POLICY REPORT

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Immigration Barriers

by J. Huston McCulloch

During the 1920s Congress securely bolted America's golden door. Exceptions have been made to admit the vigorous, the rich, and the privileged few yearning for a change of scene, but the wretched have generally been refused. Before and after World War II, homeless Jews were sent away to wrest a precarious state for themselves on a shore already teeming with huddled masses. Since the fall of Saigon, thousands of tempest-tost Vietnamese boat people have perished for want of a haven. The barbed wire along the Mexican border has replaced the Statue of Liberty as the symbol of this country's policy toward immigrants.

These immigration barriers are supported by a curious combination of left and right. Thus we see Cesar Chavez, president of the United Farm Workers of America, demanding that the U.S. Border Patrol crack down on illegal alien workers and criticizing the Immigration and Naturalization Service for allowing "this flood of desperately poor workers [to continue] unchecked" (*New York Times*, July 23, 1974). And we also see members of the Ku Klux Klan donate their time to patrol the border in cars equipped with spotlights and CB radios, assisting the border patrol by spotting wetbacks (*Newsweek*, Nov. 14, 1977).

Since the passage of the Immigration and Nationality Act of 1952, U.S. policy has been to admit political refugees from "Communist or Communist-dominated" countries. For example, since Castro's rise to power, Cubans have been almost automatically admitted.

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"Give me your tired, your poor,
Your huddled masses yearning
to breathe free,
The wretched refuse of your
teeming shore.
Send these, the homeless,
tempest-tost to me,
I lift my lamp beside the
golden door!"

—Emma Lazarus,
"The New Colossus"

Haitian refugees from Duvalier's non-Communist regime, on the other hand, were almost all sent back to obtain certification from their local chiefs of police that they are indeed political rather than economic refugees. A lonely editorial in the *Wall Street Journal* (May 23, 1974) has been almost the only voice raised in behalf of these Haitians.

Today even the policy of admitting refugees from Communism has gone by the wayside. During the fall of South Vietnam in 1975, the Ford administration had a move underway to use "parole authority" (a special, rapid admission process) to admit some 200,000 endangered Vietnamese over and above the legislated quotas. The Senate Judiciary Committee, however, led by Senators Eastland and Kennedy, exercised its veto power to keep them out (*Boston Globe*, April 22, 1975). The result has been that since that time 100,000 to 200,000 boat people, according to official Australian estimates, have been left on the high seas to perish from hunger, thirst, exposure, drowning, and acts of piracy. Hundreds of thousands of others have been condemned to subhuman lives in areas resembling concentration camps, from which U.S. immigration officials allow only a trickle to escape. This is surely an unspeakable way to treat our one-time allies. In 1979 President Carter did double their quota, but his action was too little, too late.

The latest perverse twist of U.S. immigration policy is that in retaliation for seizure of U.S. diplomatic hostages in Iran the Immigration and Naturalization Service has been directed to ferret out all Iranians illegally in this country. Many Iranians who are here have no use for Khomeini's theocratic regime. They come to the United States and other western countries as students, which is sometimes merely a pretext. After their "studies" are over or their visas expire, they take a chance by staying on illegally. Carter is playing right into the Ayatollah's hands by sending them home for disciplinary action.

What are the economic implications of immigration? Is there room for more people here, or is America overpopulated as it is? How does immigration affect labor? Capital? The country as a whole? Whom would removing immigration barriers hurt?

It is fallacious to say that America could afford immigration in the nineteenth century when it was "underpopulated" but cannot now that it is "overpopulated." Each type of labor always has a diminishing marginal product. Our own immigrant ancestors

(Cont. on p. 3)

IN THIS ISSUE

From Chrysler Bailout to Employer Slavery

At this writing it appears that the federal government will grant Chrysler a massive subsidy, which it justifies on the grounds that the subsidy will keep Chrysler alive and save thousands of jobs. The federal government will finance this subsidy by taxing people who had no role in Chrysler's collapse other than not buying enough of the company's products to make Chrysler profitable. The bailout will not set a precedent because other firms have been bailed out before, but it does reinforce a precedent. Commentators have pointed out correctly that managers of many large firms will be more confident that they will be bailed out if they fail. We can also expect more failures than otherwise, but this is not the only bad result and may not even be the worst.

