

Cato Policy Report

November/December 1990

Volume XII Number 6

Liberalism in the Coming Decade

by Antonio Martino

In the midst of great historical changes, some reflections on the role of liberal thinkers in today's world seem appropriate. According to historian Max Hartwell, "The common objective of those who met in Mont Pèlerin in 1947 was undoubtedly to halt and reverse current political, social, economic and intellectual trends towards socialism, and to ensure the revival of liberalism."

In the light of recent history, it would be tempting to conclude that those trends have in fact been reversed, liberalism has been revived, and the society has achieved its purpose. While the differences between the world of 1947 and that of today are undeniable, it is far from clear that our mission has been

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completed. It seems to me that liberty is still facing gigantic obstacles on both sides of the collapsed iron curtain and in the rest of the world. Let me mention just a few of the obstacles that may confront us in the next 10 years.

The Collapse of Communism

The memorable events of the past several months in what are now called the ECCs (ex-communist countries) have stimulated the hopes of freedom fighters all over the world. There is no doubt that the events of 1989 provide conclusive evidence of the collapse of communism both as a viable form of economic organization and as a political system, because it has been proven beyond any doubt that communism was inefficient and not based on the consent of the governed. Although those realizations are hardly new for liberals, it is certainly pleasant to see one's political views so clearly confirmed.

The pace of change in the past months has been so rapid that even our wildest hopes have not been able

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to keep up with it. Yet a word of caution is probably needed. In many ECCs the demand for political freedom has translated itself into free (or quasi-free) elections resulting in the defeat of the formerly ruling Communist party. That is undoubtedly a desirable change per se, but to those of us who believe in freedom, the real question is whether the introduction of elements of political democracy in some East European countries will start a process that leads to the liberalization of those societies. In other words, will the change from totalitarian rule to electoral democracy widen the range of free choices open to individuals in their everyday lives, or will it be just a cosmetic change that will leave nearly everything else unchanged?

There is no doubt that, as a political decisionmaking mechanism, democracy is superior to its alternatives. But, for a liberal, electoral democracy is not the only issue. A liberal agrees with Herbert Spencer that "the real issue is whether the lives of citizens are more



Cato's Edward H. Crane and Roger Pilon look on as Czechoslovakian finance minister Vaclav Klaus shows a newspaper clipping to Secretary of Housing and Urban Development Jack Kemp before a Cato luncheon at which Kemp and Klaus discussed economic freedom.

(Cont. on p. 10)

Term Limitation: The End of the Imperial Congress

President's Message



I'm writing these words exactly one week before the November 6th election. (That you'll be reading them a couple of weeks after the election has to do with the U.S. Postal Service, which is another issue.) There are two things that observers of the political scene now know for certain. One is that the American people are furious with Congress. Disgusted. Outraged. Appalled. You name it.

The other is that well over 90 percent of incumbents seeking reelection to Congress next week will win—overwhelmingly.

Now, all that may strike the casual observer as a bit incongruous. Americans rightly feel Congress has become an imperial fortress, oblivious to the fiscal suffering it imposes on them and impervious to efforts at reform. With tens—no, hundreds—of billions of dollars that could easily be eliminated from the federal budget, Congress acts to “solve the budget deficit crisis” by rejecting budget cuts in favor of increasing our taxes by \$130 billion.

A large majority of Americans favor budget cuts. Congress shrugs and claims it's a “bare-bones” budget already and there's simply no room for cuts. It acts as though the nearly unanimous popular opposition to the “budget agreement” is, well, a bit annoying, and why don't you go back to whatever it is you folks outside the Beltway do, anyway. Never mind that we're spending in excess of \$100 billion on NATO to defend our wealthy European allies against a land war with a nation that is in a state of total economic collapse, i.e., a nonexistent threat. Or that we're spending tens of billions of dollars to subsidize wealthy farmers. Suffice it to say that our hardworking solons managed to find \$500,000 in their bare-bones budget to renovate the North Dakota birthplace of Lawrence Welk.

So why don't we just throw the rascals out? How in the world can all but a tiny handful of them get reelected November 6th? Because Congress has voted in so much incumbent-protection legislation that it is virtually impossible to oust a sitting legislator. In 1988 only six incumbents seeking reelection were defeated, and five of them were under an ethical cloud.

The movement to limit legislative terms, which got started at the state level a couple of months ago in Oklahoma, offers an answer to the problems posed by our Imperial Congress. Unless term-limit initiatives that are on the ballot in California and Colorado (and heavily favored to win) are derailed at the last minute, national leaders of the movement, such as Colorado state senator Terry Considine, predict that the other 24 states that allow citizen initiatives will soon follow suit. The momentum created by such a development could put considerable public pressure on Congress to impose term limits on itself or face the very

real prospect of a constitutional convention.

Term limitation would create a Citizen Legislature that would be truly representative. There is nothing so unrepresentative of the American people as a career, professional legislator (the very concept would have appalled the Founders). Citizen-legislators would be more interested in doing what was right for the nation than what was right for perpetuating their political careers.

Term limits offer the prospect of a better preselection of individuals seeking elective office. Today, one has to be willing to spend 15 or 20 years in office before having any real impact. Those who find that prospect off-putting, but who would consider spending two, four, or six years in office if they knew everyone else would be “short-termers” (and, hence, not have undue influence), are the kinds of people we should want in office. Architects, housewives, businesspeople, carpenters, teachers—people whose lives are committed to the private sector and personal, constructive careers—would bring a level of common sense to legislative deliberations that is absent from a legislature populated by professional politicians.

Perhaps the strongest argument in favor of term limitation, however, is the “culture of ruling” that is found inside the Beltway and in state capitals around the nation. Legislators find themselves living in a culture in which most of the people with whom they come in contact are busy spending other people's money, making rules and regulations for other people to live under, and generally thinking that their role in life is to “govern.” Microphones are daily pushed in the faces of legislators.

That “culture of ruling” corrupts the thinking and ethical standards of even well-meaning people. It doesn't take long for legislators to start believing they—and their ideas—are considerably more important than they really are. Eventually, they start thinking that they need to codify their views. That explains why groups such as Citizens for a Sound Economy and the National Taxpayers Union, who track such things, say that the longer people are in office—the more reciprocal, backscratching logrolling they are engaged in—the bigger spenders they become.

The new national movement for limiting congressional (and state legislative) terms holds the promise of at last enabling Americans to regain control of their government. Terms should be limited to two in the Senate (12 years) and three in the House (6 years). It is particularly important that the House, which was intended to be the most representative body, have a strict limit. Individuals serving in that body should have a sense that they are on a leave of absence from their real job; that they are representing their friends and neighbors, not powerful special interests.

The incumbents will (almost) all be back in business by the time you read this. And that is a good reason to get involved in the term-limitation movement.

