

Cultural Evolution vs. Rationalism in Hayek's Thought

by Viktor Vanberg

In an interview published in *Cato Policy Report* F.A. Hayek noted that in recent years interest in his writings "has been growing progressively."¹ This interest is reflected in the impressive number of publications devoted to Hayek's work that have been appearing over the past few years and particularly in 1984, a year certainly of special significance: It marked Hayek's 85th birthday, the 40th anniversary of the publication of his *Road to Serfdom*, and the 10th anniversary of his winning the Nobel Prize in economics.

Especially noteworthy is the large number of books published last year. In *The Essence of Hayek*, editors Chiaki Nishiyama and Kurt R. Leube present a selection of Hayek's work in honor of his 85th birthday and provide an excellent digest of his contributions in economics, political theory, and social and legal philosophy.² The Institute of Economic Affairs has published *Hayek's 'Serfdom' Revisited*, a collection of essays

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by economists, philosophers and political scientists on *The Road to Serfdom* after 40 years.³ *Hayek: His Contribution to the Political and Economic Thought of Our Time*, by Eamonn Butler, director of the Adam Smith Institute, is an intro-

"The idea of spontaneous social order is the central unifying idea of Hayek's entire system of thought."

dutory work that seeks to present the essentials of Hayek's thought to a wider audience not necessarily having a social sciences background.⁴ John Gray's *Hayek on Liberty*, an expanded version of an earlier article in *Literature of Liberty*,⁵ includes the most comprehensive bibliography of writings by and about Hayek currently available.⁶ In his study, Gray focuses on the philosophical foundations underlying and unify-

ing Hayek's work as an integrated system of social thought.⁷

Taken together these books reveal a striking feature that seems generally characteristic of the current reception and discussion of Hayek's work, a feature worthy of closer examination: While unanimous in expressing homage to the outstanding scholar who, more than anybody else, has laid the intellectual foundations for the remarkable modern revival of classical liberalism, they reflect at the same time an obvious ambiguity in the interpretation of Hayek's notion of *cultural evolution*, a notion that is increasingly stressed in Hayek's latest writings and is capturing much of the attention currently devoted to his ideas. Celebrated by some as a most important concept completing the Hayekian system, "cultural evolution" is questioned skeptically by others as to its compatibility with the basic thrust of the classical liberal tradition.

Evolution and Spontaneous Order

The essential source of this ambiguity seems to be the somewhat indistinct

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Book Offers Policy Proposals

Thirteen distinguished analysts offer a wide range of public policy ideas in *Beyond the Status Quo: Policy Proposals for America*, just published by the Cato Institute.

Edited by Cato president Edward H. Crane and vice president David Boaz, the book includes chapters on tax reform, Social Security, NATO, international trade, and many other issues. The book could serve as an outline of an agenda for the Reagan administration's

second term, although its proposals are for long-term and fundamental change that would last well beyond the next four years. In their introduction Boaz and Crane write, "Government continues to get bigger, the threat of nuclear war continues to haunt us, too many people are unemployed or trapped in poverty. Fundamental problems require fundamental solutions, not just the fine-tuning produced by Washington's policy myopia. It is in this belief

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Learning to Trust the Market

"Dissolve the Energy Department?" So read the slightly incredulous headline of an editorial in the *Washington Post* recently. The *Post*, in its inimitable fashion, was fulfilling its role as the nation's leading defender of Big Government in response to President Reagan's renewed proposal to abolish the D.O.E. Now, with the exception of the Department of Defense, a reasonably convincing case can be made for abolishing virtually any federal department. But in the instance of the Department of Energy the case seems, well, overwhelming.

The D.O.E. does not produce energy. It does not find energy. It does not deliver energy. The D.O.E. does feed thousands of bureaucrats. And, of course, it tends to impede the efficient operation of the energy market (although less so under Reagan than with previous administrations). Currently it is the target of certain major oil companies that hope to use it for purposes of protection during the current soft market for petroleum products.

All of which is to say that the Energy Department does very little good and is capable of doing significant harm. So what reason does the *Post* give for preserving this ill-conceived department? To make "orderly markets work."

The key word here is "orderly." Yet markets work precisely because they are *not* orderly, although they usually appear to be so. A free economy is a market *process*—with millions of constantly changing factors: investors, consumers, producers, speculators (short and long term). Moreover, a market really can't be modified by an adjective. A true market in any commodity, good, or service simply is.

According to the *Post*, however, in "a crisis, markets overreact violently." This kind of thinking amounts to what Nobel laureate F.A. Hayek calls the "fatal conceit"—the notion that a handful of planners can somehow integrate vast sums of knowledge and calculate "correct" prices and quantities for a given commodity or industry. What so concerned the *Post* was the sharp increase in oil prices following the 1973 Middle East embargo. But the market was not "overreacting"; it was simply



reflecting the reality of an unpleasant situation.

It is instructive, from a policy standpoint, to look back at what occurred during the Seventies. For it is politicians and bureaucrats—who dislike unpleasant situations—who overreacted to the Middle East problem in spades.

President Nixon used the embargo as an excuse to retain price controls on oil when economic reality forced him to end his senseless wage and price control program. Thus a "crisis" was born—as was, for that matter, a precedent by which American presidents would for the remainder of the decade impose policies that would encourage consumption of oil and discourage exploration and production.

Although nothing would top the pernicious effects of Mr. Nixon's price controls, President Ford's Entitlement Program gave them a good run for their money. Entitlements had the effect of transferring about \$7 billion a year to foreign producers of oil, thus shoring up the OPEC cartel. And President Carter, not to be outdone, purchased \$13.5 billion in foreign oil to stock a strategic petroleum reserve. Then he imposed a "windfall profits tax" on oil producers (actually an excise tax on crude oil), which assured that higher prices at the pump would not lead to more supply. Mr. Carter also deserves credit for giving us James Schlesinger, our Energy Czar who, among other things, actively promoted Third World loans from U.S. banks to lessen the impact of higher oil prices. We know where that policy has led.

It wasn't until President Reagan lifted oil price controls upon taking office in 1981 that the market was allowed to work. As always, the consumer was the beneficiary as supplies soared and prices plummeted. The truth is—and one wonders how long the *Washington Post* will take to discover it—it is the economic distortions created by bureaucrats who can't admit that they know less than the market that result in economic crises. This point is made time and again in a major two-volume work on the history of oil and gas regulations now being completed by Cato research associate Rob Bradley. The remarkable thing is how well the market does despite the government.

—Ed Crane

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Hayek (Cont. from p. 1)

relation between the notion of cultural evolution and Hayek's seminal theory of *spontaneous social order*. While Hayek likes to characterize these two notions as "twin ideas," it is by no means always obvious how his arguments on cultural evolution are systematically linked to his theory of spontaneous order, which unquestionably occupies a central place in libertarian philosophy.

It has been often and rightly pointed out that the idea of spontaneous social order is the theoretical core, the central unifying idea of Hayek's entire system of thought. Starting with his 1937 essay "Economics and Knowledge," Hayek elaborated a systematic theory of the spontaneous order of the market that has become more and more generalized into a comprehensive theory of spontaneous social orders. This comprehensive theory has a very specific meaning: It states that out of the interaction of individuals who are free to make their own choices and to pursue their own ends within the limits set by certain general rules, an overall order will spontaneously emerge that is superior in various respects to any deliberately designed, centrally planned order.

As Hayek has stressed repeatedly, the concept of spontaneous social order is a restatement of Adam Smith's notion of the "invisible hand." But it is Hayek's merit that he has specified, more systematically and in a more detailed way than anyone before him, the general principles that account for the generation of a spontaneous order. The point he notably stresses is that a self-generating order, by leaving individuals free to make their own choices, constantly adapts to a multitude of circumstances known by all those individuals taken collectively, but which could never be known by any single authority. Besides the value attributed to individual liberty in itself, the most forceful argument in favor of a free-market system is the unique advantage of the spontaneous order in utilizing the widely dispersed knowledge of particular circumstances, concrete situations, and local conditions, which exists only in individual minds.

