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The Growth of the Parasite Economy

by Jonathan Rauch

Ross Perot was fond of saying, in the 1992 presidential campaign, that the giant sucking noise you heard was the sound of jobs being vacuumed up by low-wage countries south of the border. He was wrong. The giant sucking noise was the sound of the whirlpool in Washington, sucking up investment capital, talent, energy.

By definition, government's power to solve problems comes from its ability to reassign resources, whether by taxing, spending, regulating, or simply passing laws. But that very ability energizes countless investors and entrepreneurs and ordinary Americans to go digging for gold by lobbying government. In time, a whole industry—large, sophisticated, professionalized, and to a considerable extent self-serving—emerges and then assumes a life of its own.

In the late 1920s, a congressional investigation found about 400 lobbies in the Washington phone book; in 1950, a congressional commission counted more than 2,000. Though the numbers were small, the growth was impressive. The big movement toward organizing into groups began about half a century ago and sped up in the last two or three decades. Perhaps most striking, because of the sheer number of people involved, is the explosion of membership of the American Association of Retired Persons. As Figure 1 shows, as recently as 1965, the group still boasted fewer than a million members, which meant that only 1 in 30 Social Security beneficiaries had actually joined. That was as one would expect: banding together takes time. But once the ball starts rolling, watch out. In the 1970s, the elderly began joining with a vengeance; between 1980 and 1990 alone, the group tripled its membership. By the early 1990s, the AARP's membership included the vast majority of Social Security recipients; the organization's headquarters in Washington had grown so large as to have its own ZIP code, a legislative and policy staff of 125 people, and 16 registered lobbyists with a $3.5-million budget.

Jonathan Rauch is the author of *Kindly Inquisitors: The New Attacks on Free Thought* (Cato Institute/University of Chicago Press, 1993) and *Demosclerosis: The Silent Killer of American Government* (Times Books, 1994), from which this article is excerpted with permission.

In This Issue

Michael Barone of *U.S. News and World Report* and the *Almanac of American Politics* talks with New Hampshire governor Steve Merrill, who received a rare A on Cato's rating of state fiscal policies at a Cato luncheon.

The AARP's story is not special; it is typical. The American Federation of State, County and Municipal Employees was founded in 1936. By 1955, the group had organized only about 1 in 25 of its potential members; by 1975, it had organized more than 1 in 8.

Or look at the American Society of Association Executives, the association of people who run associations. As shown in Figure 2, after its founding in 1920, the group grew steadily through the 1960s, and then really took off after that, with membership increasing sixfold from 1970 to 1990.

There are many cultural and technological explanations for that growth. Yet it's a mistake, when dealing with human beings, to overlook crass, material explanations. Like the bank robber Willie Sutton, Americans look for cash where the money is. If the costs of a certain kind of activity fall over time, and if the potential benefits grow, then you expect more people to engage in it. And that is what has happened with group forming.

In 1929, the United States government's entire budget occupied 3 percent of the American economy. Even through the 1930s, when the economy was shrinking and the New Deal was in full flower, the federal government still took up only around 10 percent of the economy, on average.

Many objective measures—the numbers and length of laws, of regulations, of court

(Cont. on p. 10)

Social Security Crisis Calls for Privatization

President's Message

When the special blue-ribbon advisory group known as the Greenspan Commission issued its 1983 report on how to save the Social Security system (mostly by raising payroll taxes), Robert J. Myers, a member of the commission and former chief actuary of the system, bragged that the largest portion of the plan, Old-Age and Survivors Insurance (OASI), had been fixed until "at least" the year 2060. Well, not quite. In April of this year Social Security officials announced that OASI had a new "insolvency" date: 2029, one year closer than they had projected just last year.

And so it goes in the offices of the Social Security Administration, home of the world's largest Ponzi scheme. Sold originally to the American public as a program to care for the indigent elderly, then as a "national pension plan" into which we pay "insurance premiums," Social Security has always been a fraud, a pay-as-you-go slush fund for politicians to dip into at election time by promising the moon. Responsible politicians (if that's not yet an oxymoron) who deign to point out the harsh realities of Social Security—that it's bankrupt, reduces employment, and is a drag on economic growth—are quickly labeled "heartless" by their demagogic opponents.

Liberals have made the most political hay out of Social Security, leading many conservatives to hoist the white flag on the issue. Never mind that Social Security represents an impending economic disaster for our nation. Irving Kristol, writing in the *Wall Street Journal*, argues that Republicans should support *increases* in Social Security benefits in order to attract the votes of the elderly. Jack Kemp writes that he has "made peace with the existence of the Social Security retirement system" because it has "become part of the social fabric."

Politicians from both parties are disinclined to even mention the single largest part of the federal budget, except to suggest making it an even larger part. But as is the case with essentially all Ponzi schemes, a day of reckoning will come.

Shortly after reporting the latest "insolvency" adjustment by the SSA, the *Washington Post* ran an article with the headline, "Social Security: Annuity with a Diminishing Return." An accompanying chart showed the annual rate of return for a single worker. Someone born in 1930 could expect a rather generous return of 8 percent based on his or her lifetime contributions. But that return drops sharply as the system "matures." Those born in 1950 can expect a return of just 1 percent, and anyone born later than that date will be getting a negative return on the taxes he is forced to pay.

Of course, even those depressing numbers are based on the SSA's eternally optimistic actuarial assumptions. They always seem taken by surprise when a recession hits, inflation picks up, or people continue to live longer. (One suspects that, deep down, the Social Security bureaucrats are pulling for Dr. Kevorkian.)

At the Cato Institute we have been warning of the looming disaster of Social Security since 1980, when we published Peter Ferrara's seminal study, *Social Security: The Inherent Contradiction.* Our subsequent studies pointed to the inevitable negative returns that the system was structured to yield. We also pointed out that there is no Social Security trust fund, only government debt issued to itself, with the cash going to finance our burgeoning federal deficit. The "trust fund" debt is simply a promise to tax the American people at ever greater levels in the years ahead.

Further, because the combined payroll tax of over 15 percent is so onerous, most people are not creating savings at nearly the rate they would without Social Security, which transfers those funds to consumption, rather than investments and savings. Not that we would want a government-run retirement system to be fully funded, in any case. That would result in a massive federal ownership of American industry—hardly a desirable situation.

If we've learned anything from the collapse of socialism, it should be that large, government-run economic enterprises are doomed to fail. Social Security is in the process of failing, and we're going to be looking at an intergenerational conflict of huge proportions unless we have the courage to admit it was a mistake to create a compulsory, universal retirement plan run by the U.S. government.

The good news is that more and more American citizens—not to be confused with politicians—are coming to realize the magnitude of that mistake. A Gallup Poll commissioned by the Employee Benefits Research Institute recently reported that 54 percent of those polled thought Social Security should be made voluntary. Remarkably, some 52 percent of low-income respondents didn't expect to see a dime of the money they are forced to pay into the system when they retire.

Privatizing Social Security can be done. Peter Ferrara has done several studies for Cato over the years demonstrating how much better off the economy and retirees would be if they could invest the money that now goes into a pay-as-you-go system through the payroll tax. He calls for Super IRAs to create real savings and real retirement security. Regardless of what one calls the privatization vehicle, there is good reason to move ahead on that front. Many economists credit the remarkable performance of the Chilean economy to the fact that Chile privatized its social security system. Mexico is mobilizing to follow the Chilean example.

Hillary Clinton likes to deflect embarrassing questions about how her proposal to nationalize health care delivery in America would work better than the free market by alluding to the effort to create Social Security. "When Franklin Roosevelt proposed Social Security," she complains, "he didn't go out selling it with actuarial tables. . . . He basically said, 'Look, here's the deal: You pay in; you're taken care of; you have social security in your old age.'" If he'd been asked all the detailed questions about his plan that she has about hers, Hillary sulks, "I mean, we would never have had Social Security." If only he had been.

Ed Crane
—Edward H. Crane

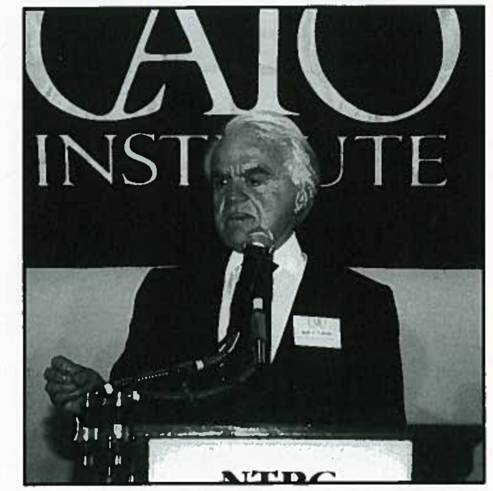
Replace It with a Sales Tax?

Speakers Propose Alternatives to the Income Tax

Each year the American people spend 5.4 billion hours complying with the federal income tax laws—equal to a full year of work by the population of Indiana. So said author James L. Payne at an April 8 policy seminar on "Replacing the Income Tax," sponsored by the National Tax Research Committee and the Cato Institute. Payne, author of *The Culture of Spending*, also noted that the annual cost of compliance is $245 billion, 16 times the estimated cost of the Los Angeles earthquake.

Payne was one of nine tax experts who addressed a capacity crowd at the Rayburn House Office Building on Capitol Hill. All the speakers agreed that the income tax was harmful, but they disagreed about what should take its place. C-SPAN carried the proceedings live and subsequently rebroadcast them.

