of billions of dollars. But we plan to spend that on "you." Even better, "they"—the bad guys—pay for it.

The bad guys, of course, are successful individuals and profitable corporations. Throughout the campaign last fall, and during the first two months of the new administration, we heard end-

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T. J. Rodgers, president and CEO of Cypress Semiconductor, displays one of Cypress's products that would benefit from the Clinton administration's proposed national data highway. At his Cato speech in March, he went on to express his opposition to government subsidies for the semiconductor industry.

In This Issue

Putting the Consumer Back in the Health Care Equation

President's Message

As the wheels start falling off the Trojan Horse that is the Clinton administration, we are being given a respite from one of the most dangerous public policy developments since Lyndon Johnson's Great Society. When the president first appointed his wife Hillary to head a health care task force charged with the modest responsibility of completely reshaping one-seventh of our Gross Domestic Product within 100 days, it was generally assumed to be a done deal. That is, whatever plan the 500 or so experts—virtually all from the public sector and secreted away from the annoying glare of full disclosure—came up with would be what the American people would live with henceforth.

We can be thankful that, despite all the talk of how one-party government was going to "get America moving again," gridlock is still with us. The loyal opposition surprised itself by stopping Clinton's pork-laden $16 billion "stimulus" package and now everything is on hold—including health care reform.

Regrettably, our friends at the Heritage Foundation, who so often are strong allies on economic issues, have thrown their considerable clout behind a mandated, compulsory, universal "national health plan" modeled after the Federal Employee Health Benefits Program. Leaving aside the many mandates that Heritage recommends the federal government enforce (including outpatient hospital services, well-child care, diagnostic testing, and prescription drugs), there are two fundamental problems with their proposal.

First and foremost, it establishes the European principle that government has a right, indeed a duty, to mandate health care coverage for everyone. That idea flies in the face of the American heritage of individual liberty and individual responsibility. Their proposal, Heritage says, "is a protection for the rest of us against those [who choose not to buy health insurance coverage] who would exploit our good nature." But what of our "good nature"? Is this not another example of government "severing the tendrils of community," as Charles Murray puts it? To be sure, no one should be obliged to care for those who don't take appropriate precautions to protect themselves, but there can be no doubt that enough Americans will always be available to do so voluntarily and charitably. Why coercively bureaucratize yet another element of our society?

Of course, from a public choice standpoint, a nationally mandated scheme, no matter how well-intended and well-structured, will inevitably succumb to demands for expanded coverage, leading to higher prices, leading to price controls, leading, eventually, to socialized medicine. Our friend Stuart Butler, a vice president at the Heritage Foundation, disagrees that a federally mandated plan is destined to squeeze out the private sector, but if it does, he writes, "That is politics." Indeed.

The second problem with the Heritage plan is that it relies on competition between state-regulated insurance companies to simulate a market in health care delivery. But such an approach ignores the crucial role that the individual consumer plays in any market. Besides, our health care system in America already suffers from *far too much insurance coverage*.

The Cato Institute approach to health care policy reform—Medisave Accounts—was first developed several years ago by three current adjunct scholars at Cato, John Goodman, Richard Rahn, and Peter Ferrara. Goodman and Gerald Musgrave have explained that approach in detail in their brilliant Cato book, *Patient Power*. Sen. Phil Gramm and a growing number of legislators in both houses of Congress have endorsed the Medisave proposal, which *New York* magazine calls "the most clear-eyed analysis to be found anywhere."

The average company pays about $4,500 per employee for family health care insurance. Because company plans typically have very low deductibles—$100 to $300—individual consumers end up treating health care as a "free good," indifferent to either the need for or the cost of treatment. Under the Cato proposal (also being actively promoted by Goodman's Dallas-based National Center for Policy Analysis), an employer could spend $1,500 to purchase $3,000-deductible catastrophic coverage for the employee's family and give $3,000 tax-free directly to the employee, who would put it in a Medisave Account, which would function like an IRA.

From that point forward, health care expenses up to $3,000 would come out of the employee's own account. What he didn't spend would accumulate tax-free. As the Medisave Account grew, it would provide funds to purchase health insurance between jobs (the "portability" issue), offer supplemental retirement income, or be available for such things as nursing care.

But the best part of the Cato plan is that some 200 million consumers would be brought back into the health care equation, as they were before the World War II price controls that led to our current tax-driven system. Suddenly, patients would ask themselves whether they really needed to see the doctor. They'd ask the doctor whether they really needed another x-ray, or whether there wasn't a generic drug that would do as well as the designer drug. There would be dramatic downward pressure on prices (eventually leading to billions of dollars of savings in Medicare and Medicaid) that would finally reverse the upward spiral of health care costs—all without price controls or federal mandates.

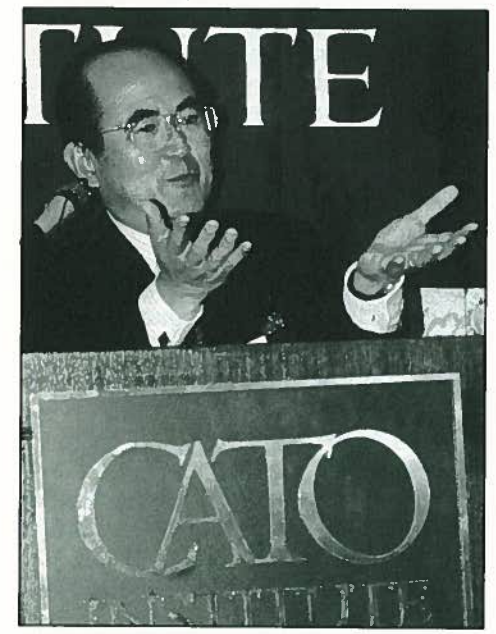
Ed Crane

—Edward H. Crane

11th Annual Monetary Conference

Removing Regulations Key to Global Financial Health

Federal Reserve Board member Lawrence B. Lindsey declared that the proper goal of government monetary policy should be to "let markets work," in his keynote address to the Cato Institute's 11th annual monetary conference, "Financial Deregulation in a Global Economy." Lindsey, noting that there are limits to what government can accomplish in money matters, characterized monetary policy as a "blunt instrument" that cannot solve microeconomic problems. The goal of monetary policy, he said, should be to provide for normal growth of nominal income, which would be consistent with long-run price stability.



Yoshio Suzuki of Nomura Research discusses global financial stability.

The information revolution has dramatically changed the economics of financial services in a global marketplace. Regulatory policy, however, has remained highly centralized, and the tendency has been to move toward international regulation. The Basel capital standards reflect that trend. Instead of radical change and a market-driven regulatory process, policymakers have chosen piecemeal reform and continued politicization. Moreover, there has been no distinct movement away from discretionary monetary policy toward a rule-based monetary regime that would improve the overall stability of the financial system.

The two-day conference in Washington dealt with the current state of financial services regulation and the framework for monetary policy. The conference, directed by James A. Dorn, Cato's vice president for academic affairs, featured more than 20 leading monetary experts and policymakers, including speakers from England, Japan, and Switzerland.

Rep. Stephen L. Neal, chairman of the House Subcommittee on Financial Institutions, echoed Lindsey's message and stressed that Congress ought to be thinking of ways to remove existing obstacles to financial innovation rather than looking for new ways to regulate the banking industry.

Federal Reserve governor Lawrence B. Lindsey says monetary policy should "let markets work" at Cato's annual monetary conference.

Jerry L. Jordan, president of the Federal Reserve Bank of Cleveland, spoke in favor of a market-based regulatory system that would increase accountability. Regulators have abused their discretionary authority, said Jordan, and it is time to require them to abide by clear-cut rules and let market forces discipline financial institutions.

Judy Shelton, a senior research fellow at the Hoover Institution, called for encouraging greater competition to increase efficiency in the financial ser-

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Published by the Cato Institute, *Cato Policy Report* is a bimonthly review. It is indexed in *PAIS Bulletin*.

Correspondence should be addressed to: *Cato Policy Report*, 1000 Massachusetts Ave., N.W., Washington, D.C. 20001. *Cato Policy Report* is sent to all contributors to the Cato Institute. Single issues are $2.00 a copy. ISSN: 0743-605X

Speakers Discuss Russia and Yugoslavia

Budget Deficit, Managed Competition Examined at Forums

Cato Events

February 9: A Policy Forum on **"Federal Reserve Policy: What Direction?"** featured David Fand of the Center for Study of Public Choice at George Mason University and Allan Meltzer of Carnegie Mellon University. Relying on different measures, Fand said the Fed's monetary policy has been unusually restrictive and Meltzer dissented.