The worst result may be that the Chrysler bailout opens the door for other government regulations designed to achieve the same end—keeping firms in business in spite of consumers' desires. House Bill H.R. 5040, the National Employment Priorities Act of 1979, is one such bill. It would require firms with gross annual sales above $250,000 that want to close a plant or reduce employment at a plant to notify the government six months to two years in advance in order to give the government time to decide whether the change is justified. The bill does not make clear whether it gives the government the power to block a change of operation it deems "unjustified." But even if the government approves a change, the firm would be required to pay laid-off employees 85 percent of their lost wages for one year and to pay local governments 85 percent of their lost tax revenues for one year. A firm that transferred operations to a location outside the United States would be required to pay the federal government 300 percent of the lost tax revenues for one year. This bill would be a huge tax on moving and would force firms to stay in their present locations unless the gain from moving were very substantial. In essence, it would impose a form of slavery on employers. It would also discourage new firms from starting. Since the failure rate of new firms is high, someone considering starting a firm would realize that if he failed it would not be as easy to terminate operations as it once was. Job opportunities that would have existed without the bill would not exist if the bill passed, both because new firms that would otherwise have existed would not and because existing firms would be unable to move to new areas and give jobs to workers in those areas.

I suspect that many people will be outraged at this bill who did not feel outrage at the Chrysler bailout. If that is so, then they are selectively indignant because the principle behind both bills is the same—namely, that the government is justified in using its coercive power to keep firms in business. In the case of Chrysler, the coercive power is used against general taxpayers; in the case of H.R. 5040, it would be used against the stockholders of firms that want to change operations.

The Chrysler bailout opens the door for H.R. 5040 in two ways: by reinforcing the principle that the government is justified in taxing to keep firms where they are and by undercutting the position of some likely opponents to the bill. Foremost among the participants who have lost their moral claim to oppose H.R. 5040, even though the company has much to lose if it passes, is Chrysler itself. After all, who would take Chrysler seriously if it argued against the injustice of the government's refusing to let them shut a plant? And in one of those supreme ironies that is almost out of an Ayn Rand novel, twelve of H.R. 5040's 58 sponsors are from Chrysler's home state of Michigan, and Senator Riegle of Michigan, the sponsor of S. 1608, the Senate version of H.R. 5040, was one of the strongest supporters of the Chrysler bailout.

If H.R. 5040 were to pass, that might not be the end of it. Once the precedent has been established that the government can tax firms for moving, what is to prevent a law that would tax workers for moving or even forbid them from moving? After all, the principle is the same; only the victims differ. If you think that it can't happen here, I've got news for you: It has happened here. The Black Codes, under which blacks were fined or imprisoned if they were caught out of work while looking for better jobs, were widespread throughout the South after the Civil War. They were passed with the explicit intent of keeping blacks immobile and keeping their wages down. Ancient history you say? A law currently in force in the Netherlands makes it illegal for a worker to quit without government permission. Moreover, a bill that would have imprisoned workers who left their jobs without government permission *passed* the House in 1945 after being supported by President Roosevelt and his administration. The bill, which came to be known as the work-or-jail bill, was defeated by a vote of 46 to 29 in the Senate with organized labor's help.

The Chrysler bailout was a step toward a caste society. Although many supporters of H.R. 5040 do not intend it, this bill is a step toward slavery. Employers would be slaves, unable to move when they want to. Employee slavery would be another logical step. But none of this is inevitable. After all, the Black Codes *were* repealed and the work-or-jail bill *was* defeated. In politics, as in other areas of human action, nothing is inevitable but that thinking makes it so. ■

Immigration Barriers (Cont. from p. 1)

drove down the wages of the workers with whom they most directly competed during the eighteenth and nineteenth centuries, just as surely as Mexicans, Vietnamese, or Iranians would today. Under- and overpopulation are entirely subjective concepts. America was by definition underpopulated until one's own ancestors arrived, at which point the population density was just about right. As soon as more immigrants arrived, it was overpopulated. The real issue is whether or not we are willing to extend to others the right our own alien forebears had to struggle for a living in this country.