Leading off the seminar was Shirley D. Peterson, former commissioner of the Internal Revenue Service and former assistant attorney general for the Tax Division. Peterson, currently a tax lawyer, said that her experience both inside and outside government had convinced her that "we should repeal the internal revenue code and start over." She said the code's complexity is a burden to the American people and to business and that it breeds disrespect for the law. She called for a simple, fair, economically sound tax, but she did not rule out some form of income taxation.



Jack Valenti calls for a national sales tax to replace the federal income tax at the Cato-NTRC conference one week before tax day.

Stephen Moore, Cato's director of fiscal policy studies, said the best tax to replace the income tax would be a 16 to 18 percent national retail sales tax that exempted the first $3,000 of purchases for each American. He said other proposed consumption-based taxes do not do away with compliance costs since they are income taxes. He was responding to remarks by Rudolph G. Penner, former head of the Congressional Budget Office, and Mark Weinberger, chief of staff of the Bipartisan Commission on Entitlements and Tax Reform, who spoke in favor of some form of consumption tax. Economist Laurence J. Kotlikoff touted the sales tax as a corrective for the low savings rate in the United States. He is the author of a Cato study on that subject. But Stephen Entin, senior economist at the Institute for Research on the Economics of Taxation, told the audience that a national sales tax was not visible enough. He favors a "savings-exempt" income tax.

Steven L. Hayes, president of Citizens for an Alternative Tax System, which supports a sales tax, said that there is great popular support for getting rid of the income tax. "Only two types of people oppose the income tax," he said. "Men and women." He pointed out that a tax on income requires citizens to furnish financial information to the government and that leads to abuses of civil liberties. He also said that a national sales tax would be hard for politicians to raise because "everyone sees it every day." Charles Adams, author of *For Good and Evil: The Impact of Taxes on the Course of Civilization*, gave some historical perspective on the income tax and concluded that the time was ripe for repealing it.

Keynoting the seminar was Jack Valenti, president of the Motion Picture Association of America, who served as a policy adviser to President Lyndon Johnson. Valenti called the "decaying tax system" a "mess" and said that one of its worst features is the taxation of savings. Valenti said that the income tax should be replaced by a 19 percent national retail sales tax. ■

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Wallop Decries the Federal Leviathan

D.C. School Superintendent Urges Private Contracting

Cato Events

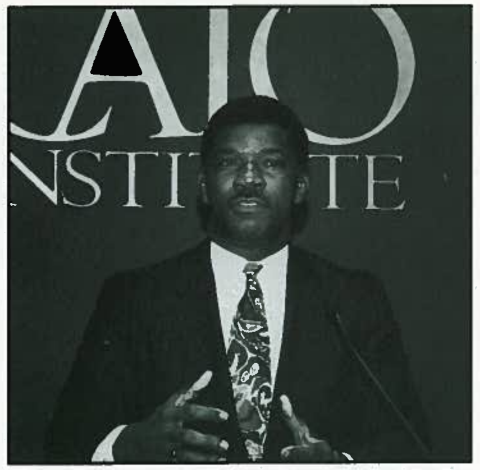
February 25: Sen. Paul Coverdell (R-Ga.) and former IRS commissioner Shirley Peterson criticized the retroactive taxes approved last year in President Clinton's budget. At a policy forum on **"Tax Unfairness: The Economic and Political Implications of Retroactive Taxes,"** Coverdell, who is the sponsor of a constitutional amendment to ban retroactive taxes, said such taxes were a form of tyranny.

March 16: Yale Law School professor Steven B. Duke, coauthor of *America's Longest War: Rethinking Our Tragic Crusade against Drugs*, discussed **"Criminogenics: How the Drug War Causes Crime"** at a Policy Forum. Communitarian sociologist Amitai Etzioni said that he agrees with Duke that the drug war has been a disaster but that it is not obvious what should take its place.

Sen. Malcolm Wallop chides Republicans who compromise with big government.

March 17: Sen. Malcolm Wallop (R-Wyo.) condemned the growth of government and the decline in liberty and responsibility in a Policy Forum speech entitled **"The Issue Is Freedom."** Wallop, who will retire when his term ends, chided the Republican party for being "Democrat Lite."

March 22: A Policy Forum examined what demands government can make on property owners without compensat-



D.C. school superintendent Franklin Smith discusses his plans to contract out management of some public schools.

ing them under the Fifth Amendment's takings clause. The forum, entitled **"Land-Use Planning or Extortion? The Court Hears *Dolan v. City of Tigard*,"** featured William Moshofsky, president of the Oregonians in Action Legal Center; Jerold Kayden, senior fellow of the Lincoln Institute of Land Policy; and Roger Pilon, director of Cato's Center for Constitutional Studies. The *Dolan* case involves a hardware store owner who, in order to obtain a permit to build a new store, was required to cede 10 percent of her property to the city for a bicycle path and greenway. Moshofsky and Pilon argued that the city should have to pay for the property. Kayden said no compensation was due since the property owner was only being made to offset burdens her larger store would impose on the community.

March 23: Franklin L. Smith, superintendent of D.C. public schools, discussed his abortive attempt to privatize management of some schools at a Policy Forum entitled **"School Choice and the Private Sector."** Smith said that he turned to the private firm Education Alternatives, Inc., because it has the resources to experiment with new ways of running schools. He was forced to postpone implementation of his plan by opposition from the school board and the community.

March 31: A **"Perspectives for the Nineties"** city seminar was held in Naples, Florida. The keynote speaker was John Fund of the *Wall Street Journal*. Rep. Dick Armey (R-Tex.) addressed the luncheon audience on reform of the health-care system. Also speaking were Cato's president Edward H. Crane; Roger Pilon, director of the Center for Constitutional Studies; and Stephen Moore, director of fiscal policy studies.

April 6: Professor David Schoenbrod of New York Law School talked about his new book, ***Power without Responsibility: How Congress Abuses the People through Delegation,*** at a Book Forum. He said that Congress's practice of authorizing government agencies to fill in the details of the regulatory mandates it passes is an unconstitutional and undemocratic delegation of legislative authority. Commenting on Schoenbrod's remarks, U.S. Circuit Court Judge Douglas H. Ginsburg said that a more fundamental problem is the sheer scope of Congress's authority.

April 7: **"Italy: Paradigm for a Post-Welfare-State World?"** was the topic of a Policy Forum with Edward L. Hudgins, senior economist with the Republican staff of the Joint Economic Committee of Congress, and Stan Burnett, senior adviser, Center for Strategic and International Studies. Hudgins, who has since become Cato's director of regulatory studies, said that the electoral success of Forza Italia and the Northern League signals political revolt against the welfare state in yet another industrialized country. Burnett

William Moshofsky of Oregonians in Action discusses the latest Supreme Court property rights case, *Dolan v. Tigard*.

Journalists interview former IRS commissioner Shirley Peterson after her remarks at the Cato-NTRC conference, "Replacing the Income Tax."

urged caution because the parties that make up the triumphant coalition, which includes a fascist party, agree on very little.

April 8: Cato and the National Tax Research Committee cosponsored a Capitol Hill policy seminar on **"Replacing the Income Tax."** The keynote speaker was Jack J. Valenti, president of the Motion Picture Association of America. The panelists included Shirley D. Peterson, former commissioner of the Internal Revenue Service; Steven L. Hayes, president of Citizens for an Alternative Tax System; Charles Adams, author of *For Good and Evil: The Impact of Taxes on the Course of Civilization;* James L. Payne, author of *Costly Returns: The Burdens of the U.S. Tax System;* Rudolph G. Penner, national director of economic studies, KPMG Peat Marwick; Stephen Entin, senior economist, Institute for Research on the Economics of Taxation; Mark Weinberger, chief of staff, Bipartisan Commission on Entitlements and Tax Reform; Stephen Moore, Cato's director of fiscal policy studies; and Professor Laurence J. Kotlikoff of Boston University. The panels were moderated by Paul A. Gigot, *Wall Street Journal* columnist, and former representative Bill Frenzel.

April 12: A Policy Forum asked the question, **"Pax Americana in Bosnia?"** Sven Alkalaj, chargé d'affaires at the embassy of the Republic of Bosnia-Herzegovina, called for U.S. and NATO intervention to hold back the Serbs and to force a peace settlement. Retired U.S. Army Col. Gregory D. Viksich, a senior staff member at the U.S. Senate, compared the Bosnian conflict to Vietnam and warned against further U.S. military involvement.

April 13: Leon M. Louw, South Africa's leading market liberal, spoke at a Policy Forum entitled **"Will There Be Life after Death? The Outlook for South Africa after Its First 'Democratic Elections.'"** Louw said that the interim constitution adopted recently fails to protect human rights or decentralize government power. But he was hopeful that the parliament elected in late April would correct the flaws in the permanent constitution. He also said that the election would not be truly free because the African National Congress intimidated potential black candidates of the new market-liberal Federal party.