February 10: The coauthors of the Cato Institute book *Patient Power* examined **"What's Wrong with Managed Competition"** at a Policy Forum. John Goodman of the National Center for Policy Analysis criticized "managed competition," a proposal favored by President Clinton that involves government coordination of compulsory, nominally private medical insurance. Gerald Musgrave of Economics America outlined the virtues of tax-free medical savings (Medisave) accounts, which he and Goodman propose in their book.

February 19: A **Roundtable Luncheon** with Sen. Phil Gramm (R-Tex.) was the occasion for a discussion of how to balance the budget and the Clinton economic program. Attending the luncheon were Cato staff members and key activists in the battle for lower taxes and government spending.

February 26: A Policy Forum examined **"How to Really Cut the Federal Budget Deficit: Alternatives to the Clinton Fiscal Plan."** James C. Miller III, chairman of Citizens for a Sound Economy; Cato chairman William A. Niskanen; Stephen Moore, Cato's director of fiscal policy studies; Martha Phillips of the Concord Coalition; and Alan Reynolds of the Hudson Institute criticized President Clinton's plan to cut the deficit and offered their own views on reducing federal spending.

February 26: A Cato Institute **Capitol Forum** dissected legislation to outlaw the permanent replacement of strikers. Economist Barry Bluestone of the University of Massachusetts argued on behalf of the bill, and economist Walter Oi of the University of Rochester made the case against it.

March 4: **"New Horizons in Natural Gas Deregulation"** was the theme of a conference cosponored by Cato and the Institute for Energy Research. The conference addressed many aspects of the natural gas industry and the current regulatory regime, including the question of whether pipelines are a natural monopoly. The speakers included Robert L. Bradley, Jr., Institute for Energy Research; David J. Teece, University of California, Berkeley; Kenneth J. Malloy, U.S. Department of Energy; Branko Terzic, Federal Energy Regulatory Commission; Jerry Ellig, George Mason University; and Kenneth L. Lay, Enron Corp.

March 5: The Clinton administration's proposed Btu tax came under heavy fire at a Policy Forum entitled **"Clinton's Energy Tax Medicine: Economic and Environmental Side Effects."** Norman Ture, president of the Institute for Research on the Economics of Taxation, argued that the tax will increase operating costs for every household and business, reduce competitiveness and the demand for labor, discourage saving, and aid the growth of government because it is a hidden tax. Philip Verleger, senior fellow at the Institute for International Economics, added that the tax will do nothing for the environment and will be widely evaded because it is difficult to administer.

March 10: A Book Forum honored publication of ***Eco-Scam: The False Prophets of Ecological Apocalypse*** by Ronald Bailey, published by the Cato Institute and St. Martin's Press. Bailey's remarks were entitled "Al Gore, Paul Ehrlich, and Chicken Little: Why Do So Many People Think the World's Coming to an End?"

John Goodman, coauthor of *Patient Power*, criticizes managed competition at a Cato Forum.

James C. Miller III, chairman of Citizens for a Sound Economy, criticizes President Clinton's plan to cut the deficit.

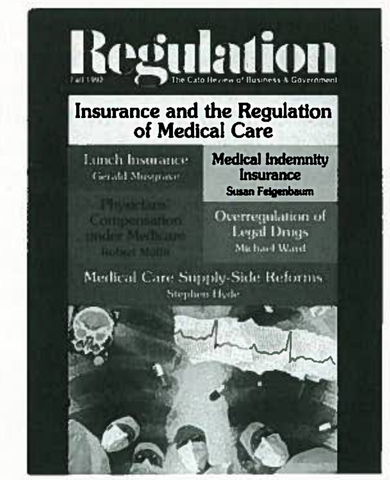
March 11: **"Can the United States Bring Peace to the Balkans?"** was the question addressed at a Policy Forum with Alex Dragnich, author of *Serbs and Croats*, and Jonathan G. Clarke of European Management Services, Inc., a former British Foreign Service officer. Dragnich gave a history of the dispute among Yugoslavian ethnic groups and argued that the American media and U.S. diplomats have prejudiced Americans against the Serbs. Clarke warned that U.S. intervention could be perilous.

March 18–19: The Institute's 11th annual monetary conference was devoted to **"Financial Deregulation in a Global Economy."** It featured Lawrence B. Lindsey of the Federal Reserve Board, Judy Shelton of the Hoover Institution, Anna J. Schwartz of the National Bureau of Economic Research, Jerry L. Jordan of the Federal Reserve Bank of Cleveland, Gerald P. O'Driscoll of the Federal Reserve Bank of Dallas, Robert E. Keleher of the Group of Seven Council, Lawrence H. White and George A. Selgin of the University of Georgia, and Richard L. Measelle of Arthur Andersen & Co. Luncheon addresses were given by Georg Rich of the Swiss National Bank and Yoshio Suzuki of Nomura Research Institute in Japan.

Free-Market Solutions to Medical Care Issues Surveyed in *Regulation*

How the free market would solve the problems plaguing the medical care system is the theme of the latest issue of *Regulation* magazine (Fall 1992). The articles, based on papers presented at the 1992 *Regulation* conference on deregulating medical insurance and medical care, focus on the salient issues being debated today: insurance, prescription drugs, state mandates, regulation of health care professionals, and restrictions on services.

Economist Susan Feigenbaum traces the regulation-induced change in medical coverage from indemnity insurance, in which claims are paid whether or not services are purchased (similar to auto insurance), to the current practice, which is actually prepayment for medical services. She points out that that practice, which reimburses people for services purchased, removes the incentive for purchasers of medical services to be price sensitive. That in turn stimulates overdemand for services and hence rising prices. Feigenbaum proposes that "we reconsider the incestuous link between medical insurance and medical providers." If claims were paid when people became sick, not when they bought medical care, people would be encouraged to shop wisely for care because they would be the beneficiaries of any savings.



Other contributors to the issue are Paul B. Ginsburg and Ernest Moy on physician licensure; Deborah Haas-Wilson on regulation of health care professionals other than physicians; Michael R. Ward on overregulation of drug approval; and Stephen S. Hyde on legalizing certified home practitioners who, with the help of new computer software, could diagnose ailments and prescribe medicines. In a spoof on medical insurance, Gerald L. Musgrave, Leigh Tripoli, and Fu Ling You speculate on what would happen to the food industry if there were lunch insurance.

In other articles, Cato's director of regulatory studies, Brink Lindsey, says that current developments in the computer industry refute the advocates of industrial policy, and Jonathan H. Adler debunks the supposed threat of environmental lead. ■

March 25: **"Is Technology Policy on the Right Track?"** was the subject of a Policy Forum with T. J. Rodgers, president of Cypress Semiconductor Corp.; Clyde V. Prestowitz, Jr., president of the Economic Strategy Institute; and Brink Lindsey, Cato's director of regulatory studies.

March 29: A Policy Forum entitled **"All That Is Solid Melts into Air: Russia in the Post-Gorbachev Era"** examined the current crisis in Russia. Peter J. Boettke, author of *Why Perestroika Failed*, said that pessimism about the prospects for a free-market revolution in Russia is unwarranted. But he added that such a revolution will not occur until the rule of law inspires trust in investors, property is privatized, and power devolves to local levels of government.

March 31: A Book Forum celebrated publication of ***Kindly Inquisitors: The New Attacks on Free Thought*** by Jonathan Rauch, published by Cato and the University of Chicago Press. In his remarks, entitled "Humanitarians and the Totalitarian Temptation," Rauch examined the threat to free speech and thought posed by those who wish to prohibit expression that hurts people's feelings. ■

Conference (Cont. from p. 3)

vices industry instead of attempting to throw a regulatory umbrella over the global marketplace. Catherine England, an adjunct professor at Georgetown University, made the case for competing regulatory agencies as a way of introducing more flexibility into the regulatory process.

Sherrill Shaffer of the Federal Reserve Bank of Philadelphia and Edward J. Kane of Boston College argued that more timely and fuller disclosure would help discipline banks and thrifts. Market-value accounting and rational pricing of deposit insurance would improve the performance of financial institutions, they said. Bert Ely, a private consultant, argued that the way to avoid another S&L crisis is to move toward privatization of deposit insurance. As a step in that direction, he offered his 100 percent cross-guarantee proposal, which would reform deposit insurance without exposing taxpayers to the risks associated with the failure of financial institutions.

