

Foreign Trade and the U.S. Economy: Dispelling the Myths

by Murray L. Weidenbaum

Every day we read and hear about companies and their employees who are so hard hit by the flood of imports. What is the evidence? The truth is far less dramatic than the overblown charges. Let me cite six key examples.

The Myths

Myth #1. Japan is the problem. If only they opened their markets to our products . . . It is surely true that Japan maintains an intricate variety of obstacles to imports that compete with its own products and that its government reduces those obstacles only in response to our constant pressure. Furthermore, our trade deficit with Japan—\$33 billion in 1984—is far greater than our trade deficit with any other country. Yet, even if Japan did no foreign trade at all, the United States would still be experiencing a historically high excess

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of imports over exports. Without Japan, our total current account or trade deficit in 1984 would have been \$69 billion—\$11 billion more than the previous year's record breaker.

Meanwhile, our traditional export

States has a trade deficit with almost every nation in the non-communist world. Hence, it is silly to say in effect that everyone is out of step except us. We in the United States must be doing something basically wrong.

Myth #2. The United States is an island of free trade in a world of protectionism. It would help to clear the air if we would acknowledge that not all of our actions are angelic. We have created many obstacles to inhibit imports into the United States. "Buy American" statutes give preference to domestic producers in government procurement. American flag vessels must be used to ship at least one-half of all the commodities financed with U.S. foreign aid. Agricultural laws limit imports of sugar, beef, dairy products, and mandarin oranges.

Despite all the talk about being the only country that practices free trade, only 30 percent of our imports are now allowed in without paying a tariff—down from 54 percent in 1950. Numerous non-tariff barriers are imposed by federal, state, county, and

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surplus with Western Europe has turned into a trade deficit, standing at \$13 billion in 1984. Our trade accounts with Canada and Mexico are likewise in the red—\$20 billion and \$6 billion respectively last year. In fact, the United

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Book: Baby Boomers Favor Free Market, Social Tolerance

More than a dozen leading political analysts examine such subjects as the politics of the baby boom and the inadequacy of the liberal-conservative spectrum in a new Cato Institute book *Left, Right, and Babyboom: America's New Politics*, edited by Cato vice president David Boaz.

Boaz argues in the book's introduction, "Just as the baby boomers rebelled in the 1960s against the old ways—

what [Gary] Hart calls 'old arrangements'—so they may rebel in the 1980s and 1990s against the legacy of the past: against a Social Security system from the 1930s that costs them much and promises them little, against a military alliance system from the 1940s that now costs almost \$200 billion a year to defend the wealthy countries of Europe and Asia, against the continuing attempts of the Republican right to

(Cont. on p. 13)

Ideas for the Free-Market Revolution

"Cato is in the vanguard of market thinking," writes Gregg Easterbrook in the January *Atlantic Monthly*. As the failures of government programs become more apparent, there is an increasing interest in market-oriented alternatives to current policies. We have endeavored to provide well-researched policy ideas based on an appreciation for the subtle workings of the free market.



It is often thought that a reliance on free-market policies is a "return" to, well, something—the years before Franklin Roosevelt, or before Woodrow Wilson, or whatever. We at the Cato Institute believe, on the contrary, that current moves toward the free market are but the latest chapter in a centuries-long struggle for greater individual freedom. Although the American Revolution was based on freedom as an ideal, the reality has been that much of U.S. economic policy was always corporatist and state-capitalist. The classical liberals rebelled against the old European tradition of monopoly, privilege, and restriction, and we continue their battle today.

It has been said that capitalism is what happens when you leave people alone, and that is all the liberals asked of government: *Laissez faire*, leave us alone. This principle, of course, applies to artists, journalists, musicians, and ministers, as well as to producers and consumers.