April 15: A Policy Forum was devoted to **"Judging the Crime Bill."** Judge David B. Sentelle of the U.S. Court of Appeals for the D.C. Circuit raised troubling issues for the bill pending before Congress, including the federal government's infringement on the constitutional prerogatives of the states. Daniel D. Polsby of Northwestern University Law School said that the bill will make crime worse because it is irrelevant to what causes criminal activity. He called for repeal of gun control and of the economic regulations that inhibit the creation of jobs. ■

Criminogenics: How the Drug War Causes Crime

Policy Forum

A recent Cato Policy Forum featured Steven Duke, the Law of Science and Technology Professor at Yale University and coauthor with Albert Gross of America's Longest War: Rethinking Our Tragic Crusade against Drugs. *Commenting on Professor Duke's remarks was Amitai Etzioni, University Professor at George Washington University and author of* The Spirit of Community: Rights, Responsibilities, and the Communitarian Agenda.

Steven Duke: When Dr. Joycelyn Elders ignited her intellectual and hopefully political brushfire in December, she said two things. She said she thought that drug legalization would markedly reduce crime and that it ought to be studied. When the politicians from Maine to California distanced themselves and denounced her statement, as far as I know they all focused on the her second thought. That is, they denounced the idea that legalization should be studied. They did not dispute her claim that drug legalization would markedly reduce crime. They stayed away from that, and they should have, because her proposition is simply undeniable.

Because the "L" word—legalization—is inflammatory, I won't talk today about drug legalization. I want to talk about how drug prohibition, as enforced in the United States today, causes crime. Whatever implications, if any, that has for legalization I'll leave to you. On that note, I would just like to mention that a review of our book in *The Economist* said we made a very compelling case against drug prohibition, but our case for drug legalization was weak. I'm still trying to figure out how that is logically possible.

Dr. Lee Brown, the Clinton administration's drug czar, testified in January before the Congressional Black Caucus. "Drugs," he said, "especially addictive, hard-core drug use, are behind much of the crime we see on our streets today—both those crimes committed by users to finance their lifestyles and those committed by traffickers and dealers fighting over territory and turf. Moreover, there is a level of fear in our communities that is, I believe, unprecedented in our history." I agree entirely with what Dr. Brown said, except that I would add two words to the beginning of the statement. The words are "prohibition of."

The use of drugs—except, of course, alcohol—causes almost no crime. It is the appetite for drugs, the existence of drugs, *and* the prohibition of drugs that, in combination, create crime.

I would like to explore some obvious and some not so obvious ways in which drug prohibition accounts for much of our crime problem today. Rush Limbaugh, when he made fun of Dr. Elders, said: "Of course we can reduce crime by legalizing drugs, we just declare that drugs are legal and we get rid of all that crime. We could do the same thing with murder." Well, I'm not talking about that, and Dr. Elders is not talking about that either. What we are talking about is how we can affect the behavior of human beings—the antisocial, criminal, predatory behavior of human beings—by the way we define or the way we approach the drug problem.

Systemic Crime. Prohibition is criminogenic—that is, *causes* crimes—in several ways. I would like to mention some briefly. Dr. Brown mentioned one, the drug business itself. Drugs are a $50-billion black-market business that must be conducted by force or threat of force. Contracts are enforced by force. They are rescinded, modified, rearranged by force. Territory is acquired or defended by force. Payments are collected by force. Competition is conducted by force. All of that produces 20 to 40 percent of the murders in the country. In Chicago the official estimate is 40 percent. In New Haven, until recently, it was 50 percent. Some towns have even suggested that the drug business itself accounts for 90 percent of their murders. Nationally, the figure is somewhere between 20 and 40 percent. That means that every year between 4,000 and 9,000 murders in this country are part and parcel of the black-market drug business. Hundreds and perhaps thousands of those murder victims are totally innocent—like the seven-month-old girl who was murdered a couple of weeks ago in her home in New Haven in the course of a drug-business battle.

Victimization. When people buy drugs at the retail level they frequently go to the most crime infested, most dangerous parts of the city—made that way, I might add, largely by drug prohibition. When they go to those places they are particularly susceptible to robbery, theft, and other crimes. And they are not in a position to complain to the police because they themselves are engaged in criminal activity. So most of those crimes go unreported. Many more crimes are committed against drug dealers themselves—other drug dealers or policemen frequently rob them of their drugs or their money, or both, and sometimes kill them.

Motivation. People need to commit crimes to get money to buy drugs. Various studies have shown that virtually all heroin users in America commit crimes to get money to buy drugs. Some of those crimes are not predatory; many heroin users sell drugs to other people; others prostitute themselves. But very often they commit robberies, burglaries, and thefts. About half of the income of heroin addicts comes from predatory crimes.

A third of the prisoners recently surveyed by the Department of Justice (prisoners in for robbery or burglary) said that they committed their crimes to get money to buy drugs. Those prisoners seem to commit a lot more crimes than the typical robber or thief. Various studies of hard-drug addicts suggest that, on average, each one commits 300 to 400 serious crimes a year. That is an awful lot of crime. Even if it is true that only a third of the robbers or burglars are committing crimes to get drug money, they are probably committing more than a third of all robberies and burglaries.

Proliferation of Guns. The supply of privately owned guns in this country has quadrupled in the past 40 years. Much of the explanation for that is the black market in drugs. Every drug dealer, every mule, must be armed with a weapon. You need guns to protect yourself against your customers, against your competitors, and so on. Because guns are so linked to the drug business, in our public schools packing a gun is the same type of status symbol as having fancy clothes, gold jewelry, and a new foreign car. They're all associated with the drug business and glamorized by it and the money made

from it.

The more guns there are in the hands of drug dealers and others, the more the rest of us feel the need to have guns for self-defense. So, partly as a result of the huge black-market drug business that creates a voracious appetite for guns, many ordinary citizens are arming themselves with guns. The more people who have guns, the more people who get killed. So a lot of deaths by guns—intentional killings, accidental killings, even suicides—are causally linked to the drug trade in the sense that the guns wouldn't be there but for the drug business. There is very little that gun control laws can do about that problem. Unless we can do something about the black-market drug business, we are not going to do much about the proliferation of guns in this country.

Courts. Our court system is on the verge of collapse, largely because of drug cases. In many court systems today there are no civil cases being processed because criminal cases have priority. And criminal cases are not disposed of in any rational way. In most cities, most people who are indicted end up having their cases dismissed. More felony criminal charges are dismissed than are disposed of in any other way, and only a tiny fraction of the people charged with felonies are ever convicted of those felonies. There are simply too many cases for the system to handle at all intelligently, and half of them in many courts are drug cases or drug-prohibition-caused cases. If you accept for a moment that approximately half of the criminal cases in America are either drug cases or drug-related cases, in the sense that they involve thefts committed by people to get drug money or murders committed by gangs involved in the drug trade, then half of the cases are brought only because of drug prohibition.

Prohibition is destroying our ability to handle *any* criminal case of any kind: child molestation, rape, kidnapping, you name it. We can't handle those cases. We can't put those perpetrators in prison, if that is where they belong, because we are in a state of near paralysis. As a result, our criminal laws have little deterrent effect.

The Prison System. Forty states are under court orders to reduce overcrowding. We are trying desperately to build more prisons and are committing ourselves to huge expenditures in the future because we simply don't have space to put sentenced criminals. We are turning loose child molesters, child rapists, multiple rapists, and kidnappers. We are turning those people loose instead of sending them to (or keeping them in) prison because we don't have room. We don't have room because our prisons are full of drug offenders, most of them nonviolent. Sixty percent of the prisoners in the federal system are there for drug offenses, not drug-related offenses. Probably 80 percent are there for drug or prohibition-related offenses. The figure in the state prisons is at least 25 or 30 percent. And that figure is growing, as is the federal figure—dramatically.

The feds and the drug warriors are pressuring the states to impose mandatory minimum sentences on drug offenders. As the states accede to that demand, a greater and greater portion of our prison

Steven Duke: "Politicians denounced Dr. Joycelyn Elders's statement about drug legalization, but they did not dispute her claim that legalization would markedly reduce crime."

population will be there for simply possessing, using, or selling drugs. Every space that is taken up by those people is a space that cannot be taken up by a child molester, a rapist, or another violent criminal.

Is that criminogenic? Of course it is. We can't restrain our most dangerous criminals, not because we don't have the law to do it, not because we don't have a "three strikes, you're out" provision. We have a lot of those provisions. We can enact all such provisions we want. It will make little difference if we don't have the prison capacity and the court capacity to handle the cases. Imagine that we have removed from the prison system all the nonviolent drug offenders, that is, nearly half of all prisoners. We would have 500,000 vacancies in our prisons to house violent criminals. Imagine what that would do to the crime rates. The absence of those vacancies is the result of drug prohibition.

Dilution of Police Forces. President Clinton wants to add 100,000 police officers to the forces in this country. The true annual cost of that would be at least $10 billion. It won't happen. That is, we will not, I predict, three, four, or five years from now have 900,000 police officers instead of the 800,000 we now have. Too expensive. President Clinton says, and I agree, that if we added 100,000 officers, we could have a substantial impact on the crime rates—particularly if those officers were involved in community policing. Yet if we got rid of drug prohibition, we could effectively add 400,000 police officers without spending an extra dime. Half the police time in this country is taken up with drug, drug-related, and prohibition-related crimes. Get rid of those disincentives and we double our police forces. That would have a very substantial effect on crime rates.