Hayek's fundamental criticism of

what he calls *constructivist rationalism*, the belief in deliberate intervention and central planning as a means to improve the order of society, derives directly from his notion of spontaneous social order. The crucial argument in this criticism concerns the trade-off between the benefits of spontaneous order and those of deliberate organization: By deliberate intervention in and central planning of societal cooperation we may hope to bring about specific outcomes we consider desirable, but we inevitably do so not only at the expense of individual liberty, but of the adaptive forces of the spontaneous social order. We have to sacrifice the general advantages of that order and, above all, we will render beneficial social outcomes. Rather, it is the conditional argument that the order resulting from the spontaneous mutual adjustment of individual activities will be beneficial if people observe appropriate rules, informal rules of custom as well as formal rules of law, enforced by government.

"The critical-rational component of Hayekian thought is certainly more 'in tune' with the tradition of classical liberalism than is his theory of cultural evolution."

are not even assured of achieving the particular outcomes we are striving for because of the unintended effects of our interventions.

As far as the notion of spontaneous order and the criticism of constructivist rationalism are concerned, the Hayekian system is straightforward and comprises a set of arguments that are at the very core of a libertarian free-market philosophy. The ambiguity to be discussed here seems to arise as Hayek applies the notions of spontaneous growth and constructivist rationalism to the *rules* and *institutions* upon which the spontaneous order of the market is based.

His analytical interest in the institutional foundations of the free-market system has been a quite natural outgrowth of his insights into the basic principles of spontaneous order; it has, indeed, been the dominant theme of his writings over the past three dec-

ades. Differing from certain tendencies in "laissez-faire liberalism" and "anarcho-capitalism," but in perfect accord with the architects of classical liberalism in the eighteenth century, Hayek has persistently stressed that the character of the spontaneously emerging order will be essentially dependent on the character of the framework of rules and institutions. The classical as well as the Hayekian appreciation of the spontaneous order of the market is based neither on the belief in a natural harmony of interests, nor on the assumption that pursuit of self-interest per se will render beneficial social outcomes. Rather, it is the conditional argument that the order resulting from the spontaneous mutual adjustment of individual activities will be beneficial if people observe appropriate rules, informal rules of custom as well as formal rules of law, enforced by government.

The very notion of *appropriate rules* and institutions raises, of course, the question of how judgments on the appropriateness of rules can be made and of what attitude is proper to take with regard to the system of rules and institutions in which we find ourselves. It is precisely with respect to Hayek's suggested answer that his concept of cultural evolution and his criticism of rational interference in the framework of rules and institutions are ambiguous. The ambiguity is essentially structural, for it results from the failure to make sufficiently clear that there is an essential shift in meaning when the concepts of spontaneous emergence and constructivist rationalism, as used in the theory of the spontaneous order of the market, are applied to the rules and institutions themselves.

On the one hand, the notion of the spontaneous order of the market is based on a well-elaborated theory of the *mechanism* generating the order: the price system as a system of reward and punishment, guiding individual action. And as indicated above, the idea that the spontaneously emerging order is of a beneficial character is specified and conditional, based on the theory of the mutual adjustment of individual activities and on the assumption that individual actions are constrained by an appropriate institutional framework. Based upon these theoretical notions the criticism of constructivist rational-

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Hayek (Cont. from p. 3)

ism is equally specific, pointing to the destructive effects of tendencies to replace the mechanisms of a spontaneous order by the principles of a centrally planned organization.

There is no comparably elaborated and specified theory from which Hayek's arguments on institutional evolution and design could be said to be derived. Hayek's remarks on the actual mechanism governing the evolution of rules and institutions are not very systematic or well integrated. Moreover, the notion of "group selection" stressed especially in his more recent writings is apparently completely incompatible with the explicit methodological individualism otherwise characterizing his social philosophy. In contrast to his treatment of the beneficial character of the spontaneous order of the market, he does not provide specification of the reasons why and the conditions under which "evolution" can be expected to generate beneficial outcomes, that is, appropriate rules. Consequently, Hayek's criticism of constructivist rationalism with respect to rules and institutions lacks the theoretical precision it has within his theory of spontaneous order.

Ambiguity in Hayek's Theory

The result of all this is the fundamental ambiguity in Hayek's theory of institutional evolution, the emphasis of which has shifted significantly over time. In terms of Adam Ferguson's classical, paradigmatic formula, Hayek's main emphasis was originally on the argument that many of the institutions that obviously serve beneficial social functions are an unintended result of human action rather than the product of deliberate design. And under the label of constructivist rationalism he criticized primarily the idea of a *total reconstruction* of our moral and institutional system, emphasizing that it is only marginal and gradual institutional reforms that we can reasonably strive for, reforms limited to particular elements of an extremely complex system of traditions. From these more moderate notions of cultural growth and limited reform, the emphasis in Hayek's system has shifted increasingly toward the

quite controversial notion of a process of cultural evolution by which all our rules and institutions have been and will be shaped, a theory that leaves little, if any, room for rational institutional evaluation and reform.

The traditionalist, anti-rational interpretation invited by Hayek's theory of cultural evolution is clearly reflected in Eamonn Butler's treatment of the subject. The message of Hayek's theory of cultural evolution, as summarized by Butler, is that we "are ignorant of the evolutionary significance of our rules and institutions and therefore are significantly unqualified to redesign them";⁸ that "we do not understand the social

"It is unfortunate that the recent interest in Hayek is focused so much on his theory of cultural evolution and its traditionalist, anti-rationalist implications."

order, and . . . have systematically failed (as we must) to improve it";⁹ that the relationship between the institutional rules and the resulting overall order is so complex and unfathomable that we cannot tell in advance which sets of rules will work and which will not; and that deliberately "changing any of these rules may upset the delicate interrelationship between them and lead to a chaos."¹⁰

It is unfortunate that the recent surge of interest in Hayek is focused so much on his theory of cultural evolution and its traditionalist, anti-rationalist implications. It is unfortunate, since an element of Hayekian thought is being emphasized that is in conflict not only with the more critical-rational foundations of his seminal theory of spontaneous social order, but also with the critical-rational thrust of the intellectual tradition of classical liberalism, a tradition that Hayek has done so much to revive. John Gray actually concludes his *Hayek on Liberty* not by stressing the unity of Hayek's system of thought,

which he emphasizes elsewhere in the book, but with a discussion of the fundamental tension between the more rationalist aspects of Hayek's work and certain implications of Hayek's theory of cultural evolution (which Gray prefers to call "skeptical" rather than "traditionalist"). Whether labeled skeptical or traditionalist, the Hayekian notion of cultural evolution is widely understood as suggesting an attitude of passive reverence for a system of morals and institutions that "evolution" has brought about and the working of which we "do not really understand."

Such an attitude, however, is in obvious contrast with the critical-rational and activist attitudes that Hayek has often explicitly pleaded for and that are actually more consistent with the systematically elaborated parts of his social theory. In the introduction to what is often cited as his most important work, *The Constitution of Liberty*, Hayek states that his "emphasis is on the positive task of improving our institutions," and in this as well as other works he repeatedly stresses that "we must constantly re-examine our rules" and "always strive to improve our institutions." More than allowing merely a potentially beneficial role for deliberate institutional reform, he recognized that legislation is essentially indispensable since the process of spontaneous institutional evolution may take "very undesirable directions" and even "lead into an impasse."¹¹

The critical-rational component of Hayekian thought is certainly more "in tune" with the tradition of classical liberalism than is the theory of cultural evolution that is currently attracting so much attention.¹² Systematic elaboration of the critical-rational component would again bring into focus issues bearing on the institutional foundations of a free society, the relevance of which nobody has more vigorously brought to our attention than Hayek, but which his theory of cultural evolution seems to obscure rather than to enlighten. These are issues of how the character of the order we are living in is related to the rules and institutions on which it is based; and of how we are to judge the appropriateness of alternative rules and institutions, that is, their conduciveness to a beneficial social order.

In contrast to what the "evolutionary approach" suggests, it is (and always has been) the central message of libertarian social philosophy that we *do* have a criterion for the appropriateness of our institutions, apart from mere "evolutionary success," and that we can indeed effectively analyze from within a theoretical framework the working properties of different rules and institutions. This message is characteristic, in fact, of most of Hayek's own work.

A Criterion for Judging Institutions

While there is nothing a theory of cultural evolution can tell us about the appropriateness of our institutions apart from their "evolutionary success," throughout the tradition of classical liberalism a fundamental criterion of appropriateness *has* been stressed: Those rules and institutions are considered appropriate that are conducive to a social order in which people, as much and as effectively as possible, are allowed to pursue their own purposes. Even if something like a process of cultural evolution should be at work, there seems to be little reason for us to assume that it will automatically favor those institutions that are the best according to the libertarian criterion of appropriateness.