Today, scholars supported by the Cato Institute are applying market thinking to a number of critical issues:

Social Security. In his book *Social Security: The Inherent Contradiction*, Peter Ferrara challenged the establishment consensus. Social Security was in serious trouble, he demonstrated, and only a dose of freedom could cure it. Let workers put some of their tax money into private retirement accounts, lessening the future burden on the Social Security system and increasing their own retirement security. Ferrara refined his proposal at a 1983 Cato conference and in his 1985 collection, *Social Security: Prospects for Real Reform*. His Super IRA proposal has now attracted such supporters as the Heritage Foundation and the U.S. Chamber of Commerce, and new Health and Human Services Secretary Otis Bowen is interested in Ferrara's idea to use a similar plan to avert the impending Medicare crisis.

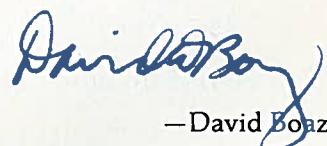
Communications. In the Information Age, nothing is more vital than safeguarding both freedom and efficiency in communications. Nowhere is the connection between personal and economic freedom, between the free market and

the First Amendment, more clear. In *Telecommunications in Crisis*, Milton Mueller advocated privatizing the frequency spectrum to ensure economic efficiency and First Amendment rights in broadcasting. In shorter studies, Clint Bolick and William E. Lee argued the case for freeing cable television from local and federal restrictions, and attorney Harold Farrow lectured on the impact of the landmark court decision against monopoly cable franchises.

Money and banking. Money is the lifeblood of an economic system, and ours has been decidedly unhealthy in recent years. This year Cato sponsored its fourth annual conference on monetary policy. As usual, a distinguished group of economists and analysts with diverse viewpoints gathered to discuss the prospects for a stable monetary system. All the ideas proposed—a monetary rule, more reliance on gold, legalization of competing currencies—would rely more on the market and less on arbitrary government decision making. Cato's conferences have been cited as the forums for the most incisive and innovative ideas on money and banking being presented today.

Insurance. As our society grows richer, it seems to grow more concerned about risk. Too often this has meant that people turn to government to protect them against risk, thus diffusing the real costs of various actions and instituting inflexible regulatory systems to deal with rapidly changing risk situations. Catherine England has demonstrated the advantages of private deposit insurance for stabilizing our fragile banking system. At a 1985 Cato conference, a number of speakers examined how insurance companies might assume some of the government's role in dealing with risk and liability, thus providing a more flexible and cost-related system. These papers will appear in book form soon.

In all these areas and more—international trade, education, natural resources, economic planning—the Cato Institute is demonstrating the superiority of market alternatives to continued reliance on government programs. As the worldwide comparison of capitalism and statism generates a growing appreciation for the benefits of the free market, we expect that more of these studies will form the basis for policy changes, and the classical liberal revolution will be extended to more and more areas of life.


—David Boaz

Published by the Cato Institute, *Cato Policy Report* is a bimonthly review that provides in-depth evaluations of public policies and discusses appropriate solutions to current economic problems. It also provides news about the activities of the Cato Institute and its adjunct scholars. *Cato Policy Report* is indexed in *PAIS Bulletin*.

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Conference on Free-Market Environmentalism

The Political Economy Research Center of Bozeman, Montana, sponsored a conference on property rights, markets, and environmental quality for congressional staff members in December. The Cato Institute and the John M. Olin Foundation provided financial



Cato chairman William Niskanen muses on natural resource policy during a break in Cato's conference on environmental quality.

support for the conference.

Terry Anderson, a Cato adjunct scholar and author of *Water Crisis: Ending the Policy Drought*, organized the conference and joined P. J. Hill of Montana State University in giving the first lecture, on the role of private resource management. Cato chairman William Niskanen gave the conference's closing speech, in which he discussed the appropriate division of responsibility between state and federal government with regard to environmental issues. Cato vice president David Boaz

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spoke on new political trends and the possibility of a political constituency for free-market environmentalism.

Other Cato adjunct scholars speaking at the conference included PERC's John Baden and Richard Stroup, as well as Joseph P. Kalt of Harvard. Other speakers included Randy Simmons of Utah State University, Robert Stavins of Harvard, Zach Willey of the Environmental Defense Fund, and Brent Haglund of the Nature Conservancy. The discussion centered around the problems with government manage-



Participants listen attentively to a presentation at Montana conference. In foreground are Cato vice president David Boaz and Environmental Defense Fund economist Zach Willey.