Corruption. Much of the $50 billion in black-market drug money is used to bribe and corrupt policemen. We read every day that policemen are on the payrolls of drug dealers. They are robbing drug dealers. They are stealing from them. They are going into the drug business themselves. Police who are corrupted are not effective police. We don't know exactly what the levels of corruption are, but we know that they are high enough to stigmatize all police. That has got to be demoralizing to any police officer.

Hypocrisy. Nancy Reagan said, "A casual drug user is an accomplice to murder." That was a moral statement about casual drug use. We make those kinds of statements very dramatically when we send kids to prison for life for selling drugs. We punish many kids who sell drugs more severely than we punish rapists and murderers. And that, I think, clearly has a corrosive effect on the moral principles upon which we rely as a nation. When you equate casual drug use, or even selling drugs to a willing adult buyer, with murder, you're not only making a moral statement about casual drug use, you're also making a moral statement about murder. You're trivializing murder.

It is preposterous to treat consensual drug offenses as the moral equivalent of murder, rape, or kidnapping. Yet that is

(Cont. on p. 8)

Drug War (Cont. from p. 7)

the position we are in today, and that has got to undermine the moral message we send about murder, kidnapping, and child molestation—particularly since 50 million of us smoke tobacco and over 100 million of us use alcohol. It is preposterous to talk about drug use as if it were the kind of moral assault on the community that violent crime is. It undermines our abhorrence of violence to talk that way, and yet we not only talk that way, we *act* that way.

Drug prohibition is criminogenic in other ways, too, but I'll leave it at that. If my analysis isn't enough to persuade you that half, maybe more, of our serious crime is the result of prohibition, let's take two peeks at history. After we started alcohol prohibition, the murder rate went up 50 percent, and the assault-with-firearms rate went up 75 percent. When we repealed alcohol prohibition, both rates went down 50 percent. There is no explanation for either the increase or the decrease other than the fact of prohibition.

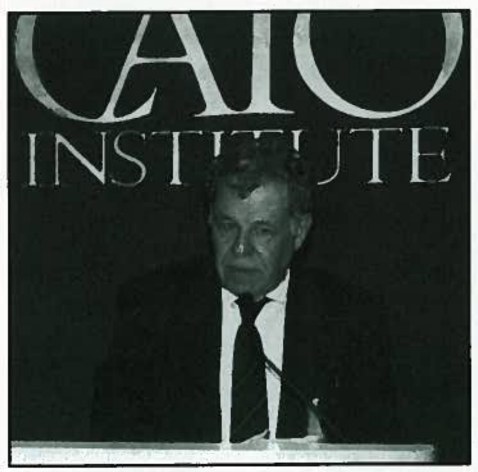
The same thing would happen in America today if we completed our repeal of prohibition. Indeed, I think the changes would be more drastic because we enforce our current drug prohibition far more fiercely than we ever attempted to enforce alcohol prohibition. When President Nixon declared all-out global war on the drug menace in the early 1970s, drug use was rampant. It is still rampant. We have spent at least $200 billion. We have killed tens of thousands of people. We have destroyed tens of thousands of families. Our crime rates have increased 250 percent. The correlations are not coincidental.

Let me end by confessing confusion, amazement. Why is it that, in a country that declares crime its most serious problem, virtually no politician will even discuss the relationship between the drug war and crime? They all know that we have created an awful lot of crime with our drug war, yet they want the American people to believe that many, if not most, crimes are committed by people only *because* they are *high* on drugs. The politicians know that isn't true, but they want the people to believe it. Why is it that, although they know better, no politicians, with the exception of Baltimore mayor Kurt Schmoke and a handful of others, have the guts to even *discuss* it?

I think we have created a condition in this country that can be described only as deeply pathological.

Amitai Etzioni: My first recommendation is that you should read *America's Longest War*, not just listen to it in summary. It is an important book. It makes a strong case. I basically agree with the thesis that prohibition, which we sometimes refer to as our war against drugs, is the cause of all the problems you have heard about today. Just to underscore my agreement with the basic thesis before I go in some other directions, let me add one other way of thinking about the basic point.

As we all know, we cannot stop drug dealing even in prisons. So, what does that tell us? We have people locked up 7 days a week, 24 hours a day, and they still deal drugs and corrupt the guards in the process. The obvious implication is that even if you turned the whole country into the ultimate police state, they still would be dealing drugs. So, I think all the rest is fine text to elucidate what the prisons show us so clearly.


Amitai Etzioni: "The more we rely on the moral voice of the community, the less we need to be tempted by government controls."

Here we need some additional discussion. First of all, we heard that *The Economist*, a fairly libertarian publication to my way of thinking—sometimes even excessively so to my way of thinking—pointed out that the book is very articulate about what is wrong with prohibition but does not spend much time on the alternatives. Professor Duke suggested that there is nothing to talk about: if you are against prohibition, you are for legalization. That is not exactly what the book says. That is not completely accurate. It's not accidental that it is so much easier to talk about the problem than to talk about the solution.

I am going to anxiously await Professor Duke's next book, in which he will discuss the solutions. The problem has been very extensively documented. In fact, I know very few people who disagree about the definition of the problem. It is very useful to have additional documentation and additional details, but that does not get us all the way. For instance, we have no discussion of what happens in countries that either decriminalize *or* legalize the sale of drugs. There's no discussion of Needle Park in Zurich, where anyone could go to get drugs, and how that turned the neighborhood into an enormous infestation of crime. There's no discussion of the British experience; the British are now moving in the prohibition direction.

We not only need to talk about what is undoubtedly wrong, terribly wrong, with the present situation and how we're digging ourselves in deeper and deeper. We also at some point need to say, fine, let's take that for granted, and let's honestly explore our alternatives. They have been given very short shrift in the book and even less discussion here today.

When it comes to alternatives, I would approach people who lean toward libertarianism by asking, Under what conditions will people not want to use drugs that are damaging to them and cause the rest of society to pay for the consequences? As far as I know, even the most die-hard libertarian does not want you to do anything you want if the rest of us have to pick up the tab. The whole idea is, you make the choice, *you* are responsible for the consequences. Obviously, if people are neglecting work or their children, if they extinguish their motherhood instinct because they are high on crack, we are left with their children. Being high on some drugs has many other social costs, even if being high does not cause the traditional kinds of crime.

So the question would be, What do you want to move toward? Under what conditions do people yearn less for drugs—and I'd be happy to throw in cigarettes and alcohol. And that comes to what Duke and Gross call "cultural controls." That is kind of an odd term, but I can't expect a distinguished professor of law to be at home with sociological terms.

Let me discuss briefly what it takes to have a culture in which people are less quick to turn to mind-modifying drugs. Much of what's wrong with our society and some other Western societies is the decline of the institutions historically entrusted with giving people values, will power, and character—what it takes to be a decent human being. In short, children are born without character and without values. I want to underline that point. I have not only studied them, I have five of them. They are wonderful human beings, but they were not born that way. If you just let them be, they will crawl on all fours and bark. They are really not initially different from animals. What makes them into people who can function, people who can say yes to values instead of to drugs? It takes a home in which their initial formation of values takes place. It takes a school that doesn't replace their parents but supplements what they have provided. It takes the development of self-discipline; we can never extinguish temptation, but we can give people the capacity to deal with it. And it takes the moral voice of the community, which encourages us to be nobler than we might otherwise be. That is the only place I sometimes get into a little trouble with my libertarian friends. I've never heard them oppose family and schools—maybe public schools, but not schools—and so I think we can get together as communitarian libertarians on those subjects.

I run into trouble when we start talking about passing judgment on each other as a way of controlling our behavior without police and guns and such. I don't mean judging each other in a mean-spirited or self-righteous way. I mean that our inner conscience, unfortunately, either is missing to begin with or once it's implanted tends to degrade. We are each other's keepers in the moral sense, and we need to be able to tell each other, "I really don't think you should do that." The more we feel comfortable doing that, the more we rely on the moral voice, the less we need to even be tempted by government controls. So, dealing with the temptation to use drugs requires more than methadone clinics or rehabilitation programs; it requires asking what went wrong with our basic institutional structure. It's an enormous assignment. But I don't see any other way out.

Let me close by pointing out some much more delineated issues that need more discussion. For instance, *America's Longest War* suggests, which is definitely true, that we reduced the use of cigarettes, so why couldn't that be a model? It's called the "tobacco model" in the book. The book accurately points out that we succeeded in reducing the percentage of the population that smokes from 40 percent to 29 percent after 30 years of struggle. It's not a completely impressive achievement. The book then suggests that that achievement was due to educational campaigns by the U. S. surgeon general. Such campaigns certainly were part of it, but again—I know some of you will not necessarily welcome this news—one of the ways we fought cigarettes was by increasing the taxes on them. People get addicted to cigarettes when they are young, and young people are very responsive to out-of-pocket expenses. There is a strong correlation between what a pack of cigarettes costs and how many people buy it. The tax increase, of course, comes from the big, bad government.

Second, one of the major turnabouts in smoking did not come when the surgeon general issued his first, or third, or fourth warning; it came more recently, as *values changed*. I want to emphasize that values changed first. If we had not changed values first, we would have a prohibition situation with cigarettes. Only after values changed did we express them in our laws. First you had to sit in the back of the bus or airplane. Now you have to stand outside on the street corner. You are a pariah. What happened is that we changed the moral messages, first by changing morals, then by changing laws. It's all intermixed; it's not simply sending messages to people to cure themselves. We changed our information, we changed our conversation, we changed our moral voice, we changed our taxes, we changed our law. The more we succeed in the former, the less we must rely on the latter.