The best framework for monetary policy was discussed by W. Lee Hoskins, president and CEO of the Huntington National Bank, who endorsed a "zero-inflation" rule. Lawrence H. White of the University of Georgia noted that, although such a rule would be an improvement over the current discretionary monetary regime, free banking would be better. He said that the First Amendment provides a good model for the easiest rule to write and to enforce, namely, "Government shall make no law concerning the establishment of banking or money or the free exercise thereof."

In his luncheon address, Yoshio Suzuki, chief counselor of Nomura Research Institute in Tokyo, said that global financial stability is best achieved not through international policy coordination but through the independent actions of domestic monetary authorities who should aim at noninflationary growth.

Other speakers included William A. Niskanen, Walker F. Todd, Gillian Garcia, Mervyn K. Lewis, Robert E. Keleher, Anna J. Schwartz, Georg Rich, Robert T. Clair, Gerald P. O'Driscoll, Jr., George A. Selgin, Gary H. Stern, Richard L. Measelle, and Gary Gorton. ■

Is Technology Policy on the Right Track?

Policy Forum

The Cato Institute regularly sponsors a Policy Forum at its Washington headquarters, where distinguished analysts present their views to an audience drawn from government, the media, and the public policy community. A recent forum featured T. J. Rodgers, president and CEO of Cypress Semiconductor Corporation, whose remarks appear on page 1; Clyde V. Prestowitz, Jr., president of the Economic Strategy Institute; and Brink Lindsey, director of regulatory studies at the Cato Institute.

Clyde Prestowitz: I was surprised when I got the announcement of this debate and saw the title, "Is Technology Policy on the Right Track?" I'd thought the debate was going to be about whether we should pick winners and losers, but implicit in the title is the assumption that a technology policy is a good thing, and so, it seems to me, the debate is in effect over.

The truth of the matter is that the United States has had a technology policy from the beginning. George Washington said that he wore only clothing made in America, drank only ale and ate only cheese made in this country, and wished that all his fellow citizens would do the same. Alexander Hamilton was encouraged by Washington to come up with a plan for American manufacturers, and later we had the Gallatin Plan for a network of roads and canals that would tie the country together.

The Gallatin Plan, proposed in 1814, was long and hotly debated: Should government be in the canal business or the road business? Weren't those activities properly in the realm of private industry? Eventually, much of the plan was implemented through a combination of government and private efforts. Government and private industry collaborated to build the Erie Canal as well as other canals and roads of the early American infrastructure.

The debate has not flagged since. In the 1860s and 1870s it centered on whether the government should be involved in developing and fostering the railroads. Again, after bitter debate, the solution was essentially a collaboration. The government was heavily involved in making rights-of-way available, but the railroads were built and operated by private companies. (The situation was different in Europe where railroads were built by government and operated as government departments.)

The same debate arose in the late 19th and early 20th centuries over electrification of the country—establishing an electrical grid in cities and then ex-

Clyde Prestowitz: "The American tradition is to marry the discipline of the marketplace with the necessity of government action."

tending it across the country. Who should do that, the government or private industry? Again, the American solution involved a combination of the two. The debate has flared again this year over proposals for a data-superhighway system and development of a high-technology infrastructure.

I think the record shows that the growth of the American economy and the development of technology have been most rapid in the United States, and elsewhere in the world, when government and private industry have collaborated. For example, we pride ourselves on being the leader in the aircraft industry. It's our largest export earner, a driver of development of many kinds of technology, materials, and processes, and, in many ways, the keystone of the U.S. industrial base. That leadership is not accidental. It's due to the efforts of many entrepreneurs. Many of the technological developments have been the result of the efforts of private industry.

However, in 1915 the U.S. government established the National Advisory Committee on Aeronautics to foster the development of the aircraft industry in this country and to achieve leadership for U.S. producers in that new field. The government made available airmail contracts, fostered development of the airlines, and provided a market for the new machines. The NACA became the National Aeronautics and Space Administration in 1960, and, of course, the new agency adopted new missions—going to the moon, developing space stations—but from 1960 to the present day NASA has continued to work cooperatively with U.S. aircraft manufacturers to maintain U.S. leadership. The wind tunnels in the United States, which are largely operated by NASA, are at the disposal of the U.S. aircraft industry, and NASA spends about a billion dollars a year on commercial aircraft technology. The result of that collaboration of government and industry has been U.S. leadership in the aircraft industry.

The United States made its greatest technological advances during World War II, when we pursued what was perhaps the most successful industrial policy the world has ever seen. At the macro level, we enforced savings; steered investment away from real estate, stock broking, and services; and consciously poured billions of dollars into new factories and technologies. The government was the major consumer of much of what was produced, but the effort was collaborative. Instead of nationalizing the steel and auto industries, we used market forces in collaboration with a policy aimed at achieving long-term technological leadership.

Now a gap has developed between our rhetoric and our practice. Since World War II, U.S. rhetoric has become increasingly laissez faire. The myth has been that American technological and industrial leadership is the result of rugged business entrepreneurs on the frontier of knowledge. Without belittling the achievements of people such as T. J. Rodgers and Bob Noyce, who, indeed, have been rugged, individualistic entrepreneurs, I wish to point out that virtually all of the high-tech industries that form the foundation of our industry today were fostered, if not sparked, by U.S. government policies, typically military policies. The semiconductor industry got off the ground as a result of the Minuteman missile. The superconductor industry is a child of the Lawrence Livermore Laboratory. The mouse on the Apple computer is a child of the Defense Advanced Research Projects Agency, as is the network you use to send your data back and forth.

I think we're going to have to be honest with ourselves. The end of the Cold War means that our ability to continue our surreptitious industrial policy is lessened. Expenditures on defense, and defense research and development budgets, are going to shrink. (The Defense Department accounts for more than half of all R&D in the United States.) The Clinton administration is trying to maintain support for technological development by shifting American priorities away from strictly defense-oriented R&D projects toward more commercial products, and, once again, the emphasis is on collaboration.

The idea is that the national labs will collaborate with private industry. My understanding is that the administration intends to put pressure on the national labs to find private-industry participants. If they can't, they will face shrinkage of their budgets. Market discipline is to be applied to technological efforts of the government to make them even more efficient.

The debate is often couched in terms of the advisability of letting government pick winners and losers, but the truth is that our government, like the governments of other industrialized nations, always has, does, and will, in one way or another, pick winners and losers. When U.S. trade representatives establish negotiating agendas, the representatives have priorities. They are prepared to make more concessions to obtain this than to obtain that.

Many of the people who are opposed to Clinton's technology policy are strong supporters of reduced taxes on capital gains. Well, a capital gains tax break would be a way of picking winners and losers. The whole tax code is an industrial policy. The Antitrust Division of the Justice Department, the Federal Trade Commission, the National Institutes of Health, and the Federal Trade Commission, to mention just a few government agencies, all make decisions that affect the structure of our industry. We're not going to get rid of the FCC or the NIH or the U.S. trade representative, so those agencies and others will continue to make decisions. The only question is, what criteria are to guide our decisionmaking?

Until now we have been guided by two types of criteria: military criteria

Brink Lindsey: "Government cannot possibly replicate the richness and diversity of experimentation that is needed, and that only the marketplace can provide."

that determined research expenditures and criteria determined by a foreign policy that viewed economic concessions as a way to achieve geopolitical objectives. That is going to have to change. As I see it, there will be three types of guiding criteria on which the new technology policy will be based.

First, enabling-technologies will be targeted. No one is talking about giving big dollars to a particular company or choosing a national champion, as the British and the French have done. People are talking about providing support to foster the development of technological capabilities from which spring companies and new industries in the normal working of the market environment.

Second, infrastructure will be targeted. Infrastructure has traditionally been the area in which the federal and state governments have been most active. It is clearly the area in which there is the greatest consensus on the need for some kind of government policy. The proposal to establish a data superhighway is similar to government efforts to build roads and canals, railroads, and the electrical grid.

Third, the policies of other countries are to be offset. The Europeans have targeted the aircraft industry, the Japanese the semiconductor industry, and I believe the view of this administration is that potato chips and computer chips are not the same. We need to respond to the industrial policies of other countries when those policies may pose potential dangers to the health of U.S. industry.

Finally, in some areas there are very high risks, which private industry is not prepared to take, but potentially large social benefits, which justify a government role. The use of airmail contracts to develop the airlines is an example of that kind of justification, which I believe lies behind the Clinton proposals.