Cato Sponsors Foreign Policy Essay Contest for Students

The Cato Institute is sponsoring a Foreign Policy Essay Contest for graduate students in the social sciences. Students will be asked to submit an essay of 3,500 to 5,000 words on the relevance for a current foreign policy issue of the following quotation from Sen. Robert Taft's 1951 book *A Foreign Policy for Americans*:

"I do not believe it is a selfish goal for us to insist that the overriding purpose of all American foreign policy should be the maintenance of the liberty and peace of the people of the United States, so that they may achieve that intellectual and material improvement

which is their genius and in which they can set an example for all peoples. By that example we can do an even greater service to mankind than we can by billions of material assistance—and more than we can ever do by war."

The purpose of the contest is to encourage young scholars to consider the noninterventionist viewpoint, particularly as enunciated by Taft, a leader of the "Old Right" political movement.

Judges for the contest are Ted Galen Carpenter, Cato's foreign policy analyst; Earl C. Ravenal, professor of international affairs at Georgetown University and senior fellow of Cato; and

ment of environmental amenities and the possibilities for privatization.

Conference participants included staffers on environmental issues from the offices of Rep. Morris Udall (D-Ariz.), Sen. Steve Symms (R-Idaho), Sen. Mark Hatfield (R-Oreg.), Rep. Bill Richardson (D-N.Mex.), Rep. Vin Weber (R-Minn.), the Joint Economic Committee, and the Republican Research Committee.

The snow-covered mountains of Big Sky, Montana, just north of Yellowstone National Park, provided an ideal atmosphere in which to discuss environmental issues, and skiing just outside one's front door was a welcome break from debates over economic policy and political systems.

Leonard P. Liggio, president of the Institute for Humane Studies at George Mason University.

The first prize in the contest will be \$3,000. Second prize will be \$1,500, with \$1,000 for third prize and \$500 for fourth prize. In addition, the winning essay will be published in the *Cato Journal* or as part of Cato's Policy Analysis series. The deadline for submissions is April 30, 1986, and winners will be notified by June 13.

Graduate students in international affairs and the social sciences are urged to write David Boaz at the Cato Institute for more information.

Staff Roundup

Niskanen at Ford Foundation, Crane at Harvard

The first week of November was a busy one for the Cato Institute, with three top staff members speaking in various parts of the country. Cato chairman **William A. Niskanen** presented a paper outlining a constitutional perspective on welfare policy at a Ford Foundation conference. At the conference, part of the Ford Foundation's Project on Social Welfare Policy and the American Future, analysts from a number of research institutes presented papers on welfare reform alternatives. Other speakers included Sean Sullivan and Terry Hartle of the American Enterprise Institute, Gary Burtless of the Brookings Institution, Stuart Butler and Anna Kondratas of the Heritage Foundation, and David Racine of the American Public Welfare Association.

On the same day, Cato president **Edward H. Crane** conducted a seminar on the libertarian movement for a class at Harvard University's Kennedy School of Government. Crane's appearance was arranged by writer Lee Edwards, who was teaching a class on contemporary conservatism. Crane's discussion centered on the nature of the libertarian challenge to establishment political thought and on the libertarian policy agenda.

Meanwhile, Cato vice president **David Boaz** addressed a Center for Constructive Alternatives symposium at Michigan's Hillsdale College. Boaz discussed the nature of political leadership in a free society and the kind of leadership currently needed to move the United States toward greater freedom. Other speakers in the symposium, "The Consequences of Contemporary Political Leadership," included Fred Barnes of the *New Republic* and political philosopher Russell Kirk.

Later in the month Crane spoke to the Cleveland Business Economists Club on President Reagan's failures in the areas of government spending, regulation, and international trade.

Boaz debated Ernest van den Haag of Fordham University on conservatism vs. libertarianism at a Heritage Foundation forum. The debate centered on whether social traditions should be coercively enforced. Van den Haag ar-

gued that "every community has a right to protect what it regards as its important shared values" through laws. Boaz denounced this as "a profoundly collectivist, majoritarian notion" and argued that social traditions should continue to be established, selected, and refined voluntarily by individuals.