Likewise, throughout the tradition of classical liberalism, theoretical analysis of the actual working properties of alternative institutional arrangements has been stressed as the essential basis for informed normative evaluation of rules and institutions. After all, comparative institutional analysis is what classical liberal political economy was all about. And it is by no means accidental that the modern tradition of political economy as represented by public choice theory and related schools of thought is an essential part of the intellectual revival of classical liberalism. The message that we "simply *do not* know exactly how our actions and institutions contribute to the overall order of society, nor what a change in them would mean"¹³ blurs the essential role theoretical knowledge of social structures can and should play in libertarian argument.

The modern revival of classical liberalism owes its intellectual strength in no small part to the significant contri-

²Chiaki Nishiyama and Kurt R. Leube, eds., *The Essence of Hayek* (Stanford: Hoover Institution Press, 1984), 419 pp.

³A. Seldon, H.H. Gissurarson, J. Gray, N. Barry, J. Shearmur, J. Burton, K. I. Vaughn, *Hayek's 'Serfdom' Revisited* (London: IEA, 1984), 142 pp.

⁴Eamonn Butler, *Hayek: His Contribution to the Political and Economic Thought of Our Time* (London: Temple Smith, 1984), 168 pp.

⁵John Gray, "F.A. Hayek and the Rebirth of Classical Liberalism," *Literature of Liberty* 5 (Winter 1982).

⁶Idem, *Hayek on Liberty* (New York: Basil Blackwell, 1984), 230 pp. The bibliography is 66 pages in length (pp. 143-209).

⁷Other recent books on Hayekian thought include *The Political Economy of Freedom: Essays in Honor of F.A. Hayek*, ed. K. Leube and A. Zlabinger (Munich: Philosophia Verlag, 1984), which arrived at my desk too late for review.

⁸Eamonn Butler, foreword to *Knowledge, Evolution and Society*, F.A. Hayek (London: Adam Smith Institute, 1983).

⁹Idem, foreword to *Our Moral Heritage*, F.A. Hayek (Washington: Heritage Foundation, 1983).

¹⁰Butler 1984, p. 19.

¹¹F.A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960).

¹²Norman Barry, "Ideas versus Interests: The Classical Liberal Dilemma," in Seldon et al.

¹³Butler 1984, p. 25.



Leon Louw, director of the Free Market Foundation of South Africa, discussed apartheid, the homelands policy, and the possibility for non-racial, free-market policies in Ciskei at a Cato luncheon. Here Louw (left) talks with Cato vice president David Boaz and Walter Olson of the American Enterprise Institute. Other recent international visitors to Cato include Andreas Andreadopoulos of the Greek parliament and free-market student leaders from Denmark, Sweden, and Germany.

"Byline" Now Heard on 175 Stations Coast to Coast and Overseas

"Byline," The Cato Institute's daily public affairs radio commentary, is now heard on 175 stations across the United States. In addition, "Byline" is heard on two Tokyo stations—JICR and KTOY.

Five days a week, "Byline" presents 90 seconds of commentary from liberal, conservative, and libertarian perspectives. "Byline" commentators currently include syndicated columnists Donald Lambro, Nicholas von Hoffman, and Stephen Chapman; First Amendment defender Nat Hentoff; Joan Kennedy Taylor of the Manhattan Institute; economist Dom Armentano; foreign policy analyst Earl Ravenal; journalist Tom Bethell; civil rights activist Julian Bond; Cato president Ed Crane; and journalist Jeff Rigganbach, who also serves as executive producer of the program.

Among the commentaries that aired in January were the following:

TAX "REFORM"

Well, the Treasury came up with its proposal to rewrite the tax code on schedule, and the public response was interesting because many of the liberal and consumer-oriented groups liked it, and many of the business interests did not like it. Whether the proposal will go anywhere in Congress is hard to say. Noises from committee chairmen like Dan Rostenkowski and Robert Packwood have not been encouraging. Some say that a simpler tax code would reduce the power of these chairmen.

What is certain is that the beneficiaries of the present high-rate, loophole-ridden tax code will fight hard to preserve their favored status. That is where Treasury may have made its big mistake. The proposal would lower the top tax rate from 50 percent to 35 percent—a move in the right direction, although some say too timid. Even the Democrats' Bradley-Gephardt proposal would reduce the top rate to 30 percent.

The Treasury's mistake was to propose formally closing almost all tax loopholes (except the mortgage-interest deduction on one home). The point is that lowering the top rate in and of itself tends to close the loopholes by

rendering them less effective. I mean, you might buy something if you can write off 50 percent of the cost against taxes, but when the tax advantage is reduced to, say, one-fourth of the cost, you would weigh that against the cost of the transaction itself. So, if the administration proposes to leave the loopholes formally open but less effective as a result of lower rates, the special interests will be less likely to pick the legislation to death. As things stand, the status quo may well be preserved.

This is Tom Bethell for Byline.

NATO

Defense Secretary Caspar Weinberger recently returned from a conference of NATO defense ministers with a modest achievement—an agreement by the allies to spend more on military equipment and facilities. This is what you brag about when you have nothing else. The administration has been trying to get the Western Europeans to carry more of their weight in NATO. But it hasn't had much luck.

and until it reduces the U.S. role in Europe, its luck won't change.

Only one of our NATO allies, namely, Greece spends as big a share of its resources on defense as we do. Britain spends about 20 percent less; West Germany spends about half what we do as a percentage of national output. So the U.S. has to run huge budget deficits to keep Europe free and secure. This year, NATO will cost us about 120 billion dollars.

The commitment made sense in the 1950s, when Western Europe was still rebuilding from World War II. But today those countries can protect themselves against the Soviet threat without so much American help. After all, they have a bigger population and greater economic resources than the Soviets.

The U.S. doesn't need to pull out all of its 350,000 troops, at least not right away. But we can cut our role substantially, at great savings to American taxpayers. Our allies can and should bear more of the burden of protecting themselves. Forty years after American troops liberated Western Europe, it's high time Western Europe liberated some American troops.

I'm Steve Chapman for Byline. ■

Cato News



J. Peter Grace speaks at a news conference on tax reform as Richard Lesher, J. W. Marriott, Dirk Van Dongen, and Edward H. Crane listen.



Leonard P. Liggio, president of the Institute for Humane Studies, spoke at a Cato Policy Forum on "Two Approaches to U.S. Foreign Policy." Here Liggio (center) talks with Edward Hudgins of the Heritage Foundation and Lloyd Cohen of the International Trade Commission.

RDF Is a Dangerous and Expensive Gamble

The Rapid Deployment Force (now known as the U.S. Central Command, or CENTCOM) is an expensive military gamble that would risk nuclear war in a futile attempt to intervene thousands of miles from the United States, says a new study from the Cato Institute.

Analyst David Isenberg of the Pacific Northwest Research Center wrote, "Instead of being prudent, President Reagan has chosen to continue the risky gamble first officially laid out by President Carter in his January 23, 1980 State of the Union address. The continuation of the RDF is a gamble that misjudges the fundamental threats to our national security and demands a unilateral increase in U.S. defense expenditures. And it is a gamble that vastly expands our global commitments in a region that cannot be effectively defended short of the threat of nuclear war."

The RDF was designed primarily to intervene in the volatile Middle East. But the United States does not have the capability to get sufficient troops to the Persian Gulf in time to mount a credible defense there. Any military action in the gulf region would pull troops away from Europe and the Far East, yet it is "difficult to envisage any hot war between the United States and the Soviet

Union being confined to the Persian Gulf or Iran alone."

The size of the RDF could be increased, of course, but that would be enormously expensive. One analyst has estimated the total cost of the RDF at \$59 billion, and the Congressional Budget Office estimates that increasing its size would cost an additional \$37.8 billion.

Given its inability to effectively counter Soviet moves in the Middle East, the RDF realistically would serve as "a tripwire for an open-ended U.S. commitment." This would imply a commitment to use nuclear weapons in a gulf conflict, as former secretary of defense James Schlesinger has suggested.

Given the nature of the conflicts the RDF might face and its own limited capabilities, Isenberg writes, "the prospect for success . . . is dim if recent experience is any guide. The Marine Corps forces that served in Lebanon in 1982 were part of the CENTCOM forces. Their tragedy there serves as a reminder of the limited usefulness of military force."