The simplistic attack on prohibition implies that it never worked any place and will not work here. If you believe that the government that governs least is the best government, then we need a very serious examination of exactly what can be changed and how quickly. Maybe decriminalize instead of legalize. Maybe we have to put high taxes on the stuff. I am not sure I have the answer, but I'm sure it is not enough to show the danger of the existing system without a full examination of what comes next. ■

Rep. Armey Backs "Patient Power"

Term limits and health-care reform were the centerpieces of a highly successful "New Perspectives for the Nineties" city seminar on March 31 in Naples, Florida. In his keynote address, John Fund, an editorial writer for the *Wall Street Journal*, made the case for limiting the terms of members of Congress and described the nationwide success of the term-limits movement. The luncheon featured Rep. Dick Armey (R-Tex.), who argued for market-oriented reform of health care and attacked President Clinton's plan for government domination of medicine. He praised Cato for its promotion of medical savings accounts and "patient power."

Cato president Edward H. Crane addressed the seminar audience on "Civil Society v. Political Society." He pointed out that the growth of government necessarily crowds out liberty and the private sector, or what used to be called civil society. In other remarks, Stephen Moore, Cato's director of fiscal policy studies, detailed "The Clinton Budget Debacle," exposing the myth of the administration's fiscal austerity. Roger Pilon, director of the Center for Constitutional Studies, discussed the question, "Are Property Rights Opposed to Environmental Protection?" Referring to recent U.S. Supreme Court cases brought by property owners fighting uncompensated takings, Pilon said that if governments want to take private property in order to provide an environmental amenity for the community, the owner should be compensated. ■


Manuel Camacho Solis, recently in the news as the Mexican government's negotiator with the Chiapas rebels, spoke at Cato's 1992 Mexico City conference.

Parasites (Cont. from p. 1)

decisions—suggest that the big jump in the level of federal activism came in the Johnson and Nixon years, around the same time as the rate of group formation took off.

Today, the federal budget is almost a quarter of the entire American economy. To the direct spending must be added thousands of laws and regulations that redirect private money, time, and energy. Regulations now cost Americans, economists estimate, several hundred billion dollars a year, or several thousand dollars per American household per year.

But doesn't transfer seeking create jobs? After all, if I hire a lobbyist to win a subsidy, that money doesn't disappear into a black hole. Rather, it hires secretaries, rents office space, buys a Xerox machine, and so on.

True, but from an economic point of view, paying people to capture more of other people's money is like hiring people to steal cars. If I hire workers to build cars, the result is new jobs *and* new cars. But if I hire people to steal existing cars, I have merely moved jobs out of the productive sector and into the car-theft sector. But no one would think those jobs were making society as a whole better off. They create activity, but they destroy wealth.

In America, only a few classes of people have the power to take your money if you don't fend them off. One is the criminal class. Criminals, however, aren't the only ones who play the distributive game. Legal, noncriminal transfer seeking is perfectly possible—on one condition. You need the law's help. That is, you need to persuade politicians or courts to intervene on your behalf.

A Parasite Census

Unfortunately, the Commerce Department's national accounts don't include a line for transfer seeking, and the Labor Department's employment figures don't have a "wealth-sucking parasites" category. Even in principle, it is impossible to know just how much transfer seeking goes on, because economists, true to form, disagree on what exactly counts as transfer seeking.

Still, there are things you can count. Since most transfer-seeking professionals are lawyers or lobbyists, we have a clue where to begin.

Since 1955, the number of law degrees granted annually in the United States has more than quadrupled, even though the population has grown by only about 50 percent over the same period. In effect, a larger and larger share of American talent has been going into the legal business. From 1870 to 1970, the proportion of lawyers stayed about the same; since then it has more than doubled. The number of lawyers in Washington, D.C., grew even faster, quadrupling just between 1972 and 1987.

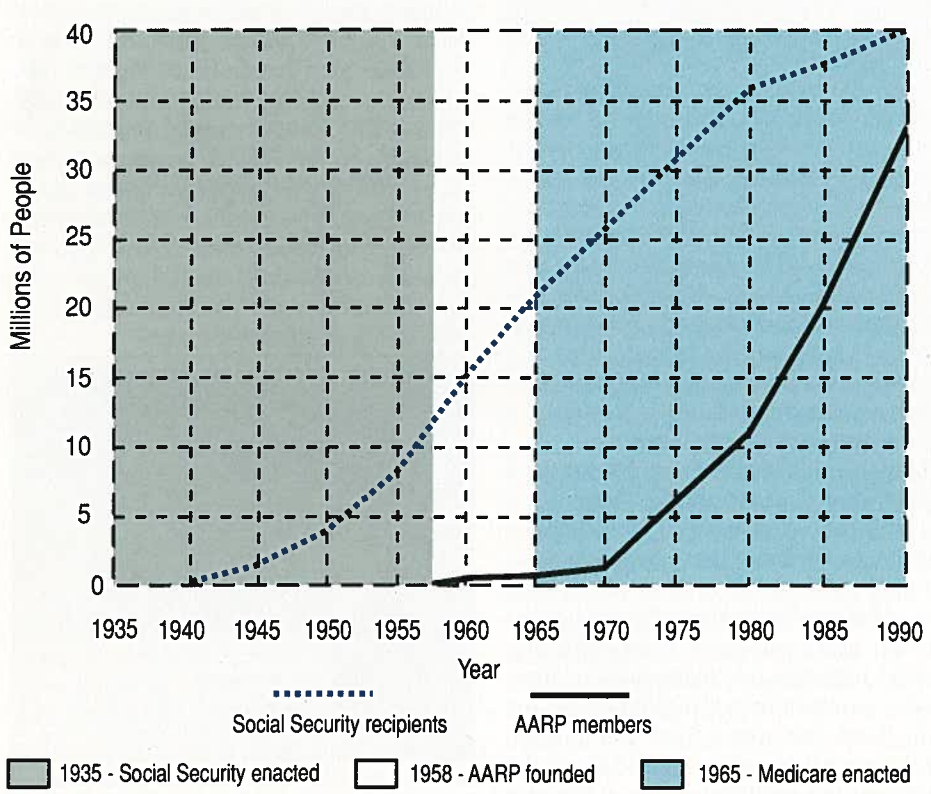
Not surprisingly, you find a parallel pattern if you count lawsuits. The number of filings in the federal courts drifted mildly upward from 1950 to the mid-1960s; but then it took off, nearly quadrupling by the mid-1980s. When I asked Brian J. Ostrom, of the National Center for State Courts, about state lawsuits, he said: "The amount of litigation in state courts grows every year. It's always increasing—by an amount in excess of population growth. The process of people making mutually acceptable bargains among themselves seems to be breaking down."

The increase in lawyers and litigation probably has several causes. One might be an increase in people's contentiousness. Another cause might be lawyers themselves. To some extent, they can act as transfer-seeking entrepreneurs. Long before science had any real idea whether electromagnetic fields from power lines caused cancer, lawyers were lining up clients and preparing to sue power companies. One enterprising lawyer, reported the *Wall Street Journal*, carved out a niche as "the leader of a nationwide group of law firms eager to turn E.M.F. [electromagnetic fields] into a legal battleground." Another lawyer said, "All it's going to take is one or two good hits [i.e., big judgments against power companies] and the sharks will start circling." Lawyers' constant scouring of the law for new claims and claimants, and then for new defenses against those new claims and claimants, can and does feed litigation and distributional struggle.

Almost certainly, however, the biggest cause of more lawyers and more litigation is more laws. To take just one example, in 1990 Congress passed, and the president signed, the Americans with Disabilities Act. The act was billed as a civil-rights measure, but it was also a broad new economic entitlement, transferring resources from society generally to the disabled. As such, it was a good example of how transfer seeking can be driven equally well by idealism (advocates for the disabled wanted their rights) or pecuniary interests (activists for the disabled wanted more social spending)—indeed, the two are hard, or even downright impossible, to tell apart. "Most major law firms," the *Washington Post* reported in 1992, "are well aware that the [ADA] will open up a vast new area of discrimination law and, potentially, a lot of business."

Figure 1

Social Security Recipients and AARP Members



Sources: American Association of Retired Persons; Social Security Administration.

Lawyers do a lot of things besides litigate back and forth over existing wealth, and to blame the lawyers is in many instances to confuse the symptom with the illness. Lobbyists, by contrast, are wholly creatures of the transfer-seeking economy. That makes them an even better thing to count than lawyers or lawsuits.

There are, alas, only estimates, because we don't require lobbying licenses and many people lobby who aren't full-time lobbyists. One measure is the number of people who register with the Senate as actively lobbying on Capitol Hill, though that is only a small fraction of all lobbyists. The number tripled in the decade after 1976 (the year when the records begin); it dropped in 1988, but then bounced back up.

Various other counts show increases. *Congressional Quarterly* reports that the number of people lobbying in Washington at least doubled and may have quadrupled between the mid-1970s and mid-1980s. (State capitals, by the way, also show healthy increases.) Between 1961 and 1982, the number of corporations with Washington offices increased tenfold. Meanwhile, many companies that already maintained lobbying and public-affairs offices expanded them; one study found that almost two-thirds of companies surveyed had increased their public-affairs staffs between 1975 and 1980. The Washington office of General Motors employed 3 people in 1968 and 28 in 1978, though no cars were built in the District of Columbia. By 1992, roughly 92,000 people worked in Washington for groups and firms seeking to influence policy, according to a count by the political scientist James A. Thurber.