Niskanen testified before the House Banking Committee in opposition to two bills. One would require a rapid rate of domestic monetary growth as long as the United States has a large current-account trade deficit. Niskanen argued that approval of this bill would lead to a rapid increase in inflation without reducing the current-account deficit. The other bill would prohibit the president from initiating negotiations on a new round of talks on international monetary reform. Shortly afterward, both bills were voted down in subcommittee.

Niskanen also delivered a paper, on the role of the Council of Economic Advisers, at the annual Carnegie-Rochester conference on public policy held at Carnegie-Mellon University. *Cato Journal* editor **James A. Dorn** also participated in the conference. Dorn recently gave a talk on law and eco-

nomics to the Washington Semester program of American University.

Senior policy analyst **Catherine England** chaired a session on antitrust law at the annual Southern Economic Association meeting. She also commented on a paper on jury decision making at a session on law and economics.

Cato staff members have been prominent in the nation's newspapers recently. Niskanen reviewed two books for the *Wall Street Journal*: Robert Reich and John Donahue's *New Deals: The Chrysler Revival and the American System* and Lawrence Mead's *Beyond Entitlement: The Social Obligations of Citizenship*. Ed Crane's article "Tax Reform vs. Tax Relief" appeared in the *Chicago Tribune*, and the *New York Times* published David Boaz's article on baby-boom politics.

Public affairs director **Sandra McCluskey** is beginning a major effort to arrange speaking engagements for Cato staff members and adjunct scholars. A new brochure describing Cato speakers has been prepared and will be sent to universities, business groups, and civic associations. Anyone interested in arranging for a Cato speaker should contact Ms. McCluskey. ■



Gerald Jaynes (center), director of the Committee on the Status of Black Americans of the National Academy of Sciences, tells a Cato lunch group about his research agenda. Listening are Carlton Henry of the committee, Catherine England of Cato, and Brad Mimms of Rep. Robert Garcia's staff.

Free Trade Is Fair, McKenzie Says

Richard McKenzie, visiting professor at Washington University of St. Louis and author of *Competing Visions: The Political Conflict over America's Economic Future*, discussed protectionism at a recent Cato Policy Forum.

McKenzie argued that "the case for protectionism is questionable," especially in textiles, a sector that he has researched extensively. He noted that through "the supposed explosion in textile imports," imports have increased only from 3 percent to 6.5 percent of the American market in the past quarter.

McKenzie pointed out that protectionism of the textile industry is unfair because it kills as many jobs as it saves. Jobs in textiles may be saved, but at the expense of jobs in the retail trade industry. Further, McKenzie added, protection of the American textile industry could add as much as \$4 billion in costs to consumers.

Free trade, said McKenzie, means "all people will be treated as equals under the law. Free trade offers opportunities for higher income and, especially, higher incomes for the future."

Commenting on McKenzie's argument was Ted Van Dyk, president of



Richard McKenzie discusses the justice of protectionism at a Cato Policy Forum.

a policy consulting firm and founder of the Center for National Policy.

Van Dyk agreed that "protectionism is not just, but society should be just." He stated that "historically, political leaders blame foreign devils" for domestic problems.

Van Dyk attributed America's falling level of competitiveness to many factors. He argued that some industries, such as textiles, "are doomed to being uncompetitive." Many industries have been harmed because "business leaders and labor unions became complacent."

According to Van Dyk, many of America's economic illnesses can be attributed to President Reagan, whom he holds responsible for the "worst economic atrocities visited on the American economy by any sitting president—record budget deficits, an overly strong dollar, and high real interest rates."

Bartlett: Sanctions Don't Work

Trade sanctions are an ineffective foreign policy instrument. They have not accomplished their purpose with regard to Nicaragua, and they will not work against South Africa, writes Bruce Bartlett in a new Cato study.