Isenberg's study, "The Rapid Deployment Force: The Few, the Futile, the Expendable," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■

Spending, Not Deficit, Is Real Problem

The real fiscal problem facing the United States is excessive government spending, not the deficit, according to a new Cato Policy Analysis study.

Thomas S. McCaleb, associate professor of economics at Florida State University and former senior staff economist with the Council of Economic Advisers, wrote, "Fundamentally, the problem is the size of government, not the method of financing government activity. The deficit is important only because it encourages more government activity. Raising taxes may reduce the deficit, but higher taxes will not reduce the size or the pervasiveness of government. Indeed, higher taxes serve only to confirm previous expansions of government activity. When seen in this light, the only deficit reduction strategy that makes sense is expenditure reduction."

McCaleb examined the growth of federal revenues and expenditures, finding that the growth in spending is responsible for today's deficits. In 1983 receipts were 18.2 percent of GNP, slightly lower than in 1960, and they are expected to rise to 19.3 percent in 1988. Expenditures, however, rose to 24.1 percent of GNP in 1983, substantially higher than in 1960 or even 1980, and are projected to fall only to 22.3 percent by 1988.

Most of the spending growth has occurred in income-transfer programs. Most entitlement and transfer programs will continue to grow throughout the 1980s, and none will return to the spending levels of the 1960s in either actual dollars or percent of GNP.

Higher taxes have been proposed as a way to reduce the deficit, but McCaleb warns that tax increases would discourage work effort, reduce the supply of labor, and reduce investment.

McCaleb's study, "Deficits and Taxes: Federal Budget and Fiscal Policy in the 1980's," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■

Reassessing the Political Spectrum

Every month the Cato Institute sponsors a Policy Forum at its Washington headquarters where distinguished analysts discuss their findings with an audience drawn from government, the public policy community, and the media. A recent forum featured William S. Maddox and Stuart A. Lilie, professors of political science at the University of Central Florida and authors of *Beyond Liberal and Conservative: Reassessing the Political Spectrum* (Cato, 1984). Commenting on Maddox and Lilie's findings were Michael Barone, co-author of *The Almanac of American Politics* and a senior editorial writer for the Washington Post and David Boaz, vice president of the Cato Institute.

Stuart Lilie: Our interest in a more accurate differentiation of American political ideologies started five or six years ago, arising from fairly casual discussions about people's confidence in the liberal/conservative label. When Bill and I would try to make sense of the terms "liberal" and "conservative" in our classes, we would have a difficult time because they are not clearly defined concepts. What particularly concerned and annoyed us was the fact that there was a tendency to label any person or position that didn't fit the liberal/conservative continuum as inconsistent, irrational, or nonideological. This struck us as arbitrary, for it didn't seem to us that people who were labeled conservative or liberal were always "consistent." Thus we began to question whether there were not easier and better ways of looking at popular mass ideology in this country.

Initially, we came up with the simple notion that in American politics, certainly in recent decades, there have been two major issue dimensions—a fact that the liberal/conservative dichotomy fails to recognize. The first dimension concerns the proper role of government in the economy, while the second concerns the proper degree and nature of civil liberties and personal freedom. Given that a person has a choice of two positions in each dimension, you come up with the social scientist's favorite tool—the two-by-two table, which gives you four possibilities.

In this scheme, a person who basically supports the ideas of economic interven-



Stuart Lilie shows a chart in *Beyond Liberal and Conservative* to Walter Olson (left) and Paul Weaver (right) of the American Enterprise Institute.

tion and of maintaining and expanding personal freedoms would be labeled a liberal. One who supports the idea of personal freedom but rejects government intervention in the economy would be labeled a libertarian. Individuals who

Policy Forum

support economic intervention but feel it is legitimate in some cases for society to put restrictions on personal freedoms would be labeled populists. People who oppose economic intervention but feel that some restrictions on personal freedoms are justified would be labeled conservatives. We now have four categories instead of the traditional two.

In the 1980 poll data, the breakdowns were as follows: 24 percent liberal, 18 percent libertarian, 26 percent populist, and 17 percent conservative. If you combine the new categories of libertarians and populists, you get 44 percent—almost half the population. If you add the proportion of liberals and conservatives, you get the slightly lower figure of 41 percent. The standard liberal/conservative spectrum thus assigns 44 percent of the voters in 1980 the label of inconsistent or non-ideological, while our classification gives them legitimacy.

One of the more interesting ways we

It is interesting to observe that the libertarian and populist positions are in some ways more consistent. They are easier to present: The populist says government can help control our personal lives and can help us in the economy; the libertarian says no in both areas. Although it takes a more complicated rationale to explain the positions of liberals and conservatives, those are the positions that are usually considered consistent and acceptable. These new categories have not been "manufactured" to fit the facts; they have theoretical substance to them. They tie into the larger tradition of political thought as it has developed in the last two centuries particularly in Great Britain and the United States.

William Maddox: Two kinds of questions occur immediately when reflecting on the distribution of ideological types in 1980. First of all, who are these people? What social categories do they come from? Do they share other characteristics beyond their ideology? Can you define them or describe them in demographic terms? Second, what is their effect on the political system, given that the system is presented to them largely in dichotomous Democrat/Republican, liberal/conservative terms?

have found to distinguish the four groups is to correlate ideology with political generation. "Political generation" refers simply to the age at which a person comes to political maturity, which is usually considered voting age, 21, now 18. The period during which a person experiences political maturation is a crucial determinant of political ideas, for notions formed very early in young adulthood often stay with a person because they have been etched in the mind through experiences with others. The classic example is the New Deal generation, which generally developed either a passionately intense support for the Democratic party and its economic program or, less often, an equally intense hostility to them. Although perhaps modified in various ways, such points of view tend to stay with people throughout their lives.

We divided the 1980 sample into six political generations using the conventional division of generations at ten-year intervals. Then we looked to see to what extent the four ideological categories had generational bases to them.

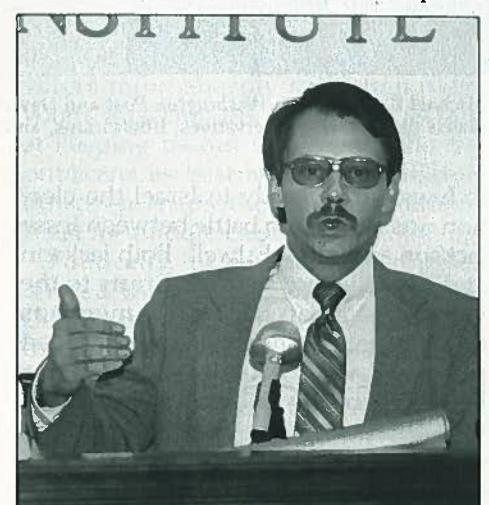
The pre-New Deal generation, comprising those who had come to maturity before 1930, was found to be predominantly populist or conservative. This probably reflects their coming of age sometime during the fifty years of political conflicts between conservatives and the populist and progressive movements. Surprisingly, we found the New Deal generation to be mainly populist, not liberal as is often assumed; those who supported the New Deal never advocated the expansion of personal freedoms. Since personal freedom issues were not very important in the 1930s, populists could go along with the Democratic party for the sake of its interventionist economic policies.

When you look at the World War II generation, those people who came to maturity in the 1940s, you see the ideological categories beginning to show a more even distribution. By the 1950s, essentially there was a four-way split with about the same number of people in each category.

The 1960s also saw a fairly even split among the four categories, but liberalism was predominant, reflecting the liberal excitement of the Kennedy era. In the 1970s, liberals continued to pre-

dominate, but the number of libertarians and conservatives had increased significantly. Populism was on the decline.

Today, it is common to hear that young people are becoming more "conservative." But this statement is very misleading: what you see among the young is *not* a conservative renaissance, but a liberal/libertarian split. There is agreement on expanding personal freedoms, but disagreement over economic intervention. A former student of mine in his early twenties was explaining to me recently that he was a product of the "Reagan generation" and was, therefore, a conservative. When I asked him if he agreed with the Moral Majority and with Jerry Falwell, however, he was incensed and said no. I tried to point



William Maddox: "What you see among the young is not a conservative renaissance but a liberal/libertarian split."

out to him that perhaps he was not a conservative after all, but a libertarian.