As I've said, it seems to me that the debate is essentially over. There is a consensus that we should have an technology policy. In working out the details we should be guided by the American tradition. That tradition is to marry the skills of the entrepreneur, or the discipline of the marketplace, if you will, with the necessity of government action.

Brink Lindsey: I have no problem saying that economic policy ought to be geared to encouraging technological innovation, that it ought to produce an environment friendly to high-tech industries and conducive to continued expansion of the technological frontier. The question is, how do we do that? And it is in answering that question that I would quarrel with the Clinton administration's program for technology policy.

Clyde Prestowitz offers a litany of examples of fruitful collaboration between industry and government and concludes that his litany proves that an interventionist technology policy program is the best way to proceed. There is no doubt that corporatist policies—

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Technology (Cont. from p. 7)

collusion, or collaboration between industry and government, or, in the current parlance, public-private partnerships—have occupied a significant place in American history. One can't argue that economic progress without laissez faire is impossible. The question is whether economic progress occurs because of government intervention or in spite of it.

If we're reviewing our history lessons, let's note some of the more spectacular dogs of government-industry collaboration. In the last 25 years or so, we've had the supersonic transport, the breeder reactor, the Synfuels Corporation, and the space shuttle—all government attempts to identify and encourage industries of the future and all abysmal failures. The fact that some successful industries have government involvement in their genealogy really doesn't address the fundamental issues of whether they thrived because of that support and what would have happened in the absence of that support. What we need to do, in addressing the current set of technology policy issues, is to look, in light of what we know about how markets and government work, at how we should structure policy to encourage technological innovation.

We need first to come to grips with the central, overriding, 800-pound-gorilla truth of technological innovation: radical uncertainty. The history of technological progress, and in particular of the commercialization of new technologies, is a history of completely unpredictable twists and turns. That central truth is not merely touted by free-market ideologues; it is recognized by economists of numerous political persuasions who study the innovation process. Michael Borrus of Berkeley, an avid supporter of interventionist technology policy, has called the innovation process "contingent" and "unpredictable." Likewise, Richard Nelson of Columbia, who is not always unfriendly to government intervention, has pinpointed "the pervasiveness of uncertainty" as a central theme of technological development.

Unfortunately, the Clinton administration and its supporters, such as Prestowitz, have not come to grips with that basic truth. Let me quote from a publication of his Economic Strategy Institute: "A broad consensus exists in industry and government on the roughly two dozen industries and technologies upon which national economic success will rest well into the future." Bill Clinton has said basically the same thing in countless speeches touting government intervention in high technology. Although that statement may be true, it is also almost completely irrelevant. Being able to name the "critical technologies" of the future with tolerable accuracy tells you almost nothing useful about how those technologies will develop or who will develop them. For example, back in the 1960s it was already conventional wisdom that computers would be a major industry of the future and that we were entering a new "information age." Knowing that, though, would not have told you that the computer industry would eventually develop into separate and distinct mainframe, minicomputer, personal computer, and workstation industries. It wouldn't have told you whether open or proprietary systems would predominate. It wouldn't have told you whether vertically integrated or specialized companies would have the competitive advantage. It wouldn't have told you about Steve Jobs or Bill Gates or Michael Dell. In short, naming a critical technology doesn't tell you any of the details, and in technological development, the devil truly is in the details.

So in the face of such massive uncertainty, how do we make any technological progress at all? How does our economy keep churning out successful new products and successful new ways of doing things despite all the obstacles? The answer lies in ongoing massive, diverse experimentation in the private marketplace: many thousands of different firms; millions of different products, ideas for products, and R&D lab projects; millions of different managerial and investor decisions—all sifted through billions of different individual consumer choices. Most new ideas never make it through those mind-bogglingly vast and complex experiments to the marketplace, and most that make it subsequently fail. The failure rate at the technological frontier is enormously high, which is why the rich diversity of marketplace trial-and-error is so desperately important to sustained technological progress.

How can public policy nurture and encourage private-sector experimentation? There are two main ways: capital and competition. First, we need policies that remove barriers to the accumulation and flow of capital, which then goes to fund new ideas and new companies. Second, we need policies that encourage competition. It is through the unhindered ability to compete that new companies with new ideas establish themselves in the marketplace, and it is under the unabated pressure of competition that old companies are led to adopt new ideas and mimic successful competitors.

On both of those fronts, the Clinton economic program is either doing nothing or going in the wrong direction. On capital issues: the Clinton tax hikes will only serve to dry up desperately needed investment funds, and there is no indication that the administration is going to tear down the anachronistic regulatory restrictions, such as the Glass-Steagall Act, that impede the flow of capital through our financial institutions. On competition issues: A host of regulatory restrictions currently block companies from marketing new technologies. Cable companies are banned from going into telephony, and telephone companies are banned from going into video services. Regulatory gridlock in biotechnology is keeping products from the market. Yet the Clinton administration is opposed to removing the offending regulatory obstacles in both cases.

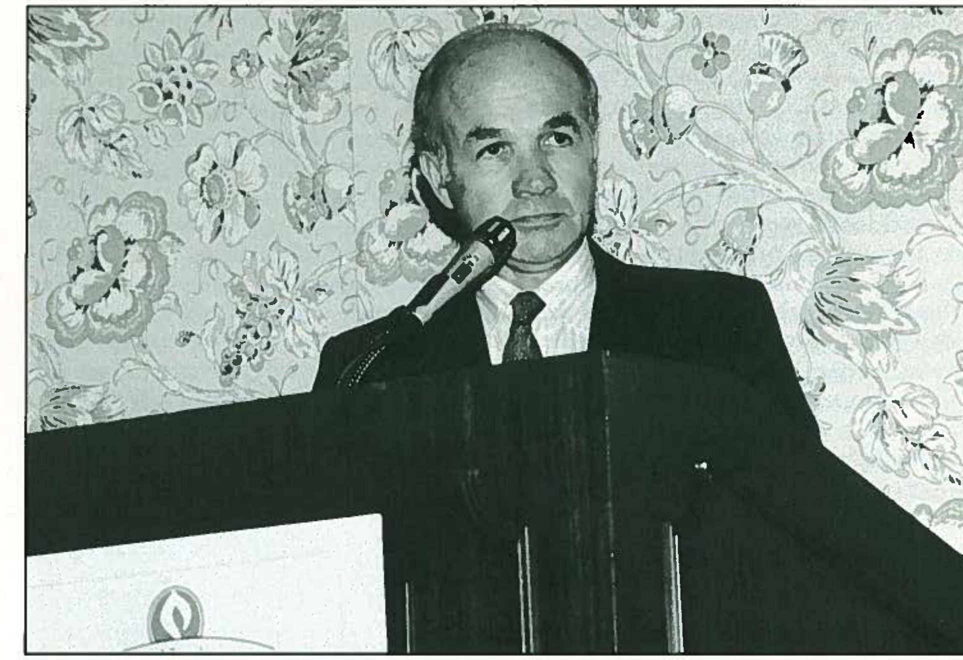
Meanwhile, the Clinton technology policy program would substantially increase funds to subsidize commercial R&D in a number of "critical technologies." While it takes steps to burden and inhibit private-sector technological experimentation, the administration wants to establish a surrogate commercial-innovation establishment directed and administered by the federal government. Seen from this perspective, the Clinton technology policy program is a blatant attempt to substitute centralized governmental planning for the dispersed decisionmaking process of the private marketplace.

Given the radical uncertainty of the technological frontier, any centralized approach is doomed to fail—not because government bureaucrats are dumb, or because they don't mean well, but because government cannot possibly replicate the richness and diversity of experimentation that is needed, and that only the private marketplace can provide. ■

Cato vice president for academic affairs James Dorn's many trips to President Bush's favorite restaurant, Peking Gourmet, finally paid off in December when the two of them dined there on the same night. Left to right are Cato adjunct scholar Leland Yeager of Auburn University, President Bush, Dorn, and William Woolsey of the Citadel.

Industry Exec Backs Deregulation at Gas Conference

The chairman of the nation's largest natural gas pipeline company called for complete deregulation of interstate natural gas pipelines during the conference "New Horizons in Natural Gas Deregulation," cosponsored by the Cato Institute and the Institute for Energy Research (IER). Kenneth L. Lay of Enron Corp. told the conference that "pipelines should privately contract for services that bypass the regulatory process altogether." That was the first time in the history of the Natural Gas Act that an industry leader had publicly called for market-based transportation rates, according to Robert L. Bradley, Jr., president of IER and an organizer of the conference, and *Natural Gas Week*, which called the remarks "barrier breaking."