Bartlett, a senior fellow at the Heritage Foundation, writes, "There is little historical evidence that sanctions have ever achieved their purpose; recent examples of such nonsuccess include the U.S. embargo on grain shipments to the Soviet Union in 1981 and U.S. sanctions against Nicaragua in 1985. More often than not, sanctions end up making the target country more self-sufficient and strengthening its resolve to continue its policies. In the case of South Africa, the result may be a strengthening of apartheid, rather than its demise."

Bartlett's study, "What's Wrong with Trade Sanctions," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■

Anti-Drug War Hurts U.S., Allies

The U.S. campaign against international narcotics trafficking has been ineffective and counterproductive, writes Ted Galen Carpenter in a new Cato study.

Carpenter, a foreign policy analyst for the Cato Institute, argues that there has been no reduction in the amount of cocaine, heroin, and marijuana coming into the United States since President Reagan launched a new anti-drug offensive in 1981. He also argues that the campaign "threatens to become a diplomatic catastrophe.... It is a supreme irony of America's international narcotics policy that its implementation erodes popular support for 'friendly' regimes that Washington otherwise seeks to protect from leftist insurrections. It is no exaggeration to say that the U.S. international anti-drug crusade is creating a more favorable environment for radical leftist revolutions in several Asian and Latin American nations."

Carpenter cites Peru, Colombia, and Burma as examples of countries where communist groups are capitalizing on popular resentment against the American-backed campaign to wipe out drug cultivation, which is often the most profitable crop for peasant farmers.

Carpenter warns that Washington's international campaign against drug trafficking provokes resentment on the part of foreign citizens, undermines and alienates otherwise friendly governments, and complicates U.S. foreign policy. As long as there is demand for a product, suppliers will be forthcoming.

When an op-ed piece based on Carpenter's study appeared in the *Wall Street Journal* on October 31, it drew sharp responses from Sen. Paula Hawkins and Rep. Charles Rangel, but the argument was applauded by a number of outside observers of the anti-drug campaign.

Carpenter's study, "The U.S. Campaign against International Narcotics Trafficking: A Cure Worse than the Disease," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■

Adjunct Scholars News

Epstein, Simon Publish Books; Ferrara Gains an Ally

The Cato Institute's adjunct scholars provide important assistance to Cato, and they have a major influence on the course of intellectual debate through their own work.

Richard A. Epstein of the University of Chicago Law School has just published *Takings: Private Property and the Power of Eminent Domain* (Harvard University Press), a study of the power of government to take private property. His paper "An Uncertain Quest for Welfare Rights" will appear in the *Brigham Young Law Review*.

Julian L. Simon of the University of Maryland has two books coming out this year from Basil Blackwell Press: *The Theory of Population and Economic Growth and Effort, Opportu-*

nity, Wealth, and Work. Simon is continuing his research on the effects of population and immigration on economic growth.

Peter J. Ferrara has gained an important ally in his campaign for individual retirement accounts to cover medical expenses (Health IRAs), as proposed in a recent Cato Institute Policy Analysis. Dr. Otis R. Bowen, the new secretary of the Department of Health and Human Services, endorsed the concept in a recent article in *FAH Review*, a magazine published by the Federation of American Hospitals. Ferrara and Cato president Ed Crane spoke on Health IRAs to a symposium sponsored by the National Chamber Foundation.

Lawrence H. White of New York

University will publish an article, "William Leggett: Jacksonian Editorialist as Classical Liberal Political Economist," in the journal *History of Political Economy*.

Cato's friends at the Political Economy Research Center in Bozeman, Montana, continue their impressive work on behalf of free-market approaches to environmental quality. **Terry Anderson** directed a conference on property rights and the environment for congressional staffers. Other adjunct scholars speaking at the conference included **John Baden** and **Richard Stroup** of PERC and **Joseph P. Kalt** of Harvard. Baden recently brought the New Resource Economics to two con-

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Should Regulations Be More Cost-Effective?

Paul Rubin, an economist with the Consumer Product Safety Commission, outlined his proposal for the private enforcement of government regulations at a recent Cato Policy Forum.

Rubin argued that in many areas, like pollution, "the theory of property rights is insufficient," and therefore laws are passed to ensure the social welfare. He noted that "even if the enforcement agency does implement congressional policy, there is no incentive to do it in an efficient manner."