Although immigration lowers the real wages of those American workers who most directly compete with the immigrants, it may actually drive up the real wage earnings of American workers considered as a whole. Electricians, for example, compete directly with other electricians, and therefore increasing the supply of electricians would reduce their real wages. On the other hand, electricians are complementary to many other types of labor, such as plumbers and carpenters, because construction requires the services of all three. Increasing the supply of electricians makes construction cheaper and hence increases both the amount of construction and the demands for the necessary services of other construction workers, actually increasing the real earnings of plumbers and carpenters. It also increases the real earnings of workers in unrelated industries who directly or indirectly purchase the services of electricians. The gains to these other types of labor could easily exceed the loss to electricians.

What about the interests of labor as a whole? Consumers are sometimes asked to boycott Gallo Wines, Red

"The barbed wire along the Mexican border has replaced the Statue of Liberty as the symbol of this country's policy toward immigrants."

Coach Lettuce, or Farah Jeans to demonstrate their solidarity with the working class. Cesar Chavez and others charge that these employers pay low wages to aliens (often illegal ones) instead of hiring Americans. Surely this is a myopic view of the interests of labor. How can it be that a worker born in Nogales, Sonora, is any less deserving of a job than his cousin who was born a mile away in Nogales, Arizona? Admitting farm or factory workers from Mexico does drive down the wages of their counterparts in the United States, but the wages of the farm and factory workers left behind in Mexico will rise because they have less competition. The migrants themselves also get higher wages or they would not bother to move. The higher earnings of the latter two groups could be offset by the lower earnings of the U.S. workers, but this is unlikely.

Freedom of migration almost surely benefits the world's workers. Those who fall for these boycotts would do well to heed Austrian economist Ludwig von Mises: "Public opinion has been led astray by the smokescreen laid down by Marxist ideology which would have people believe that the union-organized 'proletariat of all lands' have the same interests and that only entrepreneurs and capitalists are nationalistic. The hard fact of the matter—namely that the unions in all those countries which have more favorable conditions of production, relatively fewer workers and thus higher wages, seek to prevent an influx of workers from less favored lands—has been passed over in silence."*

American capitalists—that is, owners of housing, land, factories, or natural resources—gain from immigration because these resources become even scarcer relative to labor. To the extent that laborers own shares in these resources, immigration may also benefit them, even if their wage and salary incomes decline. It appears that migration into the United States would hurt only foreign capitalists.

Citizens of the United States would definitely gain from substantial immigration. It might seem at first that since new immigrants must be paid their marginal products, the citizens would only break even. National income would go up by the immigrants' mar-

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POLICY REPORT

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ginal product, but this same amount would be paid out to the immigrants. This would be true of an amount of immigration so small that it does not substantially change the marginal product of labor. However, when immigration is substantial the last immigrants off the boat beat down the wages of the first ones off. National income therefore goes up by more than the wage-bill to the immigrants, and the citizens as a whole must gain.

Although the United States as a whole stands to gain from free immigration, the bureaucrats in a position to grant or withhold permission to immigrate stand to lose. An employee of the U.S. Consulate General in Hong Kong was recently charged with soliciting— and receiving— sexual favors from three Vietnamese women ranging from 18 to 22 years of age. He was quoted as telling one of them, "Whether you go to the United States or not depends on me. You must get along with my way of doing things" (*Boston Globe*, Feb. 10, 1979). Unauthorized "green cards," which enable foreigners to seek employment in the United States, reportedly can be obtained from corrupt government officials for two to three thousand dollars. And as Chairman of the Senate Judiciary Committee (and before that of its Refugee Subcommittee),

"The real issue is whether or not we are willing to extend to others the right our own alien forebears had to struggle for a living in this country."

Senator Edward Kennedy has amassed an invaluable store of eternal gratitude, all quite legally, simply by giving his OK to the use of parole authority for well-connected would-be immigrants. Anyone who can play St. Peter is in a position to command quite a lot of patronage, provided that not just anyone is entitled to get into heaven. Ironically, Kennedy has obtained a reputation for being a proimmigrant liberal, in spite of his success in excluding the Vietnamese boat people.

Although it is sometimes claimed that no country can stand the shock of freely admitting immigrants or that doing so would be somehow "impractical," America took vast numbers of immigrants in stride every year during the nineteenth century. The U.S. welfare system might not be able to stand such a shock, however. Before welfare, our immigrant ancestors looked out for themselves and generally fared well. Today the government's welfare system has grown so vast that it sometimes seems that the United States could provide welfare for virtually all the world's tired, poor, and huddled masses. But of course it cannot, so it shuts the golden door in their faces. In this way, our so-called welfare system perversely condemns the wretched refuse of the world's teeming shores to lives of hopeless misery. The welfare state is clearly inconsistent with freedom of migration. In the name of humanity, welfare should yield to free migration.