- Edward H. Crane

Russians Cheer Limited Government

Moscow Mayor Popov Highlights Momentous Week

When Western journalists reported that Soviet president Mikhail Gorbachev had agreed to the 500-Day Plan for economic reform on September 11, 1990, those in attendance at “Transition to Freedom: The New Soviet Challenge,” a Cato Institute conference in Moscow, knew better. Moscow's radical mayor, Gavriil K. Popov, brought them the news in person.

When Popov stepped to the podium for his speech after lunch on September 12, he jolted his audience with the news that Soviet prime minister Nikolai Ryzhkov had double-crossed the free-market reformers in the Russian Parliament by replacing the free-market Shatalin plan with the Ryzhkov plan, which was basically a preservation of the status quo to which Gorbachev readily agreed.

Listening to Popov announce to a



Cato president Edward H. Crane and Moscow mayor Gavriil Popov talk at Cato's conference, “Transition to Freedom: The New Soviet Challenge.”

lecture hall crowded with Soviet media, government officials, and radicals, sitting side by side with Western scholars and policymakers, that from now on the Russian people “must be bound to private property and dependent on freedom,” Cato's scholars and conference directors realized they couldn't have planned the event for a more momentous week.

Amid lectures and comments by a broad array of economists, scholars, and political figures, members of the Supreme Soviet brought the conference attendees hourly updates on the Soviet Parliament's discussions of economic reforms. “Members of the Supreme Soviet pointedly informed Gorbachev's government that it made no sense for them to be debating the Ryzhkov plan when Russia had already adopted the Shatalin plan,” wrote Paul Craig Roberts, an economist at the Center for Strategic and International Studies and speaker at the Moscow conference, in his *Washington Times* column upon returning from the Soviet Union. While the “conservatives” in the Soviet Parliament shielded themselves behind legislation—Gorbachev and other Kremlin leaders created 33 new laws during one day of the conference alone—those packed in the aisles at the Cato Institute conference, pushing economic reforms through the Russian Parliament, and marching in the streets of Moscow knew that the Shatalin plan was there to stay—with or without Gorbachev's approval.

“Transition to Freedom: The New Soviet Challenge” began the evening of

Monday, September 10, with a reception and banquet at the Hotel Moskva a few feet from the Kremlin. Yuri A. Ossipyan, a member of the Presidential Council of the USSR, joined Cato's president Edward H. Crane for welcoming remarks, and Popov gave the banquet address, the first of three speeches he would make at the conference. When Crane “reminded the large audience that ‘the government that governs least governs best’ in English, the jaded free marketeers from the West simply nodded in approval,” reported David Asman in the *Wall Street Journal*. “But when the Russian translator finished, hundreds of Russians clapped and cheered wildly. Only a handful of die-hard Communists sat glum-faced, arms folded.”

In the second half of the conference, which dealt with international security issues, *Foreign Policy* magazine editor Charles William Maynes argued that in a post-cold war world both the United States and the Soviet Union can afford to ignore minor “impertinent” threats. Andrei Kortunov of the Institute for the USA and Canada described the disastrous financial and human costs the Soviet Union has incurred by trying to be an imperial superpower. Alexei G. Arbatov of the Institute of World Economy and International Relations stressed the unprecedented opportunities that the United States and the Soviet Union now have to make deep reductions in their huge nuclear arsenals.

The die-hard defenders of central

(Cont. on p. 15)

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*, 224 Second Street S.E., Washington, D.C. 20003. *Cato Policy Report* is sent to all contributors to the Cato Institute. Single issues are \$2.00 a copy. ISSN: 0743-605X Copyright © 1990 by the Cato Institute

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High Living at World Bank Blasted

Kemp, Klaus Discuss Economic Liberty at Cato Lunch

Cato Events

August 31: "Controlling Auto Emissions: A Rational Approach." Donald Stedman, a professor of chemistry at the University of Denver, discussed his proposal to install devices on American highways that would photograph license plates and take a reading of exhaust fumes. Drivers would be charged a fee proportional to the damage their automobiles cause to the environment. With 10 percent of the cars on the road causing 50 percent of the pollution, it's time to make the real polluters, not every taxpayer, pay, Stedman argued.

September 10-14: Transition to Freedom: The New Soviet Challenge. The highlight of this five-day conference in Moscow was the open forum at which over 800 Muscovites joined the regular conference attendees in a packed lecture hall to hear Edward H. Crane, president of the Cato Institute; Gavriil K. Popov, mayor of Moscow; Fred Smith, president of the Competitive Enterprise Institute; and Larisa Piyasheva, an economist at the Institute of International Labour Movement. Hourly updates on the economic reform negotiations in the Soviet and Russian parliaments by Supreme Soviet members attending the conference and daily coverage of the conference by the Soviet media made it clear that this Cato conference could not have been planned for a more exciting and historically important week.



Robert L. Bradley (second from left) discusses how the free market adjusts to energy supply disruptions at a Cato policy luncheon.



Cato chairman William A. Niskanen (right) chairs a Policy Forum at which Randall S. Kroszner, an assistant professor of business economics at the University of Chicago, calls for ending the INTELSAT monopoly.

September 19: "What Now for U.S. Energy Policy? A Free-Market Approach." A dozen scholars and policymakers gathered at a Cato Institute Policy Luncheon to hear Robert L. Bradley, president of the Institute for Energy Research, speak on free-market reforms for U.S. energy policy. Bradley stressed the need for market mechanisms—a privatized Strategic Petroleum Reserve, for example—during times of crisis such as the current confrontation with Iraq.

September 20: "Banking on Poverty: An Insider's Look at the World Bank." Frustrated with the World Bank's "bloated, overpaid bureaucracy, its wasteful practices, and its generally poor management," Michael H. K. Irwin resigned last March as director of the World Bank's Health Services Department and acting vice president for personnel. Irwin exposed the plethora of benefits enjoyed by employees of the world's premier anti-poverty institution. Melanie Tammen, director of the Cato Institute's Project on Global Economic Liberty, followed Irwin's speech with comments on the World Bank's inability to act as a "catalyst for radical change" in emerging East European democracies.

September 25: "Lost in Space: U.S. International Satellite Communications

Policy." Randall S. Kroszner, an assistant professor of business economics at the University of Chicago, spoke on the need for competition in the market for international telecommunications and for improvements in the global network. Privatizing INTELSAT, which currently has a virtual monopoly on international satellite communications, and lifting restrictions on private use of the public network are essential first steps to enhancing America's position in the field, Kroszner argued.