Another indication of whether the transfer-seeking economy is growing is political spending. If the investment in political campaigns grew from 1968 to 1992, you can assume that more people were spotting politics—ergo, transfer seeking—as a sound investment.

Perhaps you could wave aside an increase in the number of lawyers *or* of lobbyists *or* of political contributions *or* of interest groups. But, as far as I can see, there is only one way to read the fact that *all* of those numbers rose sharply beginning in the 1960s and early 1970s, and continued to rise through the Reagan-Bush 1980s. America was a society increasingly structured for, and so dedicated to, transfer seeking.

Perpetual Motion

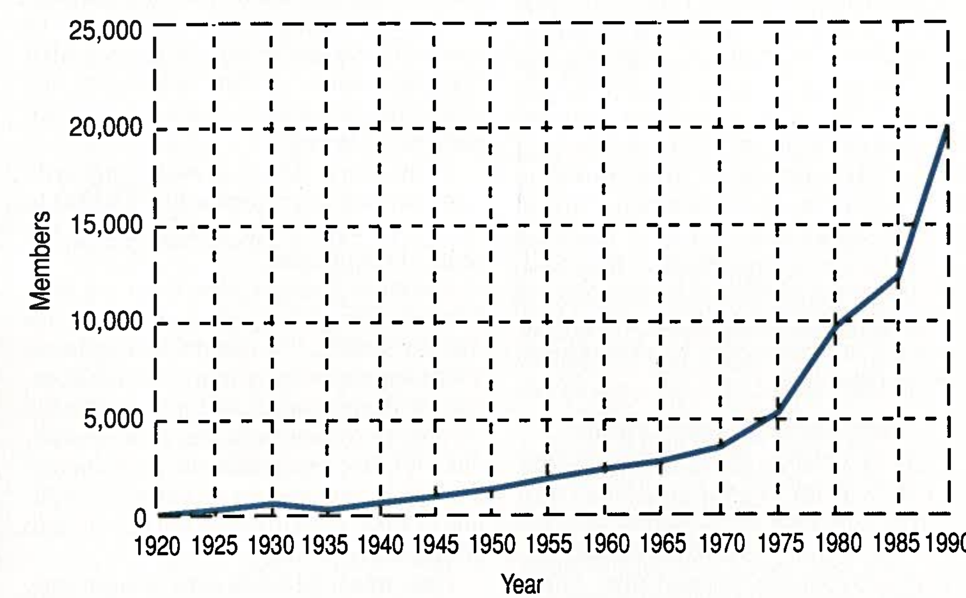
In time, a curious thing happens. As the parasite economy thrives, transfer-seeking agents become wealthy and numerous. They become a powerful interest group in their own right. On the one side, they develop and pursue claims on behalf of their clients. On the other side, they act as an interest group to keep the game going. When there are enough of them, they may begin using their access to government to draw more resources into lobbying. At that stage, the parasite economy may take on the peculiar ability to grow entrepreneurially. In effect, it goes into business for itself.

Most Americans are aware of the power of business interests to influence politics with money. Few are aware, however, of the extent to which the influence business now *is* a business interest. In 1990, notes the Center for Responsive Politics, a watchdog group that monitors money in politics, fully 10 percent of all business-sector contributions to congressional campaigns came from lawyers and lobbyists. In 1992, the center examined more than $240 million in political contributions of $200 or more. Then it broke down the contributions by industry. Insurance gave almost $10 million, as did oil and gas; the securities and investment industry gave more than $11 million. But at the top of the list, with almost $13 million in political contributions, were none other than lawyers and lobbyists. They gave more than $2 million to George Bush and well over half again that much to Bill Clinton.

Government itself becomes a mar-

Figure 2

Membership of the American Society of Association Executives



Sources: ASAE; Sam Shapiro, *A Coming of Age: A History of the Profession of Association Management* (ASAE, 1987).

(Cont. on p. 12)

Parasites (Cont. from p. 11)

ketable resource and a profit center for an expanding group of career-minded professionals, many of whom use government jobs as stepping stones to lucrative careers lobbying government. According to *Congress Daily/A.M.*, fully 40 percent of the members of the House of Representatives who left office in January 1993 went to work as lobbyists. Though no one can prove that politicians and Capitol Hill staff members gin up laws and programs and regulations to create jobs for themselves with interest groups and lobbying firms, everyone suspects that it happens, a fact which is itself corrosive of democracy.

Those resource-shuffling professionals have a weird incentive: any kind of distributional struggle benefits them. The more transfer-seeking battles they manage to spark, the better off they will be. Every new legislative fight, every new lawsuit, every new regulatory struggle means new fees for politicians and lawyers and lobbyists, at least in the short and medium term. They win, as a class, no matter who else loses.

The mere possibility of government action pulls resources into the whirlpool. From 1979 to 1991, the number of health-care groups in Washington more than sextupled. Why? From 1960 to 1990, the proportion of health care paid for by the government doubled, to two-fifths. Add the talk of health-care reform, and you had Washington staging a show that no one could afford to miss. In July 1991, the American Hospital Association moved its top officers to Washington, believing that they "should be closer to the action." In March 1992, the American Nurses Association moved its headquarters—and half a million pounds of office furniture and equipment—to Washington, after 20 years in Kansas City. "We have nursing's agenda for health-care reform," they said. And so it goes. In 1971, 19 percent of trade and professional associations were headquartered in Washington; by 1990, 32 percent, and counting.

The Costs of Transfer Seeking

Here is a key to the transfer-seeking economy's ability to grow even when society would be better off if it shrank: benefits from lobbying—subsidy checks, tax breaks, favorable regulations, court awards, and so on—are highly visible; but the costs—the waste, the inefficiency, the rigidities, the complexities, the policy incoherence as subsidies and deals redistribute money in every direction at once—are diffuse and often invisible. Maritime interests are only too well aware of the large subsidies they receive ($112,000 per job, at costs to consumers running into the billions each year): in 1990, they paid almost $4 million in political contributions. But are you aware of the higher shipping costs you pay? Of the investment forgone because of the tidy lump of money that the maritime lobby has captured? And even if you were, would you care enough to tackle that determined and well-funded lobby, for the sake of the productivity of the economy as a whole?

There are at least three kinds of costs arising from the accumulation and interaction of programs and benefits and subsidies and anti-competitive rules. First, the cost of direct investment in the transfer-seeking economy. Second, the cost of defensive maneuvering against potential transfer seekers. Third, and largest, the cost of the subsidies and rules that transfer seekers put in place.

> **"By hunting for redistributive goodies Americans make themselves about 5 percent to 12 percent poorer."**

How much do we feed the parasite economy and its professionals? It's hard to know, but some of the components give a sense of magnitude.

We have a rough idea what we feed lawyers, though lawyers do a lot besides transfer seeking. "A conservative estimate is that legal services now account for 2 percent of the economy's output," writes the economics columnist Robert J. Samuelson. "In 1991, law firms collected an estimated $100 billion in revenues, up from $10.9 billion in 1972. That's double the growth rate of the total economy."

How much lobbyists earn in aggregate, we don't know. The economists David N. Laband and John P. Sophocleus have estimated that about $4.6 billion was spent on state and federal lobbying in 1985. Today, of course, it would be more. As for politicians, in 1992 the direct investment in them ran to more than $3 billion, according to Herbert E. Alexander of the University of Southern California.

Still harder to count are the amounts spent as Americans struggle to stay up to speed on the transfer-seeking game. If you're a lobbyist or group organizer, you'll need magazines, books, electronic-information services, databases, seminars, who's-who directories, consultants, and more.

Add up the costs of paying for transfer-seeking professionals and paraphernalia, and you have a sum somewhere in the tens of billions. A surprising aspect of that sum is how small it is—in the range of 1 percent of the gross national product. Remember, however, that much of this money comes out of the pool of investment capital, which runs to less than $300 billion (on a net basis). Diverting precious capital from productive investment is not a very good idea.

If you stopped there, you could safely conclude that the parasite economy isn't all that expensive to support. However, the direct costs of paying transfer agents are only the tip of the proverbial iceberg. To bring more above the surface, move to another hidden cost, one which is even harder to trace with any precision but probably an order of magnitude more expensive.

That is the cost of defensiveness and uncertainty generated by the very existence of the transfer-seeking economy. On a block where burglaries are common, people spend heavily on alarms and guards and outdoor lights, even if they have never actually been burglarized. Something a bit like that happens in a society where transfer seeking is common: companies maintain huge legal staffs, open more Washington offices, or even avoid businesses that seem vulnerable to litigation.

Steepest of all is the cost of the goodies themselves: damage done as industrious transfer seekers weave distortions and inefficiencies into the economy.

For instance, billions and billions of pounds of perfectly good fruit have been destroyed year after year by government order. "They lie rotting in the California desert, piled 15 feet high over areas the size of football fields," reported *The Economist* in 1992. "Every year something like 2 billion juicy oranges and millions of lemons have been banned by federal decree from American shops." Yet through higher prices, consumers effectively paid for the fruit they could not eat: a classic deadweight loss.