FOOTNOTE

*Ludwig von Mises, *The Clash of Group Interests and Other Essays* (New York: The Center for Libertarian Studies, 1978), p. 20.

Rent Control: How to Destroy Housing

by David R. Henderson

The push for rent control in the United States has surged in the last few years. Statutes controlling rents have passed in many cities, and referenda on rent control have been narrowly defeated in many others. In California rent control has picked up steam since the passage of Proposition 13 in 1978 because many tenants' hopes for rent reductions following on property tax reductions were dashed as rents continued upward. That Proposition 13 would not cause a rent reduction in the short term could have been—and was—predicted by economists. Because property tax reduction neither decreases demand nor increases supply in the short run, it cannot affect rents. The short-run gain from tax reduction is garnered by property owners. Investors will build more housing in response to these gains, and thus renters can expect relief in the future, but the year and a half since Proposition 13 passed is not enough time for much construction to have occurred, especially with the zoning, environmental, and building code restrictions that slow it down.

What is the effect of rent ceilings? Can renters hope for relief from them? Two kinds of ceilings must be distinguished: a ceiling above the rent that would otherwise be charged and a ceiling below the rent that would otherwise be charged. The first would have an impact only if apartment owners expected the ceiling to constrain rent increases. Such a ceiling would discourage people from owning apartment houses. The supply of apartments would decline and rents would become higher. The effect of a rent ceiling above the free-market rent would be a rent increase.

A rent ceiling below the rent that would otherwise be charged is favored by most rent control advocates. Its effect in a competitive market is unambiguous: It causes a shortage of apartments. Some people willing to

pay the ceiling rent cannot find apartments because the ceiling is below the market-clearing rent, that is, the rent at which demand equals supply. If this were not the case, there would be pressure for the rent to change. If, for instance, the supply of apartments exceeded the demand, apartment owners unable to find tenants would lower their rents. A rent ceiling below this market-clearing rent increases the demand, causing a shortage.

A ceiling below the market-clearing rent diminishes supply and increases demand. Apartment owners trying to decide between renting their apartments or converting them into offices or condominiums choose the latter. Apartment owners who plan to keep renting apartments and who expect the controls to last allow their apartments to deteriorate. Because they could rent more apartments than they have, they have less economic incentive to maintain them. In New York City, which has had rent control since World War II, many apartments have deteriorated so much that certain areas look like the aftermath of a firebombing. In some sections of New York where controlled rents do not even cover the variable costs of running an apartment block, landlords have abandoned their properties. In the words of a socialist economist, "...next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities...."[1]

Three facts cited by the San Franciscans for Affordable Housing, a pro–rent control group, are worth noting here: that the vacancy rate in San Francisco in 1979 was extremely low (2.35%), that a large fraction (27%) of San Francisco's occupied housing units were officially rated as substandard in 1979, and that new construction in San Francisco was very low (less than .5% of the total housing stock) in 1977. Their use of these facts to argue for rent control is amazing since rent control would make all of these problems worse: It would lower the vacancy rate even further, cause the housing stock to deteriorate even more, and discourage new construction.

Rent control has other harmful effects. It removes a landlord's incentive

"That Proposition 13 would not cause a rent reduction in the short term could have been —and was—predicted by economists."

to be pleasant. Since it creates an excess demand for their apartments, landlords do not lose business by being nasty; in economists' jargon, the cost of being nasty is zero. In fact, under many rent control schemes, there is a positive incentive to be nasty. In New York City, where landlords can raise rents 15% when a tenant leaves, landlords harass tenants to drive them out.

Just as rent control makes nastiness costless, it also makes discrimination costless. A landlord choosing between two tenants bears no cost for choosing according to his personal tastes. If, for instance, he is a white who prefers to associate with people of his own color, he is more inclined to choose a white tenant than a black tenant. Professor Harold Demsetz, an economist at UCLA, found that during the rent control period of World War II the *Chicago Tribune* carried a higher percentage of racially discriminatory apartment ads than before or after the rent controls. (Actually he found the number of ads that were racially discriminatory or that tied furniture purchase to apartment rental was higher; he did not separate the ads into two categories.)