September 27: "Housing, Poverty, and Economic Liberty." Jack Kemp, secretary of housing and urban development, and Vaclav Klaus, minister of finance of the Czech and Slovak Federal Republic, addressed a Cato Institute Policy Luncheon at the Sheraton Carlton Hotel. Kemp explained why economic freedom and private property should be the basis for U.S. policies to end poverty and increase home ownership. Klaus spoke about his country's transition from a centralized to a free-market economy. Rather than sending foreign aid, Klaus jokingly told his audience, please bring home all the liberal intellectuals who, unable to find a market for their ideas in the West, have flown to Eastern Europe to argue against moving to a free-market economy. ■

Provocative Points: Trade Retaliation Doesn't Work, Aid Won't Help East Europe, FAA Rules Make Kids Unsafe

Recent Cato Institute studies have examined the feasibility of using trade policy to force open foreign markets, the World Bank's success in the Third World and possible role in Eastern Europe, and the dangers of proposed regulations to protect children on airplanes.

Using a Crowbar to Open Trade

Jim Powell challenges the prevailing fashion in U.S. trade policy—the so-called crowbar theory—in Cato Institute Policy Analysis no. 143, "Why Trade Retaliation Closes Markets and Impoverishes People." Powell, author of *The Gnomes of Tokyo*, defines the crowbar theory as the assumption that if we close our markets (or threaten to do so) foreign markets will open.

Examining U.S. trade relations with various countries, Powell concludes that it is hard to find a single case in which trade retaliation, or retaliatory threats, forced open foreign markets. What retaliation does inspire in the target countries is quite different: nationalism and xenophobia, reorientation of the economy to different markets and suppliers, expansion of government, and shortages and higher prices for consumers.

Crowbar theorists assume that it is possible for Washington to get other governments to make significant policy changes—such as abolishing agricultural import restrictions—that we can't make at home. Powell contends that the only way to promote open markets abroad is to unilaterally repeal our own trade restrictions—and he offers a sweeping agenda to do just that.

Capitalism without Capitalists?

Unless Western nations stop imposing central planning advisers and bank loans on emerging democratic-capitalist governments, Eastern Europe will face the economic paralysis Latin America suffers after years of World Bank loans, warns Melanie S. Tammen, director of the Cato Institute's Project on Global Economic Liberty, in "Aiding Eastern Europe: The Leveraged Harm of 'Leveraged Aid'" (Policy Analysis no. 139). Asserting that the "last things na-



Michael H. K. Irwin, former acting vice president of the World Bank, discusses high living at the bank with Cato associate James Bovard.



In a new study Melanie S. Tammen, director of Cato's Project on Global Economic Liberty, argues that Eastern Europe needs free markets, not foreign aid.

tions in transition need are multilateral development bank loans to politicize their economies," Tammen rejects both the World Bank and the new European Bank for Reconstruction and Development ("fundamentally a rear-guard socialist undertaking") as "catalysts for radical change."

"The message is quite simple: there is no capitalism without capitalists," Tammen concludes, agreeing with Hungarian economist Janos Kornai and Polish economist Jan Winiecki who argue that what their nations need above all else are "flesh-and-blood capitalists—whether domestic or foreign."

World Bank's Assistance No Blessing

Michael H. K. Irwin raises some dis-

turbing questions about the World Bank's role in fighting Third World poverty in "Banking on Poverty: An Insider's Look at the World Bank," no. 3 in the Cato Institute's Foreign Policy Briefing series.

Irwin, former director of the World Bank's Health Services Department and acting vice president of personnel, reveals an institution out of touch with the realities and causes of poverty in Third World countries as its staff ventures from Washington only on first-class flights and stays in luxury hotels. "The well-paid World Bank staff strikingly parallel the Third World's own senior bureaucrats whose padded salaries have contributed to the economic ruin of their nations."

Most serious perhaps is the fact that the World Bank has not "graduated" any country from its lending program, which leads one to question "whether the United States or any other Western nation should give the institution another dime."

Forcing Infants into Unsafe Cars

Under the banner of saving children's lives, the Federal Aviation Administration, the National Transportation Safety Board, 50-some congressmen, and various child safety groups are pushing legislation to require child restraint seats for all infants and toddlers on airplanes. Statistical analyses by the Department of Transportation and private researchers indicate that the proposal would endanger more children than it would save if higher costs of airline travel forced many families back onto the highways, Richard B. McKenzie and Dwight R. Lee write in Cato Institute Briefing Paper no. 11, "Ending the Free Airplane Rides of Infants: A Myopic Method of Saving Lives."

Had restraint seats been mandatory since 1978, at most one infant death would have been prevented, McKenzie and Lee point out. Yet in a single year (1988) nearly 1,200 children under five years of age died in automobile accidents.

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

Scenes from Moscow

Hundreds Attend "Transition to Freedom" Conference



Soviet cameras record the news conference held to announce Cato's Moscow conference, which was widely covered by both print and broadcast media in the USSR.



Several hundred people gathered at the conference's opening banquet at the Hotel Moskva near the Kremlin. Speakers there included Moscow mayor Gavriil Popov, Leningrad mayor Anatoly Sobchak, and Yuri Ossipyan, member of the Presidential Council of the USSR.



Cato president Ed Crane and Edward Lozansky, president of the Independent University of Moscow and Washington, talk with Yevgeny Primakov, a top Gorbachev foreign policy adviser.



Washington University economist Douglass C. North addresses Cato's September 1990 conference in Moscow, "Transition to Freedom: The New Soviet Challenge." Waiting to speak are Edward H. Crane, Charles Murray, Otto Lattis, Vitaly Naishul, and Alexei Boiko.

Arthur Cinader, founder of the J. Crew company, and his wife Johanna provided major support for "Transition to Freedom" and were among some 50 Cato Sponsors who traveled to Moscow for the conference.



James A. Dorn, Cato's vice president for academic affairs and co-director of the Moscow conference, talks with Leningrad mayor Anatoly Sobchak, who addressed the conference twice.



Gorbachev adviser Abel Aganbegyan (center), author of the latest plan for economic reform, waits in the conference's registration line before speaking on the opening panel.



More than 800 participants packed the auditorium of the Academy of National Economy Wednesday evening for the largest public event of the conference, the Open Forum.



Cato president Ed Crane (right) steps away from the microphone to capture the historic Open Forum on camera.



The radical 500-Day Plan for economic reform was being debated in the Supreme Soviet during the Cato conference, playing havoc with the speakers' schedules. Here Grigory Yavlinsky, deputy prime minister of Russia and coauthor of the plan, discusses the background of the plan and its political prospects.



Before one of the conference sessions, Leningrad mayor Anatoly Sobchak and Moscow mayor Gavriil Popov confer at the head table about plans for a mass rally to demand the resignation of the Ryzhko government.



Speakers and aides crowd around Popov just before the Open Forum begins.



Historian Ralph Raico, economist Edwin Dolan, management professor Alexander Lobanov, economist Larisa Piyasheva, Mayor Gavriil Popov, and Cato president Ed Crane were among the speakers at the Open Forum.



Don Lavoie, author of *National Economic Planning: What Is Left?*, and Nobel laureate James M. Buchanan were among the speakers at the conference.