Enron Corp. chairman Kenneth L. Lay said that natural gas pipeline companies "should privately contract for services that bypass the regulatory process altogether" at "New Horizons in Natural Gas Deregulation," a conference cosponsored by Cato and the Institute for Energy Research.

Twenty speakers and over 100 attendees convened to discuss leading industry issues such as mandatory carriage, incentive regulation, deregulating pipelines, new-product development, and the substitution of private contracts for traditional regulation.

Bradley opened the conference with a historical review of a century of natural gas regulation. He also identified a growing momentum toward private contracting in place of regulation. David J. Teece of the University of California, Berkeley, criticized mandatory contract carriage, or open access, for pipelines, noting that it sacrificed the efficiencies of vertical integration. Jerry Ellig of George Mason University presented evidence that Texas's intrastate natural gas market, with light-handed regulation, had lower pipeline costs than the more heavily regulated interstate market.

Also presenting papers were Joseph P. Kalt of Harvard University; Dan Alger of Economics, Incorporated; Arthur De Vany of the University of California, Irvine; Catherine G. Abbott of Enron Gas Services; Richard A. Bilas of the California Energy Commission; and Richard P. O'Neill and Branko Terzic of the Federal Energy Regulatory Commission. ■

Invisible Hand (Cont. from p. 1)

less talk about companies that, in the words of Labor Secretary Robert Reich, got a "free ride" in the 1980s.

So please allow me to reintroduce myself. I am an excess of the 1980s. Based on my ownership stake in Cypress, I am one of the people who, in the president's words, "profited most from the uneven prosperity of the last decade." I became a paper millionaire in the 1980s—eight times over, in fact.

How did I profit? I started a company in Silicon Valley. I obtained stock in that company when it had one employee (me) and one used computer. I worked with that company for a decade—16 hours a day, 6 days a week—to help get it where it is today.

Over its 10-year history, Cypress has generated over $1 billion in cumulative revenue, made over $160 million in profits on which we paid $60 million in taxes, created 1,500 jobs, and paid cumulative salaries of nearly $500 million on which our employees paid taxes of $150 million. We have shipped cumulative exports worth $300 million. We have generated a market value of $500 million for our shareholders and employees—all of whom own stock in the company.

If that is an "excess of the 1980s," let's have more! As an entrepreneur, I should not have to apologize for my success and that of my company. I am offended by the administration's divisive rhetoric. As we debate the virtues of raising taxes on individuals and corporations, let's not debate abstractions. Let's debate the realities of who pays and the impact of raising taxes on those people and companies.

I am a person of simple tastes; therefore, I still have most of the wealth associated with my Cypress shares. What have I done with that wealth? I have invested it. In fact, I have invested it in precisely the kinds of companies on which the administration wants to shower taxpayer subsidies—the world's most advanced competitors in fields such as semiconductors, biotechnology, software, networking, environmental sciences, and health care.

I hold investments in more than 100 companies through my participation in three venture-capital funds. Eighteen of those companies are innovators and leaders in high-speed data communications—real components of today's existing data superhighway. Other companies are innovators in high-performance computing.

Every incremental dollar that Washington takes from me comes directly out of my investments in those companies. Essentially, the administration is arguing that by taking my money in the form of higher taxes and "investing" it in subsidies, it can make better investments—create more jobs and wealth—than the venture-capital firms with which I invest—firms that are the envy of Japan and Europe. That logic defies common sense. Does anyone believe that Washington invests more effectively in high technology than does the free market?

> "Every incremental dollar that Washington takes from me comes directly out of my investments in high-technology companies."

In February President Clinton and Vice President Gore visited Silicon Graphics, one of the great new-generation computer companies in Silicon Valley. By all accounts, they were amazed by what they saw. They declared their eagerness to help produce "more successes like Silicon Graphics."

I own shares in Silicon Graphics. It exists because hundreds of institutions and wealthy individuals like me—excesses of the 1980s—put their money into the company as venture capital. Washington cannot create more companies like Silicon Graphics. The way to create more Silicon Graphics is to allow knowledgeable investors, steering their money through world-class venture capitalists, to try to fund just the right companies with just the right technologies at just the right time. Even those venture experts are wrong more often than they are right. But surely they are right more often than Washington would be.

The Clinton plan also raises taxes on Cypress as a corporation. Suppose, as a result of the plan, that Cypress's corporate taxes increase by $1 million next year. As CEO, my only choice is to take that money directly out of research and development—the lifeblood of the organization. Again, let's be clear about the logic: a tax increase of $1 million means that Cypress will employ 10 fewer Ph.D. technologists than it would otherwise—technologists who would be working on high-performance chips for data superhighways and supercomputers.

The third misconception about the Clinton plan brings us directly to high technology and high-performance computing. This misconception is ideological rather than political—but it is no less dangerous. It is the proposition that the best way for good ideas to become realities in the market is for government to subsidize them. There may be, under certain limited circumstances, a legitimate place for government as a customer of last resort for high technology. But the administration wants to make government a customer of first resort—to the tune of tens of billions of dollars.

We have been down that road before. In the 1960s we had a government that threw money at social problems. It didn't work. In the late 1980s, under President Bush, we had a government that threw money in many of the same directions as the Clinton program is now proposing. It didn't work; it brought us a meager 1 percent growth rate for four years. In the 1990s we have a government that wants to throw even more money at such opportunities. It won't work.

One More Time: The Case for Free Markets

The ragtag, unmanaged, sometimes painful melee of the free market does work. It's not pretty, it's not neat, but it is what has made the United States the world's technology powerhouse.

Consider my personal investments. Via the Sequoia Fund, one of the venture-capital firms with which I deal, I am invested in Jeff Kalb's company, MasPar, a massively parallel computer manufacturer. On the other hand, venture capitalist John Doerr of Kleiner Perkins Caufield & Byers believes the entire supercomputing field is heading for a fall. His view: "The supercomputer industry is collapsing on itself. It is not a competitive way to solve problems. Why should we invest in dying markets?"

I hope that Sequoia is right and Kleiner Perkins is wrong. But there is certainly plenty of risk in the investment equation. The best place to sort out that risk is in the free market, with dynamic real-time decisionmaking—not with government programs that often take as long to implement as it takes for major technologies to complete their life cycles.

The administration is not alone in putting its faith in Washington over the free market. A few weeks ago Edward Markey of Massachusetts, who chairs the House Subcommittee on Telecommunications and Finance, addressed an important computer-industry conference. First he complained that the industry did not lobby enough. I guess those computer executives were just spending too much time back home starting companies, creating products, entering new markets, making money. (Representative Markey's comment prompted me to dust off and modify a Vietnam-era phrase: what if they gave a subsidy and nobody came?)

Markey went on to urge the executives to devote special attention to the data superhighway. His reasoning: "This is too important to be left to the invisible hand of the marketplace." I was amazed. That socioeconomic experiment was tried once and failed—from 1917 to 1989. Which government-sponsored technology advances would Markey like to compare with the embarrassment of riches generated by the "invisible hand"?

Today, in industry after industry—semiconductor chips, computers, biotechnology—U.S. companies lead the world or are mounting remarkable comebacks against Japan and Europe. We are moving forward against our foreign rivals because we relied on Darwinian competition—the invisible hand—while Japan and Europe relied on government targeting and subsidies.

Think about Japan. Just a few years ago America was in a panic about the Japanese government's massive research program in high-definition television, or HDTV. Today everyone agrees that it was a multi-billion-dollar flop and that America has won—thanks to the messy, uncoordinated innovations of many private companies. Five years ago we lived in fear of the Japanese Fifth Generation Computer Project. "Tron" was going to walk, talk, and eat our lunch. Today everyone agrees that it, too, was a flop and that U.S. computer manufacturers are extending their global lead.

Industrial-policy advocates like to describe a few high-profile cases as success stories. Let's consider two of them. The first is Airbus. European governments have subsidized their aircraft manufacturers and gained a large share of the world market. But at what cost?

> "Venture capitalists are wrong more often than they are right. But surely they are right more often than Washington would be."

European governments have spent $26 billion on Airbus—to directly create 40,000 jobs. That works out to $650,000 per job. The National Venture Capital Association estimates that venture-funded startups generate employment at the cost of $45,000 per job. If Airbus represents industrial policy at its best, is it any wonder that Europe has experienced chronic unemployment?