Rent control neither helps nor hurts renters as a group. Renters who have apartments when the controls are imposed often gain. Even if they move, they can often sell their right to rent the apartment. (In New York City, renters sell their right for "key money," which has been known to run into thousands of dollars.) Newcomers to a city, however, often lose because they have trouble finding apartments and in some cases have to give up their plans to move to a rent-controlled city. People with characteristics favored by landlords, such as old, quiet, childless people, often gain, while those in disfavor, for example, young people with families, lose. Eventually, taxpayers also lose. Many people whose housing demands are frustrated exert pressure on the government to build public housing, paid for by tax money. Also, as rent control erodes the value of rental property, property taxes are increased on nonrental property. That rent control schemes such as New York City's provide for their own demise if vacancies exceed a certain rate is a cruel joke. As long as rent ceilings keep rents down, vacancies are low. If vacancies are high, that is because ceilings exceed the actual rents. Decontrolling only when vacancies are high undoes the damage only when the damage is small.

The only way to have low rents and no housing shortage is to avoid rent control and remove restrictions on building. The California government's Coastal Plan that restricts housing development along the coast is one cause of the California rent increases of the 1970s.[2] Building codes, according to two federal commission reports, add 10 to 15 percent to the cost of a home.[3] Renters have a just grievance against high rents. But it is rightly directed not against those who maintain the current supply but against those who restrict it. ■

FOOTNOTES

[1] Assar Lindbeck, *The Political Economy of the New Left, 1970* (New York: Harper and Row, 1972), p. 39.

[2] *The California Coastal Plan: A Critique* (San Francisco: Institute for Contemporary Studies, 1976).

[3] National Commission on Urban Problems, *Building the American City* (Washington, D.C.: U.S. Government Printing Office, 1968).

✓ Washington Update

✓ During December, subcommittees of the House and Senate Banking Committees heard testimony on amendments to the Bank Secrecy Act, which would impose virtually complete control on the transfer of significant sums of "monetary instruments" into or out of the country. In the House, Representative John LaFalce (D-N.Y.) has been the prime backer of the tightening amendments. His bill now is cosponsored by 41 members of the House.

Representative Jim Leach, also of the House Banking Committee, has introduced a package of ten bills designed to break the back of OPEC. One would prohibit "oil cartels" from owning more than 10 percent equity in any U.S. corporation. Also in December, the Commerce, Consumer, and Monetary Affairs Subcommitee voted to subpoena two federal agencies to force them to tell about Arab investments in the United States.

✓ On January 2 President Carter signed into law a federal alcohol abuse program bill that some Congressmen say clears the way for the government to begin requiring health warning labels on liquor bottles. Senator Donald Riegle (D-Mich.) says the bill was structured "...to permit and encourage federal agency action" on liquor health warnings as early as June, 1980.

✓ The United States Regulatory Council, created by President Carter on October 31, 1978, recently published its semiannual *Calendar of Federal Regulations*. The *Calendar* is designed to provide a comprehensive guide to regulations under development. To obtain the most recent copy, send 75 cents to Superintendent of Documents, Washington, D.C., 20402, and ask for stock number 022-003-01044-1.

Among the proposals under development are energy efficiency standards for consumer products (by the Department of Energy), gasohol marketing regulations (by the DOE), fuel economy standards for light trucks (by the Department of Transportation), noise standards for motorcycles (by the EPA), new safety standards for coal mines (by the Mine Safety and Health Administration), deregulation of the domestic telecommunications market (by the FCC), and ingredient labeling of wine, spirits, and malt beverages.

✓ Upcoming hearings in Congress include sessions on trade and technology (Senate International Finance Subcommittee, Adlai Stevenson, chairman), sunset legislation (Senate Governmental Affairs Committee, Abraham Ribicoff, chairman), Social Security tax reductions (Senate Finance Committee, Russell Long, chairman), major reform of the banking system (both House and Senate Banking Committees, Henry Reuss and William Proxmire, chairman), and tax breaks for savers (House Ways and Means Committee, Al Ullman, chairman).

✓ On January 1 the federal government started using larger stationery (business size), the minimum wage increased from $2.90 to $3.10 an hour, Social Security taxes rose by nearly $200.00 per year for those earning the maximum taxable salary, Alaska state employees slipped out of the Social Security system, and toys became subject to a new test for breakability issued by the Consumer Product Safety Commission.