Hundreds Attend



Ted Galen Carpenter, Cato's director of foreign policy studies and codirector of the conference, discusses superpower intervention in Vietnam, Afghanistan, and elsewhere.



George Mason University Law School dean Henry Manne, Cato senior fellow Roger Pilon, and Mayor Sobchak wait to speak at a session titled "Constitutional Choice and Spontaneous Order."



At the conference's closing talk Charles William Maynes, editor of *Foreign Policy*, argued that the Soviet Union and the United States can both afford to ignore minor threats in the post-cold war world.



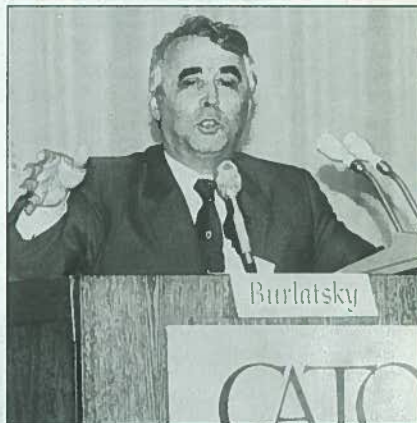
Cato executive vice president David Boaz, First Interstate economist Jerry Jordan, and Czechoslovakian finance minister Vaclav Klaus at Cato's reception for Moscow conference attendees held at the international meeting of the Mont Pelerin Society in Munich just before the conference.



Cato scholars Christopher Layne and Earl Ravenal talk with Sergei Plekhanov of the Institute for the USA and Canada.



Cato vice president James A. Dorn presents an Adam Smith tie to dissident-turned-legislator Ilya Zaslavsky. All the Soviet speakers received Adam Smith ties to remind them of where to find answers to their economic problems.



Fyodor M. Burlatsky, a leading radical in the Supreme Soviet and chairman of the Committee on Human Rights, gave the conference's luncheon talk on Thursday.



Economist Paul Craig Roberts is interviewed about his new Cato book *Meltdown: Inside the Soviet Economy* (cowritten with Karen LaFollette). The Cato speakers were interviewed on Soviet television each evening of the four-day conference.



A Soviet journalist talks with Charles Murray, author of *In Pursuit*, whose conference topic was "The Pursuit of Happiness under Capitalism and Socialism."



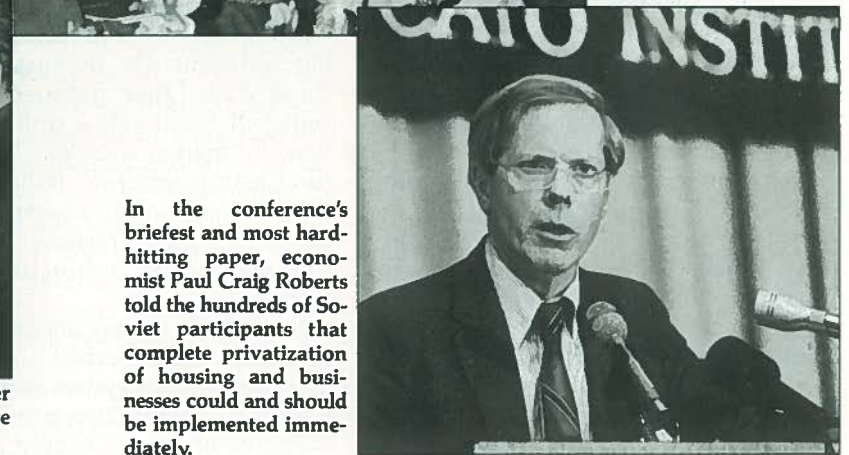
Cato vice president for development and public affairs Cathi Smith and conference director Julie Riggs prepare a special lunch for conference attendees: 250 Big Macs and fries from the busiest McDonald's in the world.



Fred L. Smith, Jr., president of the Competitive Enterprise Institute, is surrounded by questioners after his talk, "How Property Rights Protect the Environment."



Cato board member Charles Koch (center) talks with Tom Palmer and David Park of the East-West Outreach Project of the Institute for Humane Studies between conference sessions.



In the conference's briefest and most hard-hitting paper, economist Paul Craig Roberts told the hundreds of Soviet participants that complete privatization of housing and businesses could and should be implemented immediately.

Liberalism (Cont. from p. 1)

interfered with than they were; not the nature of the agency which interferes with them."

Or, as Milton Friedman has recently remarked:

The unprecedented political upheavals that believers in human freedom have welcomed with so much joy can be the prelude to comparable economic miracles, but that is far from inevitable. They can equally be the prelude to a continuation of collectivism under a different set of rulers. Everything depends on the political will of the people, the economic understanding of their leaders, and the ability of those leaders to persuade the public to support the radical measures that are necessary.

The first signs are not necessarily encouraging. In many cases, the paralysis of action has prompted extravagance of language but no appreciable change. East European countries do not seem to have yet embarked on radical reforms that promise to transform them into workable free-market economies. In many cases, that has been due to the fact, pointed out by James M. Buchanan, that both in the East and in the West, "the loss of faith in politics, in socialism broadly defined, has not . . . been accompanied by any demonstrable renewal or reconversion to a faith in markets."

As for the economic understanding of communist leaders, in an article entitled "Pricing in USSR between Supply and Demand," Anatolij Derjabin recommended a radical reform of retail prices, lamenting, for example, that the price of milk was proportional to its fat content rather than its protein content, "as in most other countries!"

After so many decades of planning mythology, misunderstanding of the market is hardly surprising. But what I fear is that the superior prosperity of market economies has generated the delusion that all that is needed to promote economic growth is to imitate some of the *external* features of our economies, while leaving everything else unchanged. A good example is the

notion that the dismal performance of communist economies is due to bad management. That is wrong. Management is not the problem. Market economies are not efficient because by chance they have been endowed with superior managers. They have better managers *because* they are efficient. It is the market that provides the filter mechanism required to make sure that only managers who make the correct decisions survive and prosper. *Superior management is the consequence of market efficiency, not its cause.*

I often compare the apparent beliefs of some East European reformers with those of the "cargo cult"—Pacific islanders who, after World War II, watched Western soldiers clear an expanse of land and build a tower. When the is-

"Will the change from totalitarian rule to electoral democracy widen the range of free choices open to individuals in their everyday lives?"

landers saw that the clearing and tower attracted huge metallic birds laden with precious commodities, they built fake landing strips and control towers in the hope that a cornucopia of goods would fall from the sky. The same kind of wishful thinking is reflected in the idea, heard frequently in Eastern Europe these days, that prosperity can be achieved by simply extolling the virtues of "market socialism" and "structural transformation" (whatever those words mean) in the absence of private property rights, freedom of contract, free trade, and a functioning price system.