Rubin stated that regulation could be more cost-effective if it were enforced by the private sector. One could, for example, "auction off to private agencies the right to enforce regulations" in such areas as auto safety, pollution, false advertising, and taxation. Rubin contended, "If it is possible to get regulations to be privately enforceable, it will lead to real savings. It will create incentives for people to do what we want without having to spend resources monitoring them."

Commenting on Rubin's paper was Tom Palmer, a fellow at the Institute for Humane Studies. Palmer argued that it is disingenuous for Rubin to position his proposal as part of the privatization movement. The word

"privatization," he said, "attracts those sympathetic to the free market. But privatizing garbage collection is different from privatizing regulation. Nobody flees from the trash collector or the postman as they do from the enforcers of stifling labor legislation, licensing requirements, and other market-entry restrictions, or from the enforcers of cartel rules and similar invasions of human liberty."

Palmer disagreed strongly with Ru-

bin's statement that "even though a policy may be inefficient, there are still social benefits to be gained by not wasting resources on enforcement." Palmer asked, "If a policy is inefficient, wouldn't one prefer the policy to be enforced less—not more?"

In regard to taxation, Palmer argued that "more efficient enforcement of taxation policies . . . is equivalent to a tax increase with all the destruction of social market processes it implies."

Development Economics after 40 Years

A Cato Institute Conference in Honor of Professor Lord Bauer
May 1, 1986 Washington, D.C.

"The Unacceptable Face of Reality"
Professor Lord Bauer
*"Dissent on Development:
The Contributions of Lord Bauer"*
Basil S. Yamey

Other speakers include Mancur Olson, Deepak Lal, Alvin Rabushka, Melvyn Krauss, Jonathan Kwitny, George B. N. Ayittey, Peter Kilby, Julian Simon, Alan Rufus Waters, Sir Alan Walters, and Karl Brunner.

Contact the Cato Institute for more information.

Adjunct Scholars (Cont. from p. 6)

ferences in France, and he is working on a new book, *Doing Good While Doing Well: Fiscal Conservatism and the New Conservation Movement*. Anderson, author of *Water Crisis: Ending the Policy Drought* (Cato, 1982), recently published two articles on water policy: "The Problem of Instream Flows" in *Economic Inquiry* and "The Market Alternative for Hawaiian Water" in the *Natural Resources Journal*. Stroup made a speaking tour of Australia and New Zealand and wrote an article for the *Wall Street Journal* on New Zealand's economic policy, coauthored with Jane Shaw.

Thomas J. DiLorenzo of George Mason University, coauthor of Cato's new book *Destroying Democracy*, has published "The Origins of Antitrust: An Interest-Group Perspective" in the *International Review of Law and Economics*.

Kemp, Gephardt in Fall Journal

Tax reform advocates Jack Kemp and Richard Gephardt are joined by a distinguished group of scholars in the Fall 1985 issue of the *Cato Journal*, devoted to "The Principles and Politics of Tax Reform."

Gephardt argues that the current complex tax system means that Congress is really "in the business of trying, at least partially, to plan the American economy. . . . I am convinced that we do not have the foggiest notion of what we are doing in terms of the total economic outcome." Kemp discusses the differing roles of politicians and economists in changing public policy.

The papers in this volume—presented at a conference sponsored by the Florida State University Policy Sciences Program—discuss tax reform from both a positive and a normative viewpoint. Among the scholars are Joseph J. Minarik, Robert E. Hall and Alvin Rabushka, Alan Reynolds, James Gwartney and James Long, Richard E. Wagner, Edgar K. Browning and Jacqueline M. Browning, Marilyn R. Flowers, and Richard Vedder.

John W. Sommer, president of the Political Economy Research Institute, has published articles in the *Wall Street Journal* and the *Freeman* on how the government's disaster-relief subsidies encourage people to live in disaster-prone areas. Sommer is editing a monograph series on science policy for the National Science Foundation.