The second alleged success story is here at home. It has become fashionable to describe Sematech, the chip-industry manufacturing consortium, as a triumph of industrial policy. It is not. I have been called to Washington three times in the past few years to testify about the consortium and other proposals to prop up the U.S. chip establishment. Each time I have argued that most of the U.S. semiconductor industry is innovative and healthy—that Washington should not equate the struggles of a few giant companies in the mid-1980s with the fortunes of the entire industry.

America once again leads the world in semiconductors. In each of the last three years, the United States has won back market share from Japan. In 1992 our worldwide share actually exceeded Japan's share for the first time in a decade.

Sematech has waged a public-relations campaign to claim credit for the comeback. That is a preposterous claim. It is true that Washington spent $500 million of taxpayer money on the Sematech boondoggle. It is true that the U.S. semiconductor industry has experienced a resurgence. It is not true that one had very much to do with the other.

The U.S. semiconductor industry resumed its leadership position because a new generation of chip companies forged in the 1980s—a generation of which Cypress is just one example—created innovative new categories of chips, new business models of how to compete, and new levels of efficiency. In short, we out-innovated the Japanese. America also resumed its leadership in great part because the giant companies of our industry—companies such as Intel and Motorola—realized that they had to adapt or become alsorans. They adapted—and now lead the world.

Think for a moment about life at Cypress and then extrapolate it to the chip industry and Silicon Valley as a whole. Our company has 150 product designers. We have 100 Ph.D. technologists. We sell more than 1,500 products. We are working right now on 50 different new products—from high-speed computer memories to data-communications chips. With my technical training and my managerial background, it takes me 16 hours a day to stay on top of the organization.

Cypress is one $250 million company. Semiconductors are a $50 billion industry. Thus, if you take the complexity I just described and multiply it by 200, you have a sense of the complexity of the chip industry. If you take that level of complexity and multiply it by another factor of 10 or more, you have the complexity of Silicon Valley. How can the government possibly hope to cope with the details of Silicon Valley? How could the government even know who the players were in any

(Cont. on p. 12)

Invisible Hand (Cont. from p. 11)

week, let alone pick winners and losers?

Tax-and-Spend—With a High-Tech Twist

The administration wants to spend tens of billions of dollars of taxpayer money to fund technology programs that the free market will pay for. For example, the administration proposes big spending increases on a range of projects to speed creation of the data superhighway. The technology plan outlined by President Clinton last month offers few substantive details about those projects, but the details it does offer make one point clear: everything in the program is already being funded by venture capitalists and being developed by innovative private companies.

Multiple, competing data highways are being built day by day, company by company, across the United States. Entrepreneurs are racing to develop new networking systems, new software interfaces, new value-added services. MCI, AT&T, and Sprint already have three independent, coast-to-coast, fiber-based, long-haul networks. The real issue is extending those networks into the home. The role for government is not to spend billions of taxpayer dollars but to untangle the morass of bureaucracy and regulations that prevents private companies from hooking up the "last mile" of fiber to the home.

Those highways will reach the home for free if government gets its regulatory house in order and then gets out of the way. What we need from Washington are common-sense rules and a sense of the limits of government activism. The same logic applies to high-performance computing, which is entering a period of profound change. This is precisely the time when venture capitalists are most effective at setting new directions and funding new players. Heavy-handed intervention from Washington is guaranteed to retard change rather than to encourage it.

A Proposal from the Past: A Rising Tide Lifts All Boats

Washington should stay away from the intricacies of high-tech competition—whether it be in data superhighways, high-performance computing, or advanced manufacturing. Government should focus instead on the infrastructure of competition—the factors of production that help all companies equally. As President Kennedy put it, "A rising tide lifts all boats." If Washington adopted policies designed to lower (and keep low) the cost of capital and extend the time horizons of investors, it would make a genuine contribution to America's entrepreneurial advances in the 1990s.

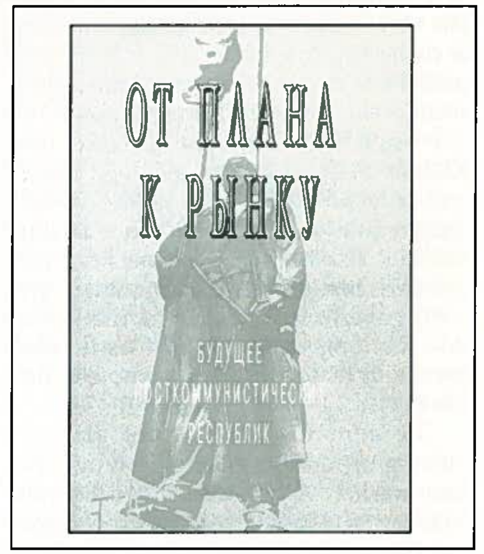
The administration must get serious about reducing wasteful spending, and there is only one way to impose real spending discipline: Congress must pass a balanced-budget amendment and approve the line-item veto. No industrial policy or national investment strategy or trade negotiation, no matter how brilliant, would have the same energizing effect on American entrepreneurship as a return to fiscal sanity through dramatic spending reductions.

America has plenty of work to do on the economic problems we have created for ourselves—problems that trace their roots to fiscal recklessness. Ultimately though, the economic battles of the 1990s will be won in America's factories, labs, and offices—not in the halls of Congress or the corridors of the White House. That's good news. America's entrepreneurial companies have the guts, brains, and drive to beat the best the world has to offer. All we need from Washington is confidence in our ability to fight it out. ■

From Plan to Market

Liberal Ideas Published in Russia

An eminent group of authors provides advice to the Russian people on converting to a liberal society in *From Plan to Market: The Future of the Post-Communist Republics*, a Cato Institute book recently published in Russia by Catallaxy. Edited by Larisa Piyasheva, a leading Russian market liberal and a Cato adjunct scholar, and James A. Dorn, Cato's vice president for academic affairs, the Russian-language book contains papers from Cato's historic 1990 conference in Moscow and other contributions. It is divided into sections on the collapse of communism and the rise of liberalism; the transition from plan to market; privatization and foreign aid; monetary policy; and Marxism, capitalism, and change.



Contributors include, in addition to Dorn and Piyasheva, Don Lavoie, Henry G. Manne, St. Petersburg mayor Anatoly A. Sobchak, James M. Buchanan, Paul Craig Roberts, Boris Pinsker, Peter Bauer, Charles Murray, Roger Pilon, Peter J. Boettke, Edwin G. Dolan, Annelise Anderson, Ralph Raico, and George Gilder.

In his foreword to the book, Cato president Edward H. Crane writes: "The Cato Institute hopes this book will provide the citizens of the former USSR with a greater understanding of the principles of a liberal society, a society of freedom and prosperity. It is also a warning against the dangers of the policies of those who advocate moderated forms of statism (i.e., government control of society). Some argue for the 'third way' of Scandinavian socialism, or the democratic socialism of Europe, or the so-called mixed economy of the United States. We believe all such approaches are wrong. They will limit human freedom, and in doing so, limit economic prosperity."

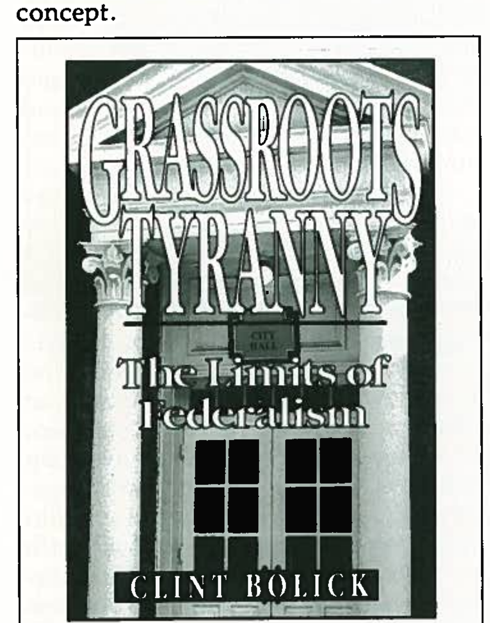
In her preface, Piyasheva discusses the recent setbacks to the free-market reform effort. "It seems that laying the foundation for a liberal way of life on the fragments of the biggest socialist experiment in human history will require much more time." ■

Grassroots Tyranny

States, Cities Threaten Freedom; Federalism Protects It

One of the most serious, yet apparently unnoticed, threats to the freedom of Americans is the widespread abuse of government power at the state and local level. That threat is documented and analyzed in a new book from the Cato Institute, *Grassroots Tyranny: The Limits of Federalism* by Clint Bolick, vice president and director of litigation of the Institute for Justice. State and local laws throughout America are designed to stop people from engaging in the business activities of their choice, enjoying the privacy of their own bedrooms, viewing the art and reading the books they want, and pursuing other peaceful activities. Protection of such local and state restrictions from federal interference is often defended in the name of federalism.