✓ The Labor Department is conducting hearings around the country this winter on the privacy of employee records. If the department is not satisfied with the current practices of American businesses, it will attempt to mandate which procedures must be followed by private industry to safeguard employee privacy.

✓ In 1975 Congress gave new authority to the Federal Trade Commission to write broad rules of fair business practice for an industry if the FTC felt the industry warranted regulation. Some 20 sets of regulations prepared since then are close to being implemented, governing the sale of everything from hearing aids to health club memberships. But now the House has passed, and the Senate will consider, a bill giving Congress legislative veto over the FTC. Under it, either house of Congress could veto any FTC-proposed rule unless the other house overrode the veto. The bill would also remove certain activities, such as undertaking and children's commercials, from the jurisdiction of the FTC.

✓ Last November in the *Federal Register*, the Department of Energy published the table of contents of its proposed building energy performance standards, which are designed to be implemented through state and local building codes. The summary alone required 60 pages in the *Register*. These standards would virtually nationalize the country's building codes; states and localities that do not comply with the regulation will forfeit all federal aid that might have been used for the construction of any new commercial or residential building. The department is receiving comments on the proposed regulations until February 26.

✓ When a regulation or its application is challenged in the courts, the presumption is that the regulation is a valid exercise of the regulatory agency's power. Senator Dale Bumpers (D-Ark.) would change that. He has proposed an amendment that would require the agency to prove that any regulation it issued was a valid exercise of its power. The Bumpers amendment passed the Senate in September, but it has been delayed in the House Judiciary Committee. The Congressional leadership and the Carter Administration are both opposed to it.

✓ A bill that would nearly triple the number of refugees allowed to enter the United States each year was approved by the House. The bill, H.R. 2816, would also raise the annual number of immigrants allowed from 290,000 to 320,000. ■

Editor's Column

Corporate Bribery

In which society would you expect more bribery of government officials: one in which the government is constitutionally prevented from regulating the economy or one in which government officials have a great deal of discretion in regulating the economy?

To ask the question is to answer it. Professor George Stigler of the University of Chicago recently wrote that "the substantial corruption in business today, it must be emphasized, arises in, and virtually only in, dealings between business and government. It is government where one finds agents...who can confer large advantages or impose large penalties without any cost (except detection) to themselves. Arthur Young, in a memorable phrase, said that private property turns sand into gold. Corruption turns regulations into gold." If, for example, the government has no say about who starts a trucking firm, then someone wishing to truck goods from Chicago to Philadelphia will not have any reason to bribe an official. But if a person who wants to truck goods must get permission from an Interstate Commerce Commission official who can turn down the applicant on the vague grounds that the proposed service is not "required by the present or future public convenience and necessity," then both the applicant and the truckers on that route who fear competition are more likely to attempt bribery. The difference between the two examples is that in the first the government has nothing to offer or withhold while in the second it does. There is no bribery when there is nothing to gain from bribery.

An article in the *Wall Street Journal* ("A Casino Manager's Loan to a Bahamas Official Could Raise Questions for Resorts International," December 5, 1979) reveals that an official on the government-operated Bahamas gambling board received a $4,200 "loan" from the manager of Resorts International's Bahamas gambling casino. The gambling board supervises collection of all gaming receipts, regulates the casinos' accounting and control procedures, and regulates personnel and security matters. It also has the power to revoke or suspend licenses to operate casinos.

The $4,200 loan is not the only payment from the casino to a government official. Resorts International gave $150,000 to the ruling Progressive Liberal Party in 1977, the same year the government renewed the company's license to run the Paradise casino for 10 years; in 1967, the company gave over $1 million in cash, shares, and stock options to the party's campaign manager.

The article points out that because the casinos exist only at the sufferance of government regulators, "any charge against the casinos' reputation for honesty and integrity poses a threat to their future." How ironic! The casinos will continue to bribe government officials precisely *because* they exist at the sufferance of government. The way to make casino managers honest is to remove the temptation for dishonesty, which can be done only by abolishing the government's regulatory power.