The second general question I raised

at the beginning of my remarks concerns how people from the four categories translate their views into the dichotomized political system. Let us look at the example of the 1980 presidential election again: given the distribution of ideological types, how was it that a self-proclaimed conservative spokesman won in 1980?

The crucial factor, I believe, was the turnout rate. Even though populists form the largest category, they vote at a rate significantly lower than that of the other groups. Liberals, who usually vote at a rate close to the national average, in 1980 also had a low turnout.

Conservative and libertarian turnout, however, was significantly higher than the national average. As a result, the four groups were virtually equal in size before going into the polling booth.

As shown in Table 14 of our book, Reagan won an overwhelming majority of the conservative vote. He won almost as strongly in the libertarian category. This was due, we assume, to the focus on economic issues in that year, which perhaps led libertarian voters to choose Reagan in spite of his interventionist social views. The traditionally Democratic populists, mostly blacks and Southern whites, were more amenable to the Democrats and to Jimmy Carter especially. Reagan was, however, able to appeal to a significant minority of them primarily because of his appeal to traditional social values. Liberals were the only group that Reagan conceded almost entirely to the Democratic party. Yet he was still able to attract about 25 percent of them, probably by virtue of personal appeal and, possibly, popular reaction against the foreign policy disasters of the Carter administration. Finally, Reagan won about half the "noncategories" of inattentive and divided voters.

The Republican victory, therefore, was won by taking almost all the conservatives, most of the libertarians, a significant minority of populists, and at least a sliver of the liberals, plus half of those who didn't fall into one of the four categories. What appeared to be a victory for conservatives in 1980 was actually a victory for a more complex coalition of various ideological perspectives. I suspect 1984 was a repetition of this in terms of the translation of ideological views into election results.

Michael Barone: I would like to congratulate Bill Maddox and Stuart Lilie on their work. I think this book, the formulation of these labels, and the gathering of evidence on how they apply to actual voters are a great service to political science and to political journalism. They clarify a great many things that have been unclear, confused, and the subject of controversy. The Cato Institute has performed an important service as well by publishing the book.

I was talking recently with my former employer, Peter Hart, who was Walter Mondale's pollster during his campaign, about some of the exit polls from

(Cont. on p. 10)

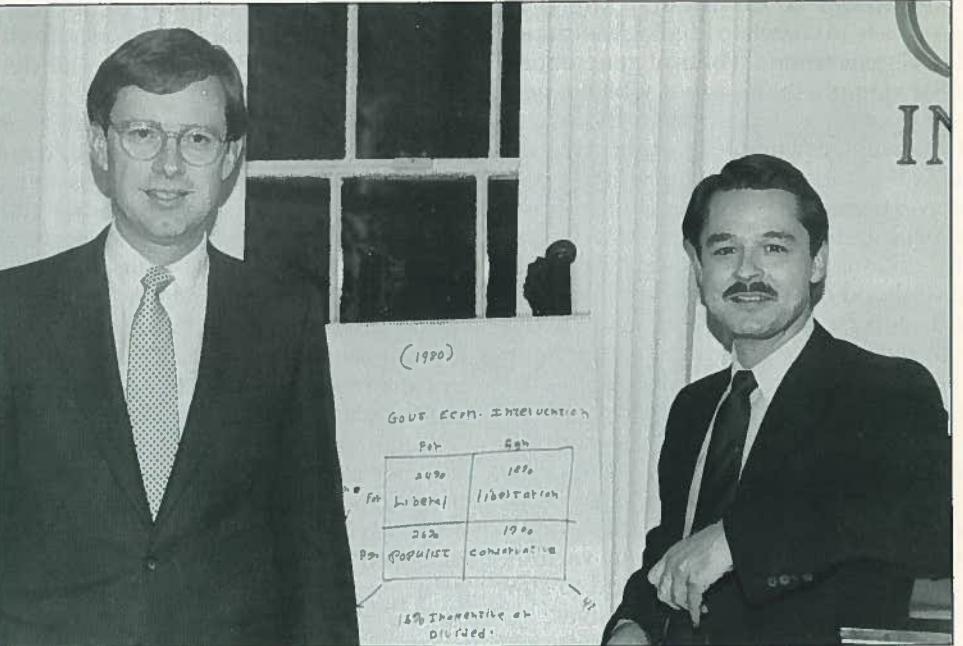
Political Spectrum (Cont. from p. 9)

the presidential primaries. It seemed to us that people in the liberal, moderate, and conservative categories, as indicated by the self-identification of respondents, voted the same way. For example, the same percentage of liberals voted for Mondale as voted for Hart and for Jackson. Peter ended up dropping the liberal/moderate/conservative questions from his polls altogether because they were producing useless data.

Beyond Liberal and Conservative gives us some idea of how to develop useful categories. As the authors note, in my own book, the *Almanac of American Politics* 1982, I also tried to draw a four-part matrix. I didn't use the same labels, but somewhat similar ideas. I was moved to do so because as I've been writing about members of Congress and about voters for some years, I kept noticing that many of the old labels didn't apply well. Someone would have a liberal voting record on one issue, and a conservative record on another. People with the same liberal-conservative percentage rating would have voting records almost diametrically opposed. We needed to describe people's positions on at least two sets of issues—economic and cultural. In cooperation with the *National Journal*, I also went ahead in the *Almanac* to construct a set of ratings for members of Congress according to their voting records on three sets of issues: economic, cultural (or social), and foreign policy.

Thinking about politics and parts of the electorate in terms of the four-part matrix is very helpful. In that light, the presidential candidates can be seen as starting from a liberal or conservative base and then trying to win three out of four of the ideological groups. Maddox and Lilie say that Reagan in 1980 won the libertarians and conservatives and split the populists. In 1984 I would guess that his majority was roughly similar, maybe a little less among libertarians and more among populists.

I would point out, however, that Reagan's support from one ethnic or religiously defined group containing a fair number of libertarians, Jewish Americans, did drop from 39 percent in 1980 to about 31 percent in 1984. Given two candidates who have been friendly



Michael Barone of the *Washington Post* and David Boaz of Cato flank Maddox and Lilie's four-way matrix of liberals, conservatives, libertarians, and populists.

to Jews and friendly to Israel the election was basically a battle between Jesse Jackson and Jerry Falwell. Both Jackson and Falwell were seen as threats to the values that many Jewish Americans strongly believe in and to the continued place of Jewish Americans in society. Jews apparently decided that the Falwell threat was the more dangerous one, so they voted for Mondale. Of course, this doesn't tell the whole story of libertarian voting in 1984. There is probably more work to be done here.

Two additional caveats about the relative growth of the libertarian category are in order, for there are signs that a significant number of Americans may actually be moving away from libertarian values.

First is the increase in support for an assertive foreign policy (within the context, of course, of a free enterprise military—a volunteer army; the whole dynamic would be different if we had a draft). We have seen popular enthusiasm following the Grenada incident and nationalistic feelings in response to the Olympics. In the aftermath of Grenada and throughout 1983 and 1984, despite the economic recovery, we have seen increases in military enlistments. This is evidence of patriotic military fervor on the part of many young people, a fascinating phenomenon that goes

against the economic trend. This fervor seems to be echoed in the positive response that many of them are giving Reagan and the nationalistic aspects of his administration.

I am influenced by the University of Chicago historian William McNeill. According to McNeill, the one way to get a vast increase in the power of the state and a willingness to obey that power is a wartime situation. People seemed to accept the great growth of government and taxation during the World War II period—more than during the New Deal—even when we went to 91 percent marginal tax rates. We accepted all kinds of controls over our daily lives.

As we moved further from the war experience, we also seemed to move away from tolerance or acceptance of big government intervention. I wonder sometimes whether the revival of patriotism might indicate that we are moving back.

My other caveat has to do with the issue of abortion and, to some extent, such related issues as marijuana and pornography, where there may be some backlash. Abortion, in my guess, will emerge as a more important issue in future elections, even though most politicians would rather avoid it. It may become more important because Mr. Reagan is going to be making nominations to the Supreme Court.

The way I read the most recent decision of Justice O'Connor on this subject was as a rationale for overturning *Roe v. Wade* and for allowing the states to prohibit abortion under certain circumstances. If Reagan should appoint more judges, and there were five votes for Justice O'Connor's decision, then in every state legislative and gubernatorial race we are going to see a lot of activity revolving around the abortion issue.