It would be grossly unfair, however, to generalize the imperfect understanding of the free-market system shown by some leaders in Eastern Europe and ignore the existence of a surprisingly large num-

ber of dedicated freedom fighters who have cultivated liberal ideas, often at substantial personal costs. They remind us of a new and important task for Western liberals—debating the innumerable problems posed by the transition from socialism to capitalism. That is a very difficult assignment; there is no magic formula, no "model," for the transformation of a planned economy into a competitive one.

We have nothing to teach the ECCs. Our record in dismantling the innumerable bits of socialism that have proliferated in our own countries over the decades is not sensational. Rather, we have a lot to learn from the ECCs. We could sharpen our understanding of the nature of the problem by discussing the difficulties encountered by our friends in Eastern Europe. In return, we could provide them with the kind of invaluable encouragement that associating with other liberals has given many of us.

The debate on liberal ideas in an international forum is more necessary to our friends from the East than it is to us. That task alone would be sufficient to fill the liberal agenda for the next decade.

Is Freedom Winning?

While the problems faced by East European countries are numerous, serious, and unprecedented, liberty in our "free" countries is not immune to new and formidable predicaments. The reason is simple and very well known: *while socialism is dead, statism is not.* We have, for the moment at least, freed ourselves from the danger of wholesale socialism, but we are still facing the gradual but continuous erosion of our liberties. And, since a free country is one in which there is no particular individual to blame for the existing tyranny, we can only reproach ourselves for what is happening.

Capitalism's current problems, according to the *Economist*, are three: the environment; the increase in government spending, taxing, and borrowing that results from the interplay of pressure groups; and the growth of an "underclass" due mostly to the failure of public schools.

Environmentalism is one of the main causes of the new wave of statism. The threat of environmentalism is subtle

and deadly. Its plausibility makes it acceptable even to reasonable believers in freedom; its appeal to the uninformed is enormous; the half-baked scientific assertions used to justify all kinds of government intervention for the sake of the environment require extensive information on the part of those who wish to criticize them. And the problem is made worse by the many environmentalists who deliberately suppress any evidence that the bases of their proposals are questionable. Environmentalism poses a future risk to liberty that is as serious as that posed by wholesale socialism in the past.

Believers in freedom have already done extensive work on alternative, free-market solutions to environmental problems. What is needed now is more interdisciplinary research by collaborating scientists and economists. Such research should be a high priority for liberal scholars in the near future.

Another threat comes from the enormous variety of "small" restrictions on our personal freedoms that are continuously being introduced in the name of safety, health, and other lofty ideals. Each of them, taken by itself, seems trivial. Taken together, they amount to a wholesale attack on our independence.

The purpose of the law has been distorted, so that now the state, instead "of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it," as Adam Smith put it, tries to protect individuals *from themselves*, destroying the very concept of personal responsibility in the process.

The welfare state, "public" health care in particular, has gradually instilled the notion that we do not own our health. The results of that view are schizophrenic. On the one hand, the increase in life expectancy becomes the cause of national anxiety, since an aging population imposes costs "on society." A good example was given by a recent *Washington Post* article that explained that "smokers 'save' the Social Security system hundreds of billions of dollars. Certainly this does not mean that decreased smoking would not be socially beneficial. In fact, it is probably one of the most cost-effective ways of increasing average longevity. It does indicate, however, that if people alter their be-

havior in a manner which extends life expectancy, then this must be recognized by our national retirement program." At this point, the patriotic citizen does not know what to do. If he lives dangerously, he imperils the financial future of the public health system. If he decides to live a long, healthy life, Social Security is in trouble.

On the other hand, since "the government" pays for our medical care, we are not free to live our lives in a manner that is deemed unhealthy by the authorities. The standard argument for the panoply of restrictions on activities considered unhealthy is that people who engage in them are more likely to get sick and "impose a cost on society." As a result, what is deemed dangerous or unhealthy is banned, and

"If a citizen lives dangerously, he imperils the finances of the public health system. If he lives a long, healthy life, Social Security is in trouble."

what is considered healthy or otherwise beneficial is made compulsory: speed limits; helmets for motorcyclists; seat belts; restrictions on the sale of pornographic material and the consumption of drugs, alcohol, and tobacco; and so on. We are heading toward a society in which dangerous sports will not be permitted, pedestrians will be required to have licenses, obesity will be illegal, and what we are allowed to eat will be determined by the National Dieting Board!

If you think that is ridiculous, exaggerated, or paradoxical, think of the European Economic Community's toy regulations. As pointed out by Digby Anderson:

The contemporary obsession with safety, especially safety for chil-

dren, has found its true bureaucratic home in the EEC. . . . Committees have now recommended the statutory minimum dimensions of marbles based on the average width of toddlers' throats so that the Community shall protect its young from swallowing them. Or perhaps it is so that they *will* be able to swallow them rather than get them stuck: it's not clear. . . . The pea in a whistle may be governed by regulation as to its toxicity lest someone tread on a whistle, the pea escape, be picked up and chewed by a child desperately looking for a pre-EEC-ban-style marble. I'm unsure about whether such peas will have to be the size of tennis balls (for marbleish reasons) and how huge post-1990 whistles will have to be to incorporate them.

Examples of absurd pretenses for intruding into our privacy and regulating our lives could fill several volumes. Their absurdity should not make us forget the danger they pose to our liberty. Think of the bill signed by representatives of all political parties in Italy that, if approved, would have forbidden television on Saturday for the lofty purpose of forcing people to spend more time talking to their families. And what should we make of a society in which a citizen who is considered old and mature enough to pay taxes, enter into a labor contract, get married, drive a car, participate in determining the political future of his country by voting, or risk his life in its defense is not considered old or responsible enough to go into a bar and drink a beer? Yet that is what is happening in the "land of the free and the home of the brave."

Whatever we intend to do, we would be well advised to follow Lawrence Peter's advice. "Do it now! There may be a law against it tomorrow."

I believe it is more important today to ask the question that Spencer asked more than a century ago. "In past times Liberalism habitually stood for individual freedom *versus* State-coercion. . . . How is it that . . . Liberalism has to an increasing extent adopted the policy of dictating the actions of citizens, and, by consequence, diminishing the range throughout which their actions

Liberalism (Cont. from p. 11)

remain free?"

The last set of problems involves both new and old challenges to a liberal order. Liberals have for years advocated the introduction of choice in education as a way to impose the discipline of competition on inefficient public school systems. We have not made much progress in that area, despite the production of a substantial body of theoretical work, so it seems appropriate to analyze the reasons for our failure and look for a way to overcome the political and bureaucratic obstructions that so far have prevented experimentation. However, the growth of an underclass is not the result of the failure of public schools alone; it is the most visible symptom of the failure of the entire welfare state. While freedom fighters have consistently criticized welfare statism, we are still divided on the alternatives that have so far been proposed—the negative income tax, for example. Finally, we cannot hope to dismantle the existing welfare state unless we can suggest a plausible alternative. Liberal alternatives to welfare should be a high priority for our scholars.