If the government raised the penalties for bribes instead of eliminating the regulatory power that led to the bribes, then bribery would certainly be reduced. The law of demand—that when the cost of something rises people buy less of it—applies to bribery as well. However, what might be called the law of substitution also applies and tends to undercut penalties for bribery. When the cost of bribery rises, people simply find less detectable and more subtle methods of achieving the same ends. Instead of campaign contributions, they give jobs to ex-government officials who did them favors while in power or buy expensive ads in the major political parties' publications. We see evidence of the law of substitution in the United States: Former regulatory commission members get jobs with the firms they previously regulated; firms subject to regulation buy ads in the Republican and Democratic convention programs.

It is ironic that many of the people who object most to corporate bribery are among the strongest proponents of government control of the economy. It is especially ironic that many of them support Ralph Nader's proposal requiring every corporation to obtain a federal charter to operate. That proposal would get rid of the few firms in the economy that can afford to be honest. The maddening fact is that when regulation is pervasive, many honest firms do not make it and many dishonest firms do. Regulation makes dishonesty a condition for survival. ■

Coming in
POLICY REPORT

- **Jack High on the Department of Education**
- **David Henderson on VAT**
- **Professor Thomas Moore on ICC**
- **Joe Cobb on Gasoline Rationing**

"To be governed..."

Picky, picky

Attacking President Ford's record on the economy, candidate Jimmy Carter used to declare in 1976 that "inflation is robbing us" and point out that under Republicans Nixon and Ford "we have had three times the inflation rate that we experienced under President Johnson and President Kennedy."

Now Republicans and Democrats opposed to Carter's reelection are throwing in his face an inflation rate that is nearly three times what it was when he defeated Gerald R. Ford.

—*Los Angeles Times*, Dec. 12, 1979

Some protection!

The Supreme Court ruled yesterday that the parents of a 15-year old girl who was raped and murdered by a convicted sex offender cannot sue California parole officials who set the girl's assailant free.

In a unanimous opinion, the nine justices upheld a state law that makes California and its officials immune from lawsuits for injuries resulting from the parole or release of prisoners.

The decision means that all states may give parole officers and corrections officials absolute immunity from being sued because of their parole or release decisions.

—*San Francisco Chronicle*, Jan. 16, 1980

Take it from an impartial authority

Proponents of the so-called Sagebrush Rebellion, seeking wide popular support, argue that the federal government is trying to "lock up" hundreds of millions of acres in the West.

Quite the contrary, for it is federal policy which has kept these hundreds of millions of acres available for public access, for numerous types of economic development, and for the conservation of a rich land heritage now shared by all Americans.

The main target of the Sagebrush Rebellion is some 174 million acres in the 11 Western states and additional millions in Alaska under jurisdiction of the Bureau of Land Management (BLM), an agency of the Interior Department.... Clearly, continued federal management of the public lands is in the best interests of the West and all Americans.

—Cecil D. Andrus, Secretary of the Interior, *Wall Street Journal*, Dec. 5, 1979

Some folks would be right

...the official policy of the U.S. government is to depress the price of fossil fuels through price controls and to depress the price of nuclear energy by donating research and development costs and subsidizing insurance rates. This has several effects, none of them salutary. People continue to use more non-renewable fuels than they would in the free market. Badly needed energy conservation is inhibited. The development and marketing of badly needed alternative fuels—like wood, solar, biomass, wind, mini-hydro, etc. —is held back. And then people have the nerve to propose massive tax and spending subsidies to encourage people to do what they would do anyway if the government had not meddled with energy supply and pricing, namely to switch to wood, solar, biomass, wind, mini-hydro, etc. Some folks would say that this is ridiculous.

—*Wall Street Journal*, Dec. 11, 1979

The invisible fist

The [so-called windfall-profits] tax...is, of course, an excise tax rather than a profits tax—i.e., whatever the final rate, it will be tied to the number of barrels sold, not to the companies' profits on those barrels.... These taxes are simply costs, and costs are in general passed along to consumers. The general expectation must be that the great "windfall profits" tax now lurching through its final stages in Congress—and presumably being passed because the American people are sore at the oil companies—will be a tax on the American people. It will serve them right.

—*Fortune*, Dec. 31, 1979

Now Santa comes at tax time.

Another victim of Proposition 13 here is Santa Claus.

The Martinez [CA] Chamber of Commerce, which has traditionally put Santa on the streets to make children and townspeople happy, is broke.... The city, forced to retrench under the Jarvis-Gann amendment, cut off its contributions to the chamber.

—*Oakland Tribune*, Dec. 31, 1979

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