Leland Yeager of Auburn University and **Robert L. Greenfield** of Fairleigh-Dickinson University will publish "The Logic of 'Cashlessness': Comment on White" in the *American Economic Review*. Yeager and Greenfield have also coauthored "Money and Credit Confused: A Critique of Economic Doctrine and Federal Reserve Procedure."

Lloyd J. Dumas of the University of Texas-Dallas will publish *The Overburdened Economy* (University of California Press) in April. He is also author of "Commanding Resources: The Military Sector and Capital Formation" in *Taxation and the Deficit Economy* (Pacific Institute), edited by Dwight Lee. Other Cato adjunct scholars with papers in that volume are **James M. Buchanan** of George Mason University, **Richard B. McKenzie** of Clemson University, **John Baden**, **Richard Stroup**, and **Thomas J. Dilorenzo**.

Richard H. Fink, president of Citizens for a Sound Economy, coauthored "Inconsistent Equilibrium Constructs: The Evenly Rotating Economy of Mises and

Rothbard" in the *American Economic Review*. Fink's coauthor was Tyler Cowen of Harvard University, a *Cato Policy Report* book reviewer.

Mario J. Rizzo of New York University and **Gerald P. O'Driscoll Jr.** of the Federal Reserve Bank of Dallas are coauthors of *The Economics of Time and Ignorance* (Basil Blackwell). **Roger Garrison** of Auburn University also contributed a chapter. The book received a very favorable review in the *Times Literary Supplement* of London by Paul Craig Roberts and was also reviewed in the *Journal of Austrian Economics* by **Charles W. Baird** of California State-Hayward. Baird also published a critique in the *Freeman* of the Catholic bishops' economic analysis.

M. L. Greenhut of Texas A&M University coauthored *From Basic Economics to Supply-Side Economics* (University Press of America) with **Charles Stewart**. **Steve Pejovich** of Texas A&M directed a conference on taxation and government spending for Texas newspaper editors.

Jack High of George Mason University published "Bork's Paradox: Static vs. Dynamic Efficiency in Antitrust Analysis" in *Contemporary Policy Issues*. **Jennifer Roback**, who has recently joined the faculty at George Mason, will soon publish a monograph on comparable worth, sponsored by the Twentieth Century Fund.



Richard Lesher (center), president of the U.S. Chamber of Commerce, talks with Cato chairman William Niskanen and president Ed Crane before a luncheon for corporate representatives at which Lesher spoke.

Misguided Public Policy Harming Minorities

The Cato Institute regularly sponsors a Policy Forum at its Washington headquarters where distinguished analysts present their views to an audience drawn from government, the public policy community, and the media. A recent forum featured Glenn C. Loury, professor of political economy at Harvard University, who is currently at the Institute for Advanced Study in Princeton. Commenting on Loury's address was Charles Murray, senior research fellow of the Manhattan Institute and author of *Losing Ground: American Social Policy, 1950-1980*.

Glenn Loury: The struggle for freedom and equality is the central theme in the black American historical experience. Indeed, this struggle in turn has played a profound role in shaping the contemporary American social and political conscience. The trauma of slavery, the fratricide of the Civil War, the profound legal ramifications of the Reconstruction amendments, the long dark night of post-Reconstruction retreat from the moral and practical implications of black citizenship, the collective redemption of the civil rights movement—these have worked to make us Americans the people we are. Only the massive westward migration and the still continuing flow of immigrants to our shores can rival this history of race relations in having defined the American character. How we handle the race problem, therefore, is of enormous significance to the future of our nation.

Writing in 1903, the distinguished black scholar W. E. B. Du Bois declared, "The problem of the 20th century is the problem of the color line." Some 40 years later, Swedish economist Gunnar Myrdal, having been commissioned by a prominent American foundation to review the state of racial affairs in the United States, concluded that "the race problem constitutes a great dilemma for our republic, one which if not resolved threatens the ultimate success of our democratic experiment."

In the two decades following Myrdal's report, America witnessed a social revolution on the issue of race. A powerful social movement began in the Southern states with opposition to the petty

apartheid of Jim Crow and quickly engulfed the entire nation. While this movement involved a broad range of Americans, it was led and inspired by blacks and was most closely associated with the center-left spectrum of American politics. Through the court rulings and the legislation to which it led, the movement has brought fundamental changes to every aspect of our public life.