Growth of Government and the Future of Liberty

By far the most pressing problem plaguing contemporary capitalism is our old nemesis, the growth of government spending, taxation, and borrowing. In most countries, the tendencies of the past have continued undisturbed, despite the dramatic change in political rhetoric. In my own country, the 1980s witnessed repeated pronouncements on the part of all governments about the need to contain spending, taxation, and borrowing. The results have been disappointing, to say the least. From 1980 to 1989 public-sector spending increased from 43.5 to 54 percent of GDP, public-sector revenue went from 35 to 43.3 percent, and net borrowing from 8.5 to 10.7 percent. Public debt more than doubled in real terms, reaching the astronomical figure of roughly \$900 billion. If the trends that prevailed in the 1980s are allowed to continue through the 1990s, in the year 2000 public spending in Italy could absorb

75 percent of gross domestic product, while explicit taxation could amount to 60 percent. That would spell the end of our freedom and prosperity.

The explanation of the contrast between good intentions and appalling results is simple: the growth of government is not a managerial problem that can be solved by changing managers. It is a problem of rules: without an effective set of constitutional constraints, political incentives will always and everywhere result in the uninterrupted growth of spending and taxation. In the words of James Buchanan, "There will be no escape from the protectionist-mercantilist regime that now threatens to be characteristic of the post-socialist politics in both Western and Eastern countries so long as we allow the ordinary or natural outcomes of majoritarian democratic processes to operate with-

"Superior management is the consequence of market efficiency, not its cause."

out adequate constitutional constraints." That is why I believe that discussion of a fiscal and monetary constitution should continue to be a high priority on the liberal agenda—all the more so because there still is no consensus among liberals on the most effective way to constrain government.

Any constitutional solution must address the problem of the relationship among the various levels of government. Federalism is today advocated as the appropriate framework for the peaceful coexistence of different geographic, ethnic, or linguistic groups within the same country. Whether in South Africa or Canada, the USSR or China, the EEC or nation-states like Italy, Spain, or even the United Kingdom, the decentralization of government seems to offer the kind of flexible structure needed to accommodate regional differences within a country. Federalism also allows experimentation with and competition among policies.

The debate on public policy problems can then leave the abstract and dogmatic domain of ideological confrontation for the more pragmatic and potentially fruitful approach of comparing the concrete results of various policy solutions.

But federalism could also offer a healthy check on total government power and on its tendency to grow over time. It is no accident that federal structures, such as those of Switzerland or the United States, have often been more successful in containing the growth of government than have nonfederal ones.

Unfortunately, the ideals of federalism can be betrayed and corrupted. Witness the EEC's experience and the growth of *euro-dirigisme*. We clearly face the additional task of devising constitutional constraints on the central power in federal structures to prevent them from evolving into the kind of centralized leviathan they were supposed to replace.

On the economic front, an important potential problem seems to be a shortage of savings. Keynes's prediction that "as a rule . . . a greater proportion of income [is] saved as real income increases" has been belied by the evidence. In many countries, including my own, the savings ratio has steadily declined as real income has increased. Such a tendency is obviously reinforced by demographic trends. Should it continue, it would constrain our growth potential. Demography and related issues, such as immigration, which have not always been prominent on the liberal research agenda, deserve more careful scrutiny.

The Durability of Ideas

Whether ideas make a difference is an important question for us. It seems to me that liberal ideas may not prevail in practice at the time of their conception but that they are more durable than their socialist counterparts.

Keynes's notorious view that in the long run we are all dead was wrong. We always *live* in the long run. Today is the last day of a long run that started sometime in the distant past. Yet, in a sense, Keynes was right: he *is* dead. Forty-four years after his demise, Keynes is dead both physically and intellectually; very little is left of his intellectual legacy. That is so because "the ideas of economists and political philosophers

. . . are more powerful than is commonly understood" *only when they are right*, when they are in accordance with logic and evidence.

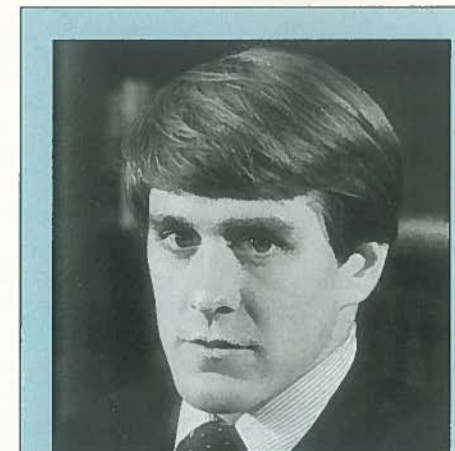
The ideas of great liberal thinkers have lasted much longer. It is because of the durability of the liberal tradition, which has survived the dark years of the socialist consensus, that we can enjoy the excitement of our times. The events of 1989 confirm beyond any doubt the view of Milton and Rose Friedman that "the force of ideas, propelled by the pressure of events, is clearly no respecter of geography or ideology or party label." The consequences, however, of the intellectual legacy of socialism will continue to exist long after their intellectual roots have fallen into disrepute. We therefore face the urgent task of showing how intellectual change can be translated into changes in public policy.

Conclusion

We live in an exciting but complex

world. Few of us would disagree with the comment of Alphonso X, "the learned" King of Castile (1252-84), a medieval patron of astronomy, who is quoted as saying, "If the Lord Almighty had consulted me before embarking on the Creation, I would have recommended something simpler."

The problems confronting us are numerous and intricate. Those that I have mentioned are only a few of the many difficulties that confront the future of liberty in today's world. By themselves, they could fill the liberal research agenda for the next decade. But that agenda will *always* be full, for the obvious reason that we shall never win. We cannot win, not because of any intrinsic weakness in our philosophy but because individual liberty is destined to be continuously challenged. Furthermore, our duty is to be ahead of our times, to offer a perspective on desirable future developments. We are doomed to be constantly ahead of politics. ■



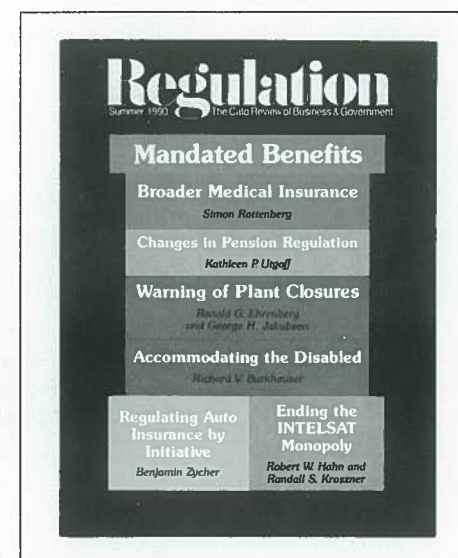
Stephen Moore has joined the Cato Institute as director of fiscal policy studies. He has most recently worked on immigration issues at the Hudson Institute. Before that, Moore was the Grover M. Hermann Fellow in Budgetary Affairs at the Heritage Foundation. He also served as research coordinator of President Reagan's Commission on Privatization and as a special consultant to the National Economic Commission in 1988-89.