The basic attractiveness of the idea of abortion and the personal liberty it represents has, I think, been diminishing since Justice Blackmun wrote the *Roe v. Wade* decision in 1973. *Roe v. Wade* presents abortion as a way to a wonderful future; it was going to solve the problems of overpopulation, air pollution, and so on. That sounds like antique rhetoric to most people in America today, including those like myself who want to see continued status quo on this issue. Conflict over abortion has potential for turning politics away from a libertarian direction to a more socially restrictive one.

In conclusion, it should be kept in mind that our analysis is still at a preliminary stage. The relevant definitions are not yet precise, and voters are not familiar enough with the terms libertarian and populist and with the four-part matrix to define themselves in those terms. Instead, we have to depend on voter positions on a series of issues, the choice of which produces different definitions, even in the same calendar year.

When I try to personify the four labels, I think of them this way: the conservative is a Republican politician, the liberal is a Democratic politician, the populist is a Pennsylvania small-town factory worker, and the libertarian is the Silicon Valley high-tech worker. The authors of *Beyond Liberal and Conservative* have given us these labels and some content, and for that I thank them.

David Boaz: My thesis today is that the baby boom generation is the swing vote in American politics today, and is going to decide the future direction of American politics. That may not be a very provocative claim given that there are 75 million people who are generally defined as being in the baby boom. They are now about 43 percent of the elec-

torate. Obviously they're going to be a dominant force in elections for the next generation, and at least until this year they very clearly had not firmly tilted toward one party.

I think *Beyond Liberal and Conservative* goes a long way in explaining why that was and what happened in 1984.

The most interesting part of the book to me is its discussion of the libertarian quadrant of the electorate. The number of people in that category went from 9 percent in 1972 to 13 percent in 1976 and 18 percent in 1980. That's a very significant shift, and my guess is that it is still going on. My contention is that the much-discussed "yuppies"—or young urban professionals—tend to fall in the libertarian quadrant.

What do we know about the yuppie voters this year? Perhaps the most telling poll was one that showed younger voters more sharply split than older voters in seeing the Democrats as best at keeping us out of war and the Republicans as best at keeping inflation down—perhaps the crucial economic issue for middle-class voters.

Politically, of course, the yuppies tended to support Gary Hart in the Democratic primaries. They outraged the Mondale forces and the party establishment by telling exit pollsters that they just might vote for Reagan over Mondale in the fall, and indeed many of them did. According to the CBS-New York Times exit poll, Reagan got only 4 percent of the Mondale primary voters and only 6 percent of the Jackson supporters—but 34 percent of the Hart supporters.

Overall, Reagan received 62 percent support from voters who described themselves in *Time* magazine's exit poll as "young urban professionals."

The yuppies would certainly seem to be Maddox and Lilie's libertarians. Demographically, Maddox and Lilie find that libertarians tend to be young, well-educated, and affluent—just the description of a yuppie. Indeed, Maddox and Lilie find that libertarians comprise 36 percent of the highest income group and 34 percent of the highest education group.

So where will the yuppies go from here? The story of this election is the discovery of the fiscally conservative, socially liberal constituency. That constituency is going to have a major im-

pact on the future of American politics. Most such people seem to have voted for Reagan this year, and indeed Maddox and Lilie demonstrate that most of their "libertarians" have voted heavily for Republicans in recent presidential elections. Presumably, this is because personal freedoms—with regard to both civil liberties and lifestyle choices—have really not been threatened in the United States since the cultural revolution of the Sixties. Why vote on the basis of issues that really don't matter—even if you find President Reagan's rhetoric on social issues offensive, as many of his voters told reporters they did?

Instead of a liberal Democrat (or a liberal Republican) appealing to this group by moderating his economic positions, imagine an upbeat conservative Republican making social tolerance and a peaceful foreign policy part of his program.

If the Republicans were smart they would combine their fiscally conservative constituency with the yuppies rather than with the fundamentalists. Ultimately, this would be a more stable coalition as well as a more forward-looking one. It would be based on groups that are growing, not shrinking, and it could be held together by implementing market-oriented economic policies, which informed opinion currently looks positively on, rather than by implementing the Moral Majority agenda, which would be bitterly opposed by the intellectuals and by those with access to the media, and which would tear the country apart.

On the other hand, if the Democrats were smart, they would move more forthrightly toward the market-oriented policies that Gary Hart only hinted at, combining them with their liberal views on social and foreign-policy issues, and thus try to add the yuppies to their peace and civil-liberties constituencies.

Imagine a candidate with the upbeat supply-side optimism of Jack Kemp or Lew Lehrman and the cultural and foreign policy liberalism of Gary Hart, and I think you have a campaign that could reshape partisan and ideological lines for the next generation. I believe this is the political lesson to be drawn from the events of 1984 and from *Beyond Liberal and Conservative*.



Jerry Lipson listens as Randall Fitzgerald makes a point at Cato Policy Forum on *Porkbarrel*.

Book Takes on Porkbarrelers

Randall Fitzgerald and Gerald Lipson's story of congressional porkbarreling has put members of Congress on the defensive in newspapers across the country. In *Porkbarrel: The Unexpurgated Grace Commission Story of Congressional Profligacy*, Fitzgerald and Lipson detailed just how congressmen prevent the elimination of unnecessary military bases, water projects, and government agencies in their districts.

Most alarmingly of all, they named names. *Porkbarrel* was originally commissioned by the Grace Commission, but when it was published under the title "The Cost of Congressional Encroachment," all the names of projects and congressmen had been deleted. In *Porkbarrel*, those names are restored for public scrutiny.

Commenting on the Financial News Network, Arlo Sederberg said that the Grace Commission report "is getting even stronger as the days go by. The latest chapter is naming names in Congress of those who protect interests at government expense. . . . *Porkbarrel* lays out in detail just where the budget could be cut and which congressmen and senators won't let it be cut."

Around the country, *Porkbarrel* generated such headlines as "McClure ripped for promoting pork-barreling" (*Idaho Statesman*), "Book says Sasser, Lloyd blocks to spending cuts" (*Knoxville Journal*), "Mainers shoulder mention in pork barrel book" (*Portland Press Herald*), "Hey, Big Spenders" (editorial, *Dallas Morning News*), and "Take guided tour to feds' Fat City" (Tom Diaz in the *Washington Times*).

Porkbarrel is available from the Cato Institute for \$7.95.

Federal Reserve Will Be Subject of Conference

The role of the Federal Reserve system in monetary policy will be discussed at the Cato Institute's third annual monetary conference, to be held on February 21 and 22 at the Capital Hilton in Washington.

The first panel will feature monetarist Lawrence K. Roos, former president of the St. Louis Fed; supply-sider Paul Craig Roberts, former assistant treasury secretary for economic policy; and Robert P. Black, president of the Richmond Fed. Major talks will be given by Jerry L. Jordan of the University of New Mexico, a former member of the Council of Economic Advisers; Maxwell Newton, financial editor of the *New York Post*; and Georg Rich, director of the Swiss National Bank.

The political business cycle will be discussed by William Poole, an outgoing member of the Council of Economic Advisers, and David Meiselman of Virginia Polytechnic Institute. Free banking and currency competition will be the subject of papers and comments by Arthur J. Rolnick and Warren E. Weber of the Minneapolis Fed, Lawrence H. White of New York University, Roland Vaubel of the University of Mannheim, and Phillip Cagan of Columbia University.

Other speakers include Karl Brunner, Leland Yeager, Richard Timberlake, Anna Schwartz, and Marc Miles. The cost of the conference is \$250 before February 6 and \$300 thereafter (\$100 and \$150 for both academics and nonprofit organizations). ■

Cato Staff Expands

Several new staff members have joined the Cato Institute in recent months.

Doug Bandow, former editor of *Inquiry* magazine, is now a senior fellow of the Cato Institute. He has written recently for the *New York Times* and the *Washington Post*, and his syndicated column is distributed three times a week by the Copley News Service. In 1981 and 1982 Bandow was a special assistant to the president for domestic policy, working with domestic policy chief Martin Anderson. A graduate of Stanford Law School, Bandow is planning a book on the licensing of attorneys.

John Kunze has joined Cato as director of development. He will be in charge of developing financial support for the Institute. Kunze previously served in a similar position at the Manhattan Institute, where he was also a contributing editor of *Manhattan Report*. He also worked for three years on Wall Street with an international lending firm. He studied economics at Hillsdale College and New York University and was a contributing editor of *Manhattan Report*. He also worked for three years on Wall Street with an international lending firm. He studied economics at Hillsdale College and New York University and was a contributing editor of *Manhattan Report*.