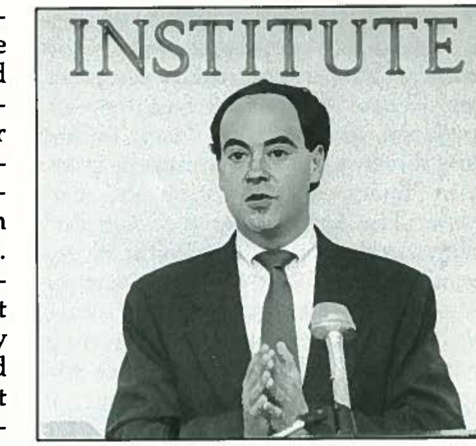
Bolick shows that the Constitution's framers, whose ultimate aim was to secure personal liberty, did not intend to protect intrusive state and local governments. The framers, writes Bolick, hoped to protect freedom through federalism, a multilayered system in which governments checked each other's power to tyrannize the people. "Confusion about federalism and its proper role in our constitutional system has produced effects that are extremely deleterious to individual liberty," writes Bolick. His chapters on federalism constitute a fresh look at that badly misunderstood concept.



He points out that both big-government liberals and conservatives invoke federalism to protect coercive state and local measures. "The most notable aspect of the contemporary debate over federalism, on both ends of the political spectrum, is the almost total absence of serious discussion or concern about individual liberty," Bolick states. "In sum," he adds, "the original Constitution envisioned an intricate three-part structure of government: (1) sovereignty vested in the people, who delegated powers as they saw fit; (2) an explicit delegation of limited powers to the national government, including certain powers that could be exercised to restrain invasions of liberty by state governments; and (3) an implicit reservation of all remaining government powers to the states as delegated by the people, with certain explicit constitutional limitations on state power." He notes that the addition of the Bill of Rights and later the Fourteenth Amendment "significantly expanded" the protection of individual sovereignty.

Bolick discusses the most appalling cases of grassroots tyranny—from the condemnation of homes for a General Motors plant to the prosecution of the director of an art gallery for mounting an erotic exhibit—and offers concrete proposals for safeguarding individual rights against such infringements.

Leonard W. Levy, editor of *The Encyclopedia of the American Constitution*, writes: "*Grassroots Tyranny* is a book jammed with fresh and significant ideas about our government. It is shaking, fascinating, perverse, informative, exasperating, eccentric, and damn important." Nadine Strossen, president of the American Civil Liberties Union, says: "*Grassroots Tyranny* provides a disturbing account of how Americans' fundamental freedoms have become hostage to the recently proliferating numbers and powers of state and local government bodies. . . . Thus, this book constitutes a clarion call for the reinvigoration of the politically neutral, libertarian concept of federalism reflected in our Constitution."



Clint Bolick

Charles Fried of Harvard Law School commented: "This book is a clear, strong and important statement for those whose primary allegiance is to the party of liberty. It shows how the message that toppled the Berlin Wall and discredited command-and-control socialism even in Communist China has been imperfectly understood in some petty fiefdoms of this country."

Grassroots Tyranny is available from Cato Institute Books for $21.95 cloth, $12.95 paperback. Call 1-800-767-1241 toll free between noon and 9 p.m. eastern time. ■

CATO INSTITUTE CALENDAR

North American Free Trade: Assessing the Challenge
Washington • Cato Institute • June 8, 1993
Speakers include Alan Reynolds, Roberto Salinas León, Rogelio Ramírez de la O, Michael Walker, William Niskanen, and Luís Rubio.

Religion and Liberty: In Harmony or Conflict?
Washington • Capital Hilton • June 16, 1993
Speakers include Robert Sirico, Alex Chafuen, Terry Eastland, James Skillen, Amy Sherman, Robert Knight, Angela Carmela, and Doug Bandow.

Time for a New Foreign Policy

Don't Raise Income Tax Rate, Replace It with Sales Tax

The energy tax and subsidized energy-efficiency measures supported by President Clinton and energy secretary Hazel O'Leary are based on faulty assumptions, according to Jerry Taylor, Cato's director of natural resource studies, in "Energy Conservation and Efficiency: The Case against Coercion" (Policy Analysis no. 189). Taylor writes that, despite popular fears that energy resources are running low, the world now has almost 10 times the proven oil reserves it had in 1950 and twice the reserves of 1970. Proven reserves of coal and natural gas have increased just as dramatically. Moreover, when standards of living, population densities, and industrial structures are controlled for, the United States is no less energy efficient than Japan and more energy efficient than many of the Group of Seven nations.

Energy independence would provide little protection against domestic oil price shocks because the energy economy is global, Taylor writes. He concludes that government-mandated energy conservation imposes unnecessary costs on consumers and actually wastes energy; that subsidizing energy-conservation technologies will stymie, not advance, gains in energy conservation; and that central control over the lifeblood of modern society—energy—would transfer tremendous power to the state at the expense of the individual.

Clinton's National Service Would Be Costly Boondoggle

President Clinton's proposal to allow up to 150,000 people to work off student loans through government service would create more bureaucracy and cost billions of dollars, says senior fellow Doug Bandow in "National Service: Utopias Revisited" (Policy Analysis no. 190). According to Bandow, two years' tuition—the reward for one year's service—could run as much as $29,000 per participant. He warns that Clinton's proposal would encourage the belief that one is entitled to a college education at taxpayers' expense. It could also lead to coercion, because all government service programs ultimately assume that citizens owe something to the state.

Bandow concludes that the solution to expensive tuition is not government loans and service to the state but a reduction in taxes so families can afford to pay for college.

United States Should Welcome Yugoslavian Refugees

The United States should open its borders to refugees from the fighting in the former Yugoslavia, says Jeffrey R. Gerlach, a Washington-based writer and former foreign policy analyst at Cato. In "Providing a Haven for Refugees: An alternative to U.S. Military Intervention in the Balkans" (Foreign Policy Briefing no. 23), Gerlach denounces as inhumane the current policy of the United States, the European Community, and the United Nations of compelling would-be refugees to remain in their devastated homeland as pawns to thwart Serbian territorial objectives. He points out that, even if a political solution can be found, many of the displaced people will not want to return home because of well-founded fears of revenge slayings and other forms of persecution.

Gerlach shows how admitting refugees to the United States would both help to defuse tensions in the Balkans and benefit this country economically. He examines and refutes the social and economic "nativist" arguments against a liberal immigration policy and concludes that providing a haven for refugees would be more cost-effective and far less dangerous than using military force in a futile attempt to impose a settlement to the Yugoslavian conflict.

Raising Tax Rates Is Futile

President Clinton's plan to raise federal income tax rates is based on false premises and is unlikely to increase the proportion of taxes paid by the wealthy, writes Bruce Bartlett, a visiting fellow at the Cato Institute and a former deputy assistant secretary of the Treasury for economic policy. "The Futility of Raising Tax Rates" (Policy Analysis no. 192) points out that the Clinton administration maintains that the rich benefited disproportionately from the tax-rate reductions of the 1980s and thus are not paying their fair share. Bartlett shows that, in fact, lower tax rates in the 1980s led to higher, not lower, revenues from the rich and that historically increases in tax rates have failed to produce increased revenue.

According to Bartlett, because of inflation and real growth of the economy, in just a few years tax rates originally imposed on the rich often apply to those with middle incomes. The rich, meanwhile, evade the higher rates by making increased use of deductions and tax shelters.

Bartlett concludes that Clinton's proposed tax increase will probably lead to higher taxes on the poor and the middle class, as higher revenues from the rich fail to materialize, and that maintaining a low top tax rate is the best way to ensure that tax rates remain reasonable for those with low and moderate incomes.