In the developed nations, all of which run expensive agricultural programs working at cross purposes with themselves and each other, farm subsidies cost consumers and taxpayers the staggering sum of $350 billion *a year*, according to estimates by the Organization for Economic Cooperation and Development.

Another example: When the sellers of smaller and cheaper kinds of mobile phones needed radio frequencies, the existing frequency users moved in Congress to prevent the government from granting them. The result of such maneuvering was to delay the introduction of new technology and raise its cost.

Or again: Over the 1980s, almost all states curtailed employers' ability to fire workers at will. That seems harmless enough, but the picture isn't complete until you also look at the costs. When firing becomes riskier for employers, hiring necessarily also becomes riskier, and employers look for ways to avoid doing it. A 1992 RAND study found that the result was a loss of total U.S. employment in the range of 2 percent to 5 percent, a cost that the think tank dryly described as "quite large."

One can go on and on in this way. The vast majority of subsidies and anti-competitive deals distort resource flows and slow the economy's ability to adapt. In today's globalized economy, that problem may be even more serious than it was in the 1950s or 1960s.

Grand Total

Now suppose you want to add up the bill.

Scholars who do this kind of work, according to Robert D. Tollison, an economist who specializes in transfer seeking, come up with a range of cost estimates, all of them necessarily squishy. About the lowest is 3 percent of the gross national product a year. At the other end of the range, David Laband figured that Americans—including criminals as well as legal transfer seekers—invested about $1 trillion in transfer activity in 1985, which would have been about a quarter of the GNP that year.

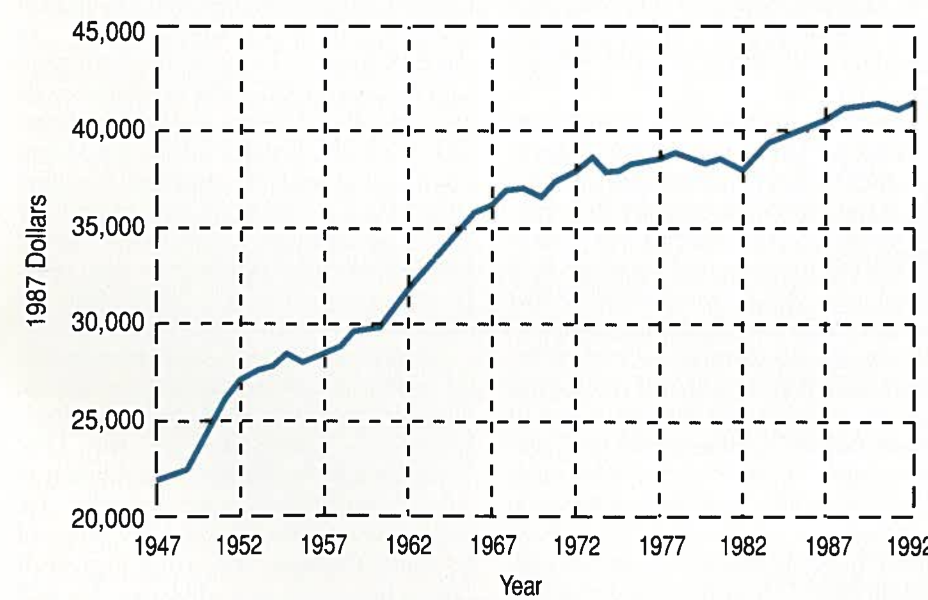
However, most estimates cluster in the range of 5 percent to 12 percent of GNP every year. In 1993, that would be $300 billion to $700 billion. If those estimates are in the ballpark, then by hunting for redistributive goodies Americans make themselves about 5 percent to 12 percent poorer than they otherwise would be.

And now I want to show why you should care. Figure 3 is one of the most basic of all economic charts. It shows, in inflation-adjusted dollars, the amount of output produced per worker in the economy since 1948. It also shows the most important single economic phenomenon of the postwar era. Around 1973, something happened. The economy's productivity growth rate shifted to a slower track. If real output per worker had continued to rise after 1973 at the same average rate as it did before, it would have been about 40 percent higher than it actually is. In other words, Americans would be about 40 percent richer.

You may have noticed that the productivity curve in Figure 3 looks a little bit like the growth curves for groups and lawyers and political contributions and so on—except upside down. The period of hyperpluralism and the period of slow growth roughly coincide. That may be, literally, a coincidence. We don't know. Transfer seeking is certainly not the sole culprit in the post-1973 economic sea change. On the other hand, it is very likely that the substitution of transfer seeking for productive investment is at least one of the factors behind slow long-term growth.

Figure 3

Real Gross Domestic Product per Worker, 1947-92



Sources: U.S. Department of Commerce; U.S. Department of Labor.

And Still They Come

Meanwhile, the governing environment isn't getting any cleaner. Left alone, groups keep forming and growing; transfer seekers keep hunting up new subsidies and perks; hyperpluralism becomes more hyper and the parasite economy thrives. The cleanup job left undone this year becomes bigger next year.

During the first year of the Clinton administration, lobbies and groups and associations kept streaming to Washington. The Motor Vehicle Manufacturers Association (now the American Automobile Manufacturers Association) announced that it was moving its headquarters to Washington after 92 years in Detroit. The Business Roundtable, a chief executives' group, moved its main office down from New York City. MasterCard International moved its government-relations shop from New York to Washington; its competitor VISA, citing a flurry of regulatory and legislative activity that could affect the company, opened a Washington office, headed by a former staff member of the Senate Banking Committee. The parasite economy kept expanding and the transfer-seeking sector kept creating jobs. ■

Independent Review of Defense Needs Urged

Somali Fiasco Shows Need for African Solutions

Cato Studies

The U.S. and UN intervention in Somalia has been a fiasco, culminating in the scheduled pullout of U.S. forces by the March 31, 1994, deadline, writes Ghanaian analyst George B. N. Ayittey in "The Somali Crisis: Time for an African Solution" (Policy Analysis no. 205). That failure is not surprising since outside attempts to solve Africa's problems have always proven ineffective and even counterproductive, according to Ayittey, author of the 1992 Cato book *Africa Betrayed*.

Ayittey, an associate professor of economics at the American University, explains that Somalia's societal breakdown and famine are the result of political and economic problems common to most sub-Saharan African countries and that more Somalia-style tragedies are probable. It is time Africans began solving their problems on their own, he contends. The West has been providing advice and massive economic and humanitarian assistance to the region for years, yet violence and famine continue.

Ayittey describes how sub-Saharan Africa reached its present state of affairs and puts the blame squarely on authoritarian regimes and African political elites.

Ayittey concludes that a long-term solution to the region's problems should be based on traditional African systems of participatory governments and free markets—of which there are many examples. Botswana, with its democratic political system and market economy, could be a model for the rest of the continent. Without internal reforms, he writes, even well-intentioned interventions, such as that of UN forces in Somalia, will only postpone the day when Africans must provide their own solutions.

U.S. Troops in Macedonia Pose Risk

Keeping U.S. troops as a tripwire "peacekeeping" force in Macedonia is increasingly risky, says Ted Galen Carpenter in "U.S. Troops in Macedonia: Back Door to War?" (Foreign Policy Briefing no. 30). Carpenter, Cato's director of foreign policy studies, points out that the 300—soon to be more than 500—U.S. troops stationed in Macedonia are adjacent to Serbia's restive, predominantly Albanian province of Kosovo. Armed conflict in Kosovo, which could break out at any time, would be likely to spill over the border into Macedonia, involving the American forces stationed there.

Moreover, Macedonia may be the target of expansionist ambitions of Albania, Bulgaria, and Greece as well as Serbia. The recent decision by Athens to impose an economic embargo against its northern neighbor is the latest manifestation of tensions in the region. If fighting erupts in Macedonia, the United States could find itself in a full-scale military engagement, since hawks in Washington would predictably insist that America's "credibility" was at stake.

Carpenter concludes that, although Bosnia remains the most likely arena in which the United States could become entangled in a Balkan war, President Clinton's regional containment strategy—symbolized by the Macedonia deployment—entails serious risks.

Pentagon's Bottom-Up Review Seriously Flawed

The Pentagon's Bottom-Up Review, which Secretary of Defense William Perry seems determined to use as the blueprint for U.S. defense in the 1990s, is a "top-down," highly politicized document, and the force structure envisioned in it cannot be supported by the Clinton administration's proposed defense budgets, says David Isenberg in "The Pentagon's Fraudulent Bottom-Up Review" (Policy Analysis no. 206).

Isenberg, a senior research analyst with the Center for Defense Information, documents the fallacies of the strategic assumptions of the review. It assumes that, contrary to the historical record, the United States must be prepared to wage two regional wars almost simultaneously; that opponents will have capabilities comparable to those Iraq supposedly had in the Persian Gulf War; and that if the United States maintains large enough forces, it can overwhelm such enemies and produce a quick, decisive victory with minimal U.S. casualties, as it did in Operation Desert Storm. Moreover, the review assumes not only that most regional conflicts will affect U.S. interests and require a military response, but that other major powers would remain inert during a full-blown crisis, forcing the United States to wage war alone against a dangerous aggressor.