Cato's new public affairs director is Sandra D. Harton, former speakers bureau and conference director for Ac-

curacy in Media. She will be in charge of media relations as well as conferences and other events for the Cato Institute. A graduate of the College of William and Mary, Harton previously worked for the American Security Council and for a Virginia legislator.

Instead of military intervention, Richman urges that the U.S. government prepare for a possible oil cutoff by encouraging private entrepreneurs to stockpile oil. This would require guaranteeing that there would be no price or allocation controls during a future oil emergency. The possibility of such controls discourages businesses from stockpiling, since they would not be able to realize the full profit in the event of an emergency.

Richman writes, "The best thing the U.S. government could do to ease any disruption would be to create, in advance of a crisis, an atmosphere of entrepreneurial confidence, specifically the certainty that those who put oil away for an emergency will not be punished in effect for doing so."



Doug Bandow



Sandra Harton



John F. Kunze

New Book

(Cont. from p. 1)

that we offer these proposals for moving public policy beyond the status quo."

The book was formally unveiled at a reception on January 22, the day after President Reagan's inauguration for a second term.

In the book James Dale Davidson, chairman of the National Taxpayers Union, argues that current constitutional rules allow Congress to increase spending excessively and to create a political business cycle by manipulating the monetary system. Only constitutional change, like a balanced budget amendment, can constrain the power of special-interest groups and produce fiscal responsibility.

Murray L. Weidenbaum, former chairman of the Council of Economic Advisers, focuses his attention on the threat of protectionism. He criticizes current American trade barriers and proposes several strategies for moving toward free trade, notably a "recipro-

city" program under which the United States would simultaneously remove specific barriers to imports and to U.S. exports.

Warning of continuing long-term problems in the Social Security system, Peter J. Ferrara proposes a reform that would allow young workers to gradually opt out of the system. He would create a Super IRA program in which workers could invest part of their Social Security taxes. Ferrara's proposal would protect the elderly from a future tax revolt, prevent staggering tax burdens on young workers, and inject hundreds of billions of dollars into the private economy.

Earl Ravenal of the Georgetown University School of Foreign Service warns about the costs and dangers of our commitment to the defense of Western Europe. Our commitment explicitly involves a willingness to use nuclear weapons in Europe, thus increasing the risk of nuclear war for Americans. The United States will spend some \$129 billion on NATO this year and about \$2 trillion over the next decade, a cost that

American taxpayers may be increasingly unwilling to bear. Ravenal calls for a phased withdrawal from our European military commitments.

In other chapters Jule R. Herbert Jr. argues that tax reform should be based on such principles as equity, economic efficiency, simplicity, tax consciousness, taxpayer solidarity, and neutrality. Bruce Bartlett recommends encouraging entrepreneurship through eliminating the double taxation of corporate dividends, reducing the estate and gift tax, and deregulating the economy. Thomas Gale Moore calls for a more cost-effective approach to the Clean Air Act and for abolition of natural gas regulations. Catherine England urges reform of antitrust laws to encourage more robust competitive behavior. Milton Mueller proposes private property and free markets in communications as the best means to protect First Amendment rights and encourage technological progress.

Clint Bolick calls for a "trust-busting" educational program: tax credits, legalizing home schooling, and relaxing private school regulations. Joan Kennedy Taylor says we should free the poor from the poverty trap by repealing the licensing laws that prevent people from working and by considering radical reforms in the welfare system. Terry Anderson urges a coalition between fiscal conservatives and environmentalists on such issues as water pricing, deficit timber sales, synthetic fuels, and natural gas deregulation. Bernard Siegan urges the Supreme Court to remember, first, that their role is not to legislate but to enforce the Constitution, and second, that the purpose of the Constitution was—and is—to "secure the blessings of liberty."

Beyond the Status Quo, its editors write, is designed to move beyond the "policy myopia that so many policy analysts fall prey to." Its authors have stepped back from the day-to-day debates in Washington in order to gain a broader perspective on public policy issues. From a common commitment to individual liberty and economic opportunity, they offer proposals for making the United States a more free, more prosperous, and more secure society.

Beyond the Status Quo is available from the Cato Institute for \$20.00 cloth, \$8.95 paper. ■

Stay Out of Iran-Iraq War, Rely on Market for Oil

American intervention in the Iran-Iraq war would be a "recipe for disaster," warns Sheldon Richman in a Cato Policy Analysis study.

Instead of military intervention, Richman urges that the U.S. government prepare for a possible oil cutoff by encouraging private entrepreneurs to stockpile oil.

This would require guaranteeing that there would be no price or allocation controls during a future oil emergency. The possibility of such controls discourages businesses from stockpiling, since they would not be able to realize the full profit in the event of an emergency.

Richman writes, "The best thing the U.S. government could do to ease any disruption would be to create, in advance of a crisis, an atmosphere of entrepreneurial confidence, specifically the certainty that those who put oil away for an emergency will not be punished in effect for doing so."

At present, however, there does not seem to be any likelihood of an oil crisis. Even the attacks on oil tankers seem to have had "remarkably little effect" on oil exports. Oil-exporting nations have compensated for the rise in insurance rates on tankers by discounting oil and promising to replace any lost oil.

U.S. imports of oil from the Persian Gulf have fallen from 28 percent of the total in 1977 to less than 10 percent today, making the United States less vulnerable to an oil cutoff. While Japan and Western Europe may be more vulnerable, Japan has a 120-day supply of oil stockpiled and the Western allies together could cover a total loss of gulf oil for 300 days.

According to economists, a disruption of gulf oil supplies could cause the price per barrel to rise from \$30 to \$45, with gasoline going to \$2 a gallon in the United States—an inconvenience, but far cheaper than military intervention. ■

Government Spending Goes Underground

Hidden Spending: The Politics of Federal Credit Programs, by Dennis S. Ippolito (Chapel Hill, N.C.: University of North Carolina Press, 1984), 169 pp., \$19.95/\$9.95.

With regard to spending and taxes, all politicians are willing to bite the marshmallow, but rarely the bullet. There are enormous incentives to reward favored special-interest groups with spending programs and other subsidies, but equally strong pressures against raising taxes cause politicians to seek alternative means of finance.

Since the 1970s, argues Dennis Ippolito in *Hidden Spending*, federal politicians have sought to hide such programs and subsidies by the simple subterfuge of disguise. This fiscal legerdemain is accomplished by moving federal agencies "off budget" so that their borrowing and spending do not even appear in the accounts and, what is equally important, so that their activities are not subject to the same controls and scrutiny on-budget agencies must undergo when appropriations are considered.

In addition, subsidies to special interests have increasingly taken a different form: instead of direct payments from agency budgets, which show up as expenditures by the federal government, subsidies are provided through the credit process. Federal direct loans and loan guarantees (often channeled through off-budget entities) also do not appear on the federal books unless the borrower defaults and the explicit cost to the taxpayer is zero. Federal politicians have mastered fiscal magic.

Hidden Spending documents in detail the techniques employed to promote economic activities and redistribute resources so that federal politicians reap the benefits. The economic consequences of this skulduggery are also discussed, and it is shown that growth and productivity are slowed and the problem of controlling federal spending is exacerbated.

Off-budget spending and federal intervention in the credit markets have expanded rapidly in recent years in response to increasing concern over the

federal deficit. The implications of Ippolito's work for a constitutional limitation on the federal budget are, indeed, ominous: a balanced budget amendment is unlikely to restrict fiscal growth if Congress retains the power to define what constitutes the budget. The role of the federal government in the economy is far larger than published data indicate, and the formulation and implementation of economic policy is greatly complicated by these hidden programs.

Hidden Spending is concerned only with federal off-budget and credit-allocation programs. As Tom DiLorenzo and I showed in *Underground Government: The Off-Budget Public Sector* (Cato Institute, 1983), federal credit activity is only the tip of the off-budget iceberg. The same activities began earlier at the

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state and local levels of government, where they are even more significant. When off-budget borrowing and spending at all levels are combined, it is clear that the public sector activities are far larger than what government budgets indicate. A better understanding of off-budget agencies and credit-allocation schemes is essential if the public sector is to be reduced in size. Ippolito's work is an important contribution toward this goal.