National Sales Tax Should Replace Income Taxes

Replacing federal income taxes with a national sales tax would increase the stock of U.S. capital by at least 29 percent and raise our standard of living by at least 7 percent, according to Laurence J. Kotlikoff, a professor of economics at Boston University. In "The Economic Impact of Replacing Federal Income Taxes with a Sales Tax" (Policy Analysis no. 193), he shows how income taxes have contributed to the present U.S. crisis in saving and investment and then presents the results of computer simulations that predict the changes in saving, investment, labor supply, and output that would occur under a national sales tax.

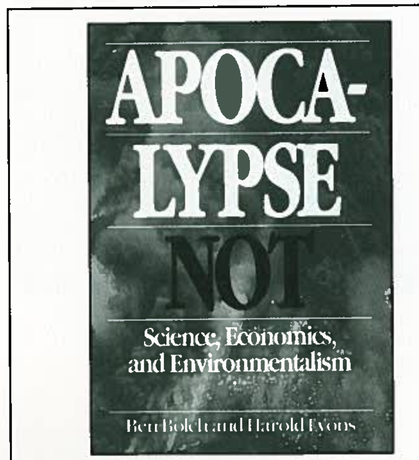
In addition, a national sales tax would eliminate many of the distortions of the current income taxes. It would do away with the differential tax treatment of corporate and noncorporate businesses, which distorts business decisions; of capital gains and dividends, which affects decisions about retaining earnings; and of investment in equipment, structures, and inventory. A sales tax would also end encouragement of current relative to future consumption, the tax exemption for health insurance premiums, and the work disincentive associated with the progressivity of the present tax structure.

Population, Ozone Loss Are Not Destroying the World

What is likely to kill off the human race first? Overpopulation? Global warming? Ozone depletion? Chemicals and insecticides? Would you believe none of those? That's the conclusion of a new book from the Cato Institute, *Apocalypse Not: Science, Economics, and Environmentalism* by Ben Bolch and Harold Lyons, professors of economics and chemistry, respectively, at Rhodes College in Memphis. Drawing on the latest scientific evidence, the authors show that the prophets of the apocalypse mislead and scare the public with their warnings of impending doom.

Bolch and Lyons write that "much of the modern environmental movement is a broad-based assault on reason and, not surprisingly, a concomitant assault on freedom. Assaults on freedom are always accompanied by assaults on reason, and anyone who becomes convinced that common sense is no longer a reliable guide to living becomes prey to charlatans of every kind."

The book begins with a profile of the environmental movement and its apparent death wish. Bolch and Lyons find similarities between environmentalism and earlier religious and socialist utopian movements. They proceed to debunk the supposed cataclysms associated with population growth and resources, chemicals and insecticides, radon, global warming, ozone, acid rain, and nuclear power generation. In each case, they mine the professional literature to show that the apocalyptic vision has little or no scientific foundation.



For example, the popular vision says that man-made chlorofluorocarbons (CFCs) deplete the ozone layer, letting in ultraviolet radiation, which causes skin cancer. Write Bolch and Lyons: "Given the tremendous variety of things that can cause natural fluctuation in stratospheric ozone, it is not surprising that variations in the quantity of ozone were observed . . . as far back as the 1950s, when CFC emissions were less than a tenth of what they are today. Indeed, this fact alone calls into question the entire theory that ozone fluctuations are caused by CFCs."

Apocalypse Not also contains provocative discussions of risk assessment and statistical inference that will help readers sift through the alarming cancer claims made almost daily in the news media. "If the country decided to ban all natural food items with linkages to cancer or birth defects, everyone would no doubt starve to death in short order," the authors write.

"Our basic thesis is that the world is not about to come to an end and that, by nearly any measure, the people who reside in the market-oriented economies of the West enjoy a cleaner and safer environment than ever experienced in modern history," explain Bolch and Lyons. *Apocalypse Not*, written for the layman, will foster respect for calm, objective science while showing that the doomsayer lobbyists exploit ignorance of the facts to incite hysteria. It will restore good sense to thinking about the environment.

Economist Julian L. Simon of the University of Maryland says: "*Apocalypse Not* needles us with a life-enhancing shot of anti-adrenaline. Bolch and Lyons blast dangerous false fears about the environment, resources, and population growth." Political scientist Aaron Wildavsky comments that the book "contains several excellent studies of scientific knowledge about claims of harm to life that help readers understand why the claims are invalid."


Ben Bolch


Harold Lyons

Gov. Dixy Lee Ray, author of *Trashing the Planet*, says: "*Apocalypse Not* is a neat little book that makes a valuable addition to the fund of knowledge about the 'big, scary problems' of modern environmentalism. . . . The authors make a great contribution to wider understanding of the most important social issue of our time. All sensible people should read it!"

Apocalypse Not is available from Cato Institute Books for $19.95 cloth, $10.95 paperback. Call 1-800-767-1241 toll free between noon and 9 p.m. eastern time. ■

Revamping Foreign Policy Would Save $150 Billion

The United States has the opportunity to radically overhaul its security commitments and save as much as $150 billion a year on defense, says Jonathan G. Clarke, a retired British Foreign Service officer, in a new Cato study. In "Present at the Re-creation: The Need for a Rebirth of American Foreign Policy" (Policy Analysis no. 191), Clarke writes that most conflicts in the post–Cold War world will be local in nature and very few of them will affect U.S. security. Yet key members of the Clinton administration seem to be clinging to the Cold War mindset and its arguments for maintaining the status quo.

Clarke refutes those strategic, economic, and moral arguments and shows that continuation of the status quo would require the United States to be the world's policeman. The tab would run nearly $1.3 trillion over the next five years, plus an additional $150 billion for intelligence collection. Clarke identifies "aggressive unilateralism" on trade issues as the true threat to global stability and advocates adoption of a U.S. trade policy that stresses multilateralism and open markets. ■

"To be governed..."

Why we need to spend more money on education

The Council of Education Locals representsa all bargining unit employees in the U. S. Department of Edcution—Professional, Clerical and Blue Colllar—all employee who are not mangement, whatever there position title. The American Federal of Government of Government Employees . . . delated its bargaining authority the Council of Edcuational Locals, Council # 242. The Council represents the Headquarter and Regional Offices of the is comprised of those 11 locals. . . .

Council 242 and its respective Local stand ready to work with the Clinton/Gore transition team to assure that the Clinton/Gore administration is sucessful. . . . We would like to be inivited to all meeting so that the worker's prespective can be considered.

—report from the American Federation of Government Employees Council of Education Locals to the Clinton/Gore Transition

By this standard, could we expel Congress?

British authorities moved today to deport a controversial U.S. antiabortion activist . . . on the grounds that his presence in Britain "was not conducive to the public good."

—*Washington Post*, Mar. 31, 1993

Democracy in a nutshell

Three dozen teenagers came to the D.C. Council Chamber yesterday to get answers about their school budget. . . .

A council staff member saw the students and invited them to speak [at an Education Committee budget hearing]. . . .

"How can you justify [budget cuts]?" [Raigan] Welters exclaimed, staring at the committee chairman, Hilda H. M. Mason. "How can you look at us and tell us this happened?"

Mason, who usually sends students off with words of encouragement, suddenly cut off Welters. . . .

"Does your principal know you're behaving like this?" Mason asked. "You can't force a public official to give an answer."

—*Washington Post*, Feb. 9, 1993

We predict the other senators will be a little nervous about this precedent

The Senate Rules and Administration Committee yesterday appointed a special counsel to assist in its consideration of challenges to the election of Sen. Bob Packwood. . . .

Six challenges have been filed to the seating of Packwood, alleging that his election was fraudulent because he lied . . . and thus denied voters information they needed to cast an informed vote.

—*Washington Post*, Feb. 4, 1993

Which will save hundreds, even thousands, out of his $27.5 billion budget

President Clinton . . . yesterday issued executive orders to cut 100,000 federal jobs and reduce the government's overhead costs. . . .

Housing and Urban Development Secretary Henry Cisneros . . . said he had frozen promotions and hiring, canceled magazine and newspaper subscriptions, consolidated internal newsletters and cut back on cellular phones and pagers.

—*Washington Post*, Feb. 11, 1993

In fact, I'm moving there next month. *Not.*

The people of Cuba have a high literacy rate and full access to health care. These are substantial achievements, ones our own society has not yet managed to deliver. Even the horse-drawn carts at the Cuban gas stations that you mentioned with such derision might not seem so terrible to the residents of our smog-choked inner cities.

—letter to the editor, *Newsweek*, Feb. 15, 1993

Washington survives deficit reduction—again

Clinton's Budget Proposals Could Be a Boost for the Area

—headline in the *Washington Post*, Feb. 25, 1993

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