Regulation Articles Say Mandated-Benefit Laws Would Mean Heavy Costs and Few Benefits

From satellites to cars and pension regulations to mandated medical insurance, the latest issue of *Regulation* magazine investigates how recent changes in regulation affect U.S. business and government.

Simon Rottenberg's article on the proposed Basic Health Benefits for All Americans Act (the Kennedy-Waxman bill) examines the unintended consequences of mandated medical insurance. Rottenberg, a professor of economics at the University of Massachusetts at Amherst, discovers that the Kennedy-Waxman bill would mean hefty costs that would fall disproportionately on the very people the bill was designed to help.

Kathleen P. Utgoff, former executive director of the Pension Benefit Guaranty Corporation and an economist at the Washington law firm of Groom and Nordberg, writes about today's proliferation of pension regulations, arguing that "it is time to stop pruning the trees [pension regulations] and look at the forest [the system itself]. If we do not,



The Summer 1990 issue of *Regulation*

our nation's population may grow older without adequate resources to meet our retirement needs."

The United States is no longer a pioneer in telecommunications, write Robert W. Hahn and Randall S. Kroszner

in their article on U.S. international satellite communications policy. Hahn, a resident scholar at the American Enterprise Institute and a professor of economics at Carnegie Mellon University, and Kroszner, an assistant professor of business economics at the University of Chicago's Graduate School of Business, write that the United States must lift current restrictions, which keep private businesses from the public switched network, before America can again lead the way to a competitive and efficient telecommunications industry.

Other contributors to this issue are Benjamin Zycher on automobile insurance regulation, Ronald G. Ehrenberg and George H. Jakubson on plant-closing legislation, Richard V. Burkhauser on the Americans with Disabilities Act, and James B. Burnham on the 1986 Government Securities Act.

Regulation is published three times a year by the Cato Institute. Subscriptions are \$18 a year for individuals and \$28 a year for libraries and institutions. ■

Post-Cold-War Interventionism

Cato Scholars Question Bush Policies in Persian Gulf

As American soldiers stand ready in the Saudi desert, Cato Institute scholars are questioning the Bush administration's eagerness to assume the role of planetary policeman.

Deployment of our troops to the Persian Gulf was a "knee-jerk, cold-war reaction that the President and the rest of us may soon regret," Ted Galen Carpenter, director of foreign policy studies at the Cato Institute, wrote in a *New York Times* op-ed. "That Saddam Hussein is an international ogre does not, however, mean that the United States should go to war with him. Nor does the fact that the emir of Kuwait, who requested U.S. intervention when the Iraqi tanks rolled, was a benevolent ruler by Mideastern standards make his regime worth Americans dying for," wrote syndicated columnist Doug Bandow, a senior fellow at the Cato Institute, in the *Orange County Register*. Articles by Carpenter and Bandow have appeared in the *Washington Post* and the *National Interest* among other publications, and both have been widely interviewed on American and international television broadcasts.

Leon T. Hadar, who is currently writing a book on U.S. policy in the Middle East for the Cato Institute, opines that the Middle East has become, to paraphrase Samuel Johnson, the last refuge of the foreign policy analyst in "The Rise of the Middle Eastern Bogeyman: Sliding toward Post-Cold-War Interventionism" (Foreign Policy Briefing no. 2).

The combination of fear of a tyrant who is often compared to Hitler and anxiety over the heightening political power of Moslem fundamentalists makes



Leon Hadar speaks at a Cato Policy Forum on U.S. involvement in the Middle East.



Ted Galen Carpenter, Cato's director of foreign policy studies, was interviewed on the Persian Gulf crisis by CNN and other networks.

it easy to win support for continued funding for the B-2 Stealth bomber or for renewed U.S. leadership in the Arab-Israeli peace process, writes Hadar. "Both the pro-Israeli and the pro-Arab constituencies in Washington are elated over the Iraqi aggression against Kuwait, which they hope will help maintain a high U.S. profile in the Middle East."

Washington should be wary of being lured into involvement in the Middle East if the United States doesn't actually face a major threat to its interests, Hadar warns, listing five considerations that should affect U.S. action in the

Persian Gulf: today there is little danger of a Soviet-American confrontation over the Middle East; America is less susceptible to the Arab oil weapon than before the 1973 oil embargo; from invading Lebanon to attempts to suppress the *intifada*, Israel has tarnished its image and raised concern about America's "moral commitment" in the region; Washington's ability to influence Arab affairs is extremely limited since "the conflict between Zionism and Arab nationalism predated the cold war and will continue even after the last brick of the Berlin Wall is removed"; and the "diverse nature of the problems and disputes in the Middle East creates a nearly endless series of quagmires into which the United States can stumble if it insists on maintaining an activist role."

Hadar believes that "it is only a question of time before the American people and Congress will ask why the United States should assume grave costs and risks to help secure European and Japanese access to Middle Eastern oil" and concludes that "it would be a tragedy if Washington replaced the cold war with a new and even more dangerous military and diplomatic engagement in the Middle East." ■

CATO INSTITUTE CALENDAR

The Expanding Criminal Law

Grand Hyatt • Washington, D.C. • November 15, 1990

Speakers will include Charles J. Ogletree, Henry Hudson, Nadine Strossen, L. Gordon Crovitz, Jay B. Stephens, Dan Polsby, and William Bradford Reynolds.

Third Annual Benefactor Summit

The Boulders • Carefree, Arizona • February 7-10, 1991

Speakers will include Hernando de Soto, Warren Brookes, P. J. O'Rourke, and Milton Friedman.

Money, Macroeconomics, and Forecasting

Ninth Annual Monetary Conference

Capital Hilton • Washington, D.C. • February 21-22, 1991

Speakers will include Rep. Stephen L. Neal, Bruce Kovner, Jerry L. Jordan, Allen Sinai, Bennett T. McCallum, Eduard Bomhoff, Donald McCloskey, Paul Craig Roberts, Lawrence Kudlow, Alan Reynolds, and Leland B. Yeager.

Making Sense of Safety

Second Annual Regulatory Conference

Madison Hotel • Washington, D.C. • March 21-22, 1991

Speakers will include John Graham, Kip Viscusi, Paul Rubin, Henry Grabowski, Joann Siegel, Lynn Weiner, Lester Lave, and Margaret Maxey.