—James T. Bennett
George Mason University

F.A. Hayek, Money, Capital, and Fluctuations: Early Essays, ed. by Roy McCloskey (Chicago: University of Chicago Press, 1984), 196 pp., \$20.00.

When a musical artist achieves superstardom, it is common for his early singles records to be put together and re-released as a "new" album. Interest in such collections stems not so much from the intrinsic merit of the early pieces as from the opportunity to com-

pare the star's early work with his familiar later work.

An analogous phenomenon has now appeared in the academic arena: having achieved "superstardom" as an economist, F.A. Hayek has been honored with the republication in book form (and in English translation) of several early pieces in economic theory and policy. Here too the most interesting aspect of the collection is the opportunity to trace the star's development. But by no means is this volume solely of doctrinal-historical interest: it contains essays valuable in their own right, essays that make noteworthy contributions regardless of their authorship and date.

The volume contains eight essays and two book reviews, together with brief introductions by the editor and by Hayek himself. The most significant essay is "Intertemporal Price Equilibrium and Movements in the Value of Money" (1928). Its argument underpins both *Prices and Production* and "Economics and Knowledge," which are among Hayek's most frequently cited works in economics, and thereby shows some surprising links between those works. In addition, the essay presents sophisticated arguments not available elsewhere and very relevant today against stabilization of the price level as a macroeconomic policy.

The other essays include two somewhat obscure pieces on problems in Austrian imputation and interest theory; two historically interesting essays on U.S. and British monetary policies in the 1920s; and articles on capital consumption and excess capacity that add important elements to the Hayekian critique of Keynesianism.

—Lawrence H. White
New York University

Years of Poverty, Years of Plenty, by Greg Duncan (Ann Arbor: Institute for Social Research, University of Michigan, 1984), 184 pp., \$24.00/\$14.00.

Perhaps no topic in economic policy suffers from a greater paucity of good

scholarship than that of poverty and welfare. While many books in this field utilize extensive statistical documentation, such statistics are rarely integrated into either a theory of poverty or a theory of economic growth. Writers on the left will cart out figures showing how many Americans are poor, while authors on the right will cart out figures showing how few Americans are poor. And so the debate continues. Depending upon the statistics one chooses, anywhere from one to fifteen percent of all Americans are "poor."

In this context Greg Duncan's *Years of Poverty, Years of Plenty* is a ray of hope. Duncan's work is scholarly, nonpartisan, and well-documented, and is the result of the most extensive study of poverty ever conducted—data on 5,000 families were collected over a fifteen-year period, an unprecedented survey. The book is replete with fascinating nuggets of information about the poverty problem in America, and anyone looking for a fresh approach to it can well be advised to start here.

Two of the most interesting ideas in *Years of Poverty* concern the rapid turnover of people living below the poverty line and the importance of changes in family composition in determining this turnover. Duncan argues that the particular individuals classified as poor are continually changing: each year one-third of the poor move out of poverty (though perhaps only temporarily) and are replaced by other people. Changes in family composition (e.g., births, divorces, students leaving home, deaths) are the most important cause of these shifts.

Those interested in the economic insights of F.A. Hayek and Israel Kirzner will find many of Duncan's facts quite interesting. Duncan shows (though perhaps unwittingly) that there is a serious "knowledge problem" involved in any interventionist attempt to alleviate poverty. Any knowledge about the poor and their circumstances is both very difficult to collect on a large scale and bound to become outdated almost immediately. Thus, it is no surprise that "fine-tuning" approaches to poverty have failed.

Duncan does not draw these conclusions, but he does present a fine empirical study. The next step is to integrate many of his facts with the eco-



Deborah Walker (right), author of Cato's study "Value and Opportunity: The Issue of Comparable Pay for Comparable Worth," has received a number of invitations to speak on the comparable worth issue. Here she debates the subject on a panel at the Classification and Compensation Society annual meeting in Washington.

nomic insights of Hayek, Kirzner, and Milton Friedman.

The Doomsday Myth: 10,000 Years of Economic Crises by Charles Maurice and Charles Smithson (Stanford: Hoover Institution Press, 1984), 162 pp., \$16.95.

Despite the successful weathering of the energy crisis of the 1970s, Americans continue to be told by many "prophets of gloom" that diminishing natural resources are threatening global disaster. Several years ago, Julian Simon's *The Ultimate Resource* proved to be a brilliant and effective rebuttal to these arguments. Now, Maurice and Smithson have picked up where Simon left off and have extended his work in several important directions.

The most interesting feature of *The Doomsday Myth* is its examination of history. Far from being a recent phenomenon, "resource crises" have existed from the dawn of time. Maurice and Smithson show that the "energy crisis" of the 1970s was no different

from the timber crisis of the early twentieth century, the charcoal crisis in seventeenth-century England, or even the tin crisis faced by the Greeks in the eleventh century B.C. In each case, the resource shortage came to an end once the market was allowed to operate. An increase in the price of the "dwindling" resource encouraged both conservation on the demand side and a search for substitutes on the supply side. In many cases, the subsequent outpouring of supply actually resulted in lower prices in the long run. This process was well illustrated, of course, by the success of petroleum deregulation several years ago.

The dissection of "anti-growth" and "resource constraint" fallacies by Maurice and Smithson is both accessible and entertaining. The authors have a good eye for a clever argument and also succeed in making their presentation clear to the general reader. While not as comprehensive as the work of Julian Simon, *The Doomsday Myth* is recommended very highly for its historical perspective, its economic analysis, and its lively style.

"To be governed..."

Cracking down for liberty

[Gen. Augusto Pinochet of Chile] appears to have concluded that only by repressing the center and left opposition movements that have appeared in the last 18 months can he ensure that his own political project is preserved.

"It is precisely in order to safeguard democracy and liberty that today more than ever it is necessary to be inflexible," he said.

—*Washington Post*, Nov. 10, 1984

Time for a change

The fact that White House Budget Director David Stockman wants to eliminate their agency apparently isn't getting people down at the Small Business Administration. "People who've been here a long time just can't conceive of Congress allowing it to happen," says an SBA spokesman.

—*Wall Street Journal*, Dec. 17, 1984

Keeping America competitive

Staggered by imports, [Burlington Industries] isn't distributing any foreign-made Christmas gifts [to its employees]. The only exception to the new policy are six electronic presents, such as radios and digital watches. "The electronic stuff is all made overseas, so buying it doesn't take jobs away from Americans," says Earl Guss, Burlington's manager of industrial relations. . . .

The ban on imported presents is requiring Burlington to spend about one dollar more for each gift "to get the same degree of quality," Mr. Guss says.

—*Wall Street Journal*, Dec. 19, 1984

Another failure of central planning

A Moscow newspaper criticized young Russians today for not being able to dance properly, whether it be ballroom dancing or disco. . . .

The newspaper recommended that professional troupes of dancers give displays at the beginning of each disco night at local recreation clubs.

—*Washington Post*, Dec. 16, 1984

And \$100,000 to study people who are afraid of big government

The Department of Energy, on the theory that people who oppose nuclear power may suffer from an irrational phobia, is paying a Rockville [Maryland] psychiatrist \$85,000 to find out if their fears can be overcome.

—*Washington Post*, Oct. 30, 1984

Wish we'd paid more attention

The world went on a spree [in 1984]. There was self-indulgence, a loosening of bonds, a devolution of authority, a lapse in discipline and a surge of individualism verging on the anarchic.

—Joseph Kraft in the
Washington Post, Dec. 30, 1984

Think what mass transit could do

Had progressives been able to understand this concern, they would have picked up the banner of family and created a pro-family movement of their own. . . .

Expansion of child care, housing and employment and full equality for women all would create the necessary conditions for stronger and more lasting loving relationships.

—Michael Lerner in the
San Francisco Examiner & Chronicle,
Nov. 11, 1984

It sure keeps my job important

Sen. Bob Packwood (R-Ore.), incoming chairman of the Senate Finance Committee, said yesterday that he opposes . . . the tax-simplification plan being considered by the White House.

"I sort of like the tax code the way it is," Packwood said in an interview.

—*Washington Post*, Nov. 30, 1984

It beats teaching arithmetic to the little brats

A national organization of math teachers says schools should routinely make calculators available to kindergarten and grade-school children, including during tests.

—*Washington Post*, Dec. 16, 1984

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