Isenberg concludes that the force structure required to defend legitimate American security interests in the post-Cold War era could be achieved for substantially less than the review's projections. The Pentagon, however, has every institutional incentive to magnify the threats to American security and to propose a defense strategy that requires excessive military budgets. To overcome that inherent bias, writes Isenberg, there needs to be a comprehensive, *independent* assessment of U.S. defense needs. ■

Hudgins, Vásquez Fill Cato Posts


Ed Hudgins


Ian Vásquez

The Cato Institute has recently appointed a new director of its Project on Global Economic Liberty and a new director of regulatory studies.

Ian Vásquez has been promoted to director of the Project on Global Economic Liberty, which applies market-liberal principles to the developing world. As assistant director, Vásquez directed Cato's highly successful 1992 conference in Mexico City, "Liberty in the Americas: Free Trade and Beyond," featuring Milton Friedman as keynote speaker. Vásquez joined the Cato Institute staff in January 1992. He and Cato senior fellow Doug Bandow recently coedited the Cato book *Perpetuating Poverty: The World Bank, the IMF, and the Developing World.*

Edward L. Hudgins has been appointed director of regulatory studies. Hudgins formerly worked for the Joint Economic Committee of the U.S. Congress and the Heritage Foundation as a domestic economic policy specialist. He will oversee research on a wide range of regulatory issues, including high-tech policy, free trade, and antitrust. He will also serve as senior editor of *Regulation* magazine. ■

Regulation *on Technology*

Japan's HDTV Failure Examined

Japan recently gave up on its attempts to centrally manage the high-definition television industry. The latest issue of *Regulation* (vol. 16, no. 4) shows the reasons for Japan's failure. In "Lessons from the Cutting Edge: The HDTV Experience," Cynthia A. Beltz, a research fellow at the American Enterprise Institute, concludes that the best technology policy is one that allows the free play of competition and the least regulated exchange of goods and financial services, not one that attempts to emulate the policies of Japan and Europe.

Other articles in this special issue on technology policy include

- Murray L. Weidenbaum's critique of industrial policy;
- Gary A. Saxonhouse's debunking of the standard assumptions about the pervasive and successful role of the Japanese government in developing and supporting high-tech industries;
- James Bovard's study of how U.S. trade laws hurt America's burgeoning high-tech industries by cutting them off from needed materials with quotas and tariffs;
- Michael T. Jacobs's exploration of how the differences in financial market regulations in Japan, Germany, and the United States shorten the time horizons of U.S. investors and hamper funding of high-tech industries; and
- Susan Feigenbaum's fresh look at the cost of life-saving medical technologies. ■

Cato TV Show Looks at Crime, Health

"Cato Forum," the Institute's program on National Empowerment Television, each week takes a lively look at a timely issue. In recent weeks "Cato Forum," hosted by Ed Crane, has focused on the war on drugs, the balanced-budget amendment, health care, term limits, the growth of government, the legal defense of property rights, fiscal responsibility in the states, and more.

The show features taped excerpts from Cato Policy Forums and conferences and guests who participate in roundtable discussions moderated by Cato's executive vice president David Boaz. Recent shows have included tapes of syndicated columnist George F. Will on term limits, Wisconsin's governor Tommy Thompson on cutting state budgets, Yale law professor Steven B. Duke and ACLU field director Gene Guerrero on how the drug war causes crime, David Lucas and Roger Pilon on the environmentalist threat to property rights, Sen. Malcolm Wallop (R-Wyo.) on the importance of freedom, National Taxpayers Union president David Keating on the balanced-budget amendment, Lawrence Gasman on free-market telecommunications, Reason Foundation president Robert Poole on privatization, and National Rifle Association legislative counsel Richard Gardiner on the dangers of gun control.

NET now has a potential audience of over 22 million. It can be received from Hughes Satellite Galaxy 7, Transponder 20 vertical. It is also available on a growing number of cable systems around the country, including those in Rome, Georgia; Portland and Newberg, Oregon; Indianapolis, Indiana; Columbus, Ohio; Fort Myers and Naples, Florida; Baton Rouge, Louisiana; Hammonton, New Jersey; and Fairfax County, Virginia. Contact your local cable system to determine if NET is available or to request that it be carried. ■

Klaus, Forbes in New *Cato Journal*

Monetary reform in ex-communist countries is the theme of one of two issues the *Cato Journal* (vol. 12, no. 3) published recently. The papers were originally presented at the Institute's 10th annual monetary conference, "Money in Transition: From Plan to Market," which was held in 1992.

Among the contributors are Malcolm S. Forbes, Jr.; Czech prime minister Vaclav Klaus; Nikolai Petrakov, an economic adviser to former Soviet president Mikhail Gorbachev; Oleg Bogomolov of the Institute of International Economic and Political Studies (Russia); Pedro Schwartz of the National Economic Research Associates (Spain); Annelise Anderson and Judy Shelton, both of the Hoover Institution; Jerry L. Jordan, president and CEO of the Federal Reserve Bank of Cleveland; and Cato's Paul Craig Roberts and William A. Niskanen.

Volume 13, no. 1 features articles on a variety of subjects. Herbert J. Walberg and Joseph L. Bast contributed an article on school choice, Jonas Frycklund wrote about private mail in Sweden, Emily Chamlee related economic development in Africa to the continent's indigenous institutions, Andreas Fischer examined inflation targeting by looking at the New Zealand and Canadian experiences, and Richard V. Burkhauser and T. Aldrich Finnegan revisited the economics of minimum wage legislation. ■

CATO INSTITUTE CALENDAR

Monetary Arrangements in the Americas after NAFTA
12th Annual Monetary Conference
Cosponsored with Center for Free Enterprise Research (CISLE) and the Fraser Institute
Mexico City • Hotel Presidente • May 25-26, 1994
Speakers include Lawrence B. Lindsey, Arnold C. Harberger, Hernán Büchi, Luis Rubio, Josefina Vázquez, Juan Andrés Fontaine, Manuel Ayau, Alan A. Walters, Lawrence A. Kudlow, Jerry L. Jordan, and John W. Crow.

New Perspectives for the Nineties
San Jose • Fairmont Hotel • June 3, 1994
Speakers include Milton Friedman and William O'Neil.

New Perspectives for the Nineties
Pittsburgh • Duquesne Club • June 23, 1994
Speakers include Lawrence Kudlow, Martin Gross, and Edward H. Crane.

"To be governed..."

Fools rush in

Rep. Sander M. Levin (Mich.) . . . wanted . . . a few studies on how [subcommittee] Chairman Fortney "Pete" Stark's (D-Calif.) version of health reform would affect the following: Businesses by firm size. Business by industry type. Individuals by age. Families by size. Individuals and families by income levels.

"I wanted to know what we're doing before we did it," Levin said.

"I said, 'Sandy, that would take us months,'" said Stark.

—*Washington Post*, Mar. 17, 1994

Whose pocket?

Luis Gutierrez, a young congressman from Chicago . . . called Washington "the belly of the beast," and went there to change it. Instead, he got an education. . . .

Gutierrez decided to write a bill to freeze congressmen's salaries. How did that sit with his colleagues?

[Rep. Gutierrez:] There's a—a chairman of a committee. . . . "Let me tell you something, young man," he said, "don't you ever introduce legislation that sticks your hand in my pocket."

—"60 Minutes," CBS News, Feb. 6, 1994

The DEA's job is never done

The war on drugs has moved into Mark Twain's frog-jumping territory, and it's not pretty.

These drug suppliers are green, squat and lumpy, with big bulging eyes.

These are toads: *Bufo alvarius*.

Drying the venom from glands on the toads' back produces a hallucinogenic drug—bufotenine—that can be smoked, and users and researchers say it produces a high that eclipses the psychedelic properties of LSD. . . .

State and local narcotics agents worried that there was a cult of toad abusers in the [northern California] region. . . .

Literature confiscated from the [arrested] couple's house indicates that there is an underground of enthusiasts for the drug, agents said.

—*Miami Herald*, Feb. 17, 1994

No kidding, this was a serious article in the *Washington Post*

President Clinton and Vice President Gore yesterday celebrated the first anniversary of their "reinventing government" initiative, offering fish ladders as Exhibit A.

Standing by a chart labeled "Building a Fish Ladder: A Decision Making, Design and Budget Review Process," the president and vice president heard an Interior Department official explain that it used to take about three years and 21 steps to build the devices that allow salmon to climb dams, swim upstream and lay eggs. . . .

Since Gore's reinventing government initiative got underway the bureaucratic steps had been reduced to only eight and said fish ladders were now constructed in less than six months. . . .

"For me, the success stories of reinvention cannot be totally captured in dollars saved or legislation passed, important as both are," Gore said. "For me, reinventing government is succeeding when individual public employees get the message and decide that they can do it, and take the initiative the way [Bureau of Reclamation regional director Roger Patterson] and his folks have."

—*Washington Post*, Mar. 4, 1994

Wrong again

[West Baltimore's Union Baptist Church] wants to use land occupied by [Son Chan] Pak's store . . . to construct a $2.5 million building for its Head Start day care center. . . .

The [Baltimore city] council is considering a bill that would allow the city to take Mr. Pak's building so it could be demolished to make room for the day care center expansion. . . .

"The city has a right to determine the use for that building," [Rev. Vernon Dobson] said. . . .

[Pak's son] David Pak said the family will go to court to try to prevent the city from taking over the property if the council passes the bill.

"I don't know what chance we have," he said, "but I think there are things called property rights in this country."

—*Baltimore Sun*, Nov. 2, 1993

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