Moscow (Cont. from p. 3)

planning were on the defensive all week, and they were up against the foremost of the free marketeers from East and West: Popov; Nobel laureate James M. Buchanan; Anatoly A. Sobchak, mayor of Leningrad and professor of law at Leningrad University; Supreme Soviet members Alexei M. Yemelyanov, Fyodor M. Burlatsky, and Alexei N. Boiko; Polish economist Jan Winiecki; Andrei A. Kokoshin, deputy director of the Institute for the USA and Canada; and the Cato Institute's William A. Niskanen, Roger Pilon, Ted Galen Carpenter, Earl C. Ravenal, Melanie Tammen, and Doug Bandow were among the distinguished history-makers at the Cato Institute conference.

One of the week's highlights was the open forum. Over 800 Muscovites packed the aisles to hear Crane; Popov; Fred Smith, president of the Competitive Enterprise Institute; and Larisa Piyasheva, one of the Soviet Union's most outspoken radical economists. Popov's speech on the decline of individualism and free markets in the 20th century was "the most libertarian speech I have ever heard by a politician," Cato's executive vice president, David Boaz, said afterwards.

Buchanan and pioneering development economist Peter Bauer were interviewed frequently on Soviet television during the week of the conference, and the Cato Institute made the front page of *Pravda*. Cato adjunct scholar Stanley H. Kober won kudos for delivering his speech on "Perestroika and International Relations" in Russian. At all future Soviet-American conferences the Americans should speak Russian and the Soviets English, said Arbatov, hinting that the Moscow conference might be the start of a brilliant new tradition.

The conference was organized by James A. Dorn, Cato's vice president for academic affairs, and Ted Galen Carpenter, director of foreign policy studies. Summing up the experience, Ed Crane remarked, "It was refreshing to be in a capital city where people were discussing first principles and the nature of a free society—and depressing to come back to Washington where people don't do that." ■

Hayek Bust Presented to Top Soviet

On Friday, September 14, Edward H. Crane, president of the Cato Institute, presented a bust of free-market economist and Nobel laureate F. A. Hayek to Yevgeny Primakov, chairman of the Council of the Union of the Supreme Soviet, at a ceremony at the Oktyabrskaya Hotel in Moscow. The presentation took place in the official conference room of the Communist Party Central Committee. The bust of Hayek now rests in the Kremlin offices of Stanislav Shatalin, principal author of the 500-Day Plan for transforming the Soviet Union into a market economy. The text of Mr. Crane's comments follows.

Edward H. Crane: It is an honor to present this bust of F. A. Hayek to Mr. Primakov, a senior member of Mr. Gorbachev's cabinet. In the 1930s and '40s, when state economic planning was very much in fashion—not just in the Soviet Union but throughout the West as well—F. A. Hayek, Ludwig von Mises, and a handful of others stood against the intellectual tide of socialism. Hayek pointed out the "knowledge problem" confronting planners who are inherently unable to calculate prices in a manner that would lead to the efficient allocation of resources in the economy.

Hayek's 1944 book, *The Road to Serfdom*, remains a classic demonstration of the incompatibility of socialism with economic progress and human liberty. He is a great champion not only of capitalism but of free society itself.

It is, therefore, particularly appropriate, here in this lavish hotel built exclusively for the Communist Party Central Committee, to acknowledge through the presentation of this bust that Hayek was right and Marx was wrong.

It is the Cato Institute's sincere hope that this bust of F. A. Hayek will rest in a prominent place in the Kremlin where it will remind Mr. Gorbachev and other leaders of the Soviet Union that there are answers, readily at hand, to the problems that beset the USSR.



Cato president Ed Crane prepares to unveil the bust of F. A. Hayek (inset) that was presented to Yevgeny Primakov, chairman of the Council of the Union of the Supreme Soviet. Primakov (left) and conference organizer Edward Lozansky listen to Crane's remarks.

"To be governed..."

Define capitalism

Under the communist system, there were only about 800 tax collectors, whereas fiscal experts believe a capitalist East German economy will require nearly 26,000.

—David D. Hale in the *Washington Post*, July 1, 1990

Negotiators agree to fleece taxpayers

U.S. and Japanese trade negotiators tonight announced what they described as a historic agreement designed to revamp economic practices in both countries and ultimately reduce the huge U.S. trade deficit with Japan. . . .

Among the measures was a commitment by Japan to increase spending on public works over the next decade by more than \$1 trillion . . . and a pledge by the United States to slash its budget deficit through steps that would include increasing tax revenues.

—*Washington Post*, June 29, 1990

Paging Thomas Jefferson

Then the diminutive king [Hussein of Jordan] . . . moved on a few more steps before he was stopped again, to be greeted by the [Four Seasons] hotel's general manager, Stan Bromley.

"It's not right for me to offer my hand, right?" Bromley had asked about five minutes before the arrival. "I have to wait until he offers his, right?"

—*Washington Post*, Aug. 16, 1990

If it produces too much, I'll take the extras

A free-market economy can indeed produce more goods, *but suppose it produces more than can be sold?* According to Presidents Herbert Hoover and Franklin Roosevelt, "destructive," "excessive" and "cut-throat" competition was the primary cause of the Great Depression, and both took steps to restrict competition. Bernard Baruch, the leading financier of his time, proposed in 1930 the creation of a "Supreme Court of Business" to restrict "overproduction."

Maybe they were wrong, but why do economists never consider the possibility?

—Frederick C. Thayer in the *Wall Street Journal*, Aug. 30, 1990

Ever get the feeling the game is fixed?

If Democrat Sharon Pratt Dixon is elected mayor and tries to implement a key campaign pledge to fire 2,000 middle- and upper-level employees to reduce the deficit, she may be in for a rude awakening, according to experts on the D.C. personnel system. . . .

The main obstacle is the city's labyrinthine personnel manual, which includes the bumping rights provision and allows for employee appeal of firings or reductions in force. Some experts say the District's personnel files are in such disarray that the gov-

ernment might have trouble sustaining layoffs in court or before an administrative panel. . . .

"I don't know how she can go about doing that under the current personnel act," said Elijah B. Rogers . . . a former city administrator.

"There isn't a legal mechanism right now that enables you to go through and selectively reduce the work force in areas where people are not as productive as they should be," said Robert Pohlman, deputy mayor for finance.

—*Washington Post*, Oct. 18, 1990

The new discrimination: against those unable to do the job

A 640-pound businessman sued the city [of Baltimore] today, claiming it unconstitutionally refuses to recognize his obesity as a disability entitling him to preferred status in bidding on city contracts. . . .

[Donald E.] Keister, who owns a lead paint testing and removal business, said he relies on city business but often loses contracts because of his limited ability to inspect potential work sites and submit bids.

"I can't go on job sites; I can't walk through a 500-unit apartment building," said the 6-foot-7 Keister. . . .

Keister has been granted minority status by the Maryland state Office of Minority Affairs and by several counties.

—*Washington Post*, Oct. 2, 1990

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