But this revolution is woefully incom-



Glenn Loury: "The administration should make concern for racial inequality a priority on its domestic affairs agenda."

Policy Forum

plete. One cannot but notice the continuing tension, anger, hatred, and fear that shrouds our public discourse on matters concerning race. When Martin Luther King, Jr., declared his dream for America in 1963, that we should some day become a society where a citizen's race would be an irrelevancy, where black and white children would walk hand in hand, where persons would be judged not by the color of their skin but by the content of their character, his vision seemed to many Americans both noble and attainable. Today the dream seems naively utopian, no closer to realization than when it was articulated.

Many declare that the president of the United States is a racist. Demagogues of both races fan the flames of racial hatred. Blacks remain unwelcome in many residential communities, and not mainly in the South. To declare oneself an

advocate of King's colorblind society is to invite attack from his successors at the helm of the civil rights establishment. The racial disparities of privilege and power in our large cities are graphically revealed in the parallel emergence of gentrifying yuppies and an entrenched underclass.

There is great irony and danger in our current circumstances, for the legal and political transformation of racial issues that has occurred in the United States since World War II represents a remarkable and unparalleled experience. In little more than a generation and with comparatively little violence, a despised and largely disenfranchised minority used the courts, the legislature, the press, and the rights of petition and assembly to force a redefinition of its citizenship. We have in substantial part solved the dilemma that Myrdal saw posed by the existence of a legally enforced racial caste system.

Yet, as I have written elsewhere, we face a new and more intractable dilemma today. The bottom stratum of the black community seems increasingly to be without hope of achieving material advancement. The statistics on welfare dependency, inner-city crime, the incarceration of young black men, drop-out rates in big-city high schools, unemployment, teenage pregnancy among black women, and children living in single-parent families are simply staggering. They depict a misery, hopelessness, and alienation that is difficult for most Americans without direct experience of this social stratum to comprehend.

There are two common responses to the situation. One is to blame it all on racism, to declare that the circumstances prove the continuing existence of Myrdal's dilemma, only in a more subtle and updated form. This is the view of many in the civil rights community, and their strategy has been to attempt to embarrass, harass, compel, or cajole white America into taking up its unfinished business and admit its guilt for the racism of the present. The other response, typical of those now in government, is to blame the problem on Great Society liberals and the follies of big government and big spending, to

see it as the legacy of a tragically misconceived welfare state.

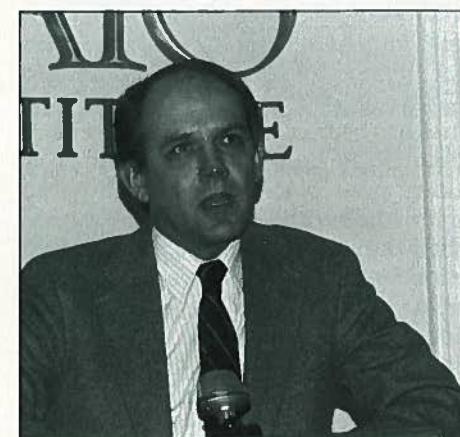
These responses feed on each other: civil rights leaders call for more spending, characterize every attack on the cost-effectiveness of a welfare program as evidence of racism, and identify every affirmative-action effort as necessary and just recompense for the continuing disparity between blacks and whites. The administration, repelled by the public vision of civil rights advocates and convinced that the programs of the past have failed, talks formalistically about the principle of colorblind action, points to the trickling down of the benefits of economic growth as the ultimate solution to the problem, courts the support and responds to the influence of segregationist elements, and remains without a positive program.

I do not intend here to try to establish a balance of evils, to make some kind of easy equivalence of the errors of the two sides and then point to a difference-splitting third way. My own view, amply developed in my writings, is that the Great Society approach to the problems of the black poor has been largely discredited and that we have created a dependent class of citizens who increasingly have little incentive to avoid trouble with the law, to remain employed, to keep their families together, and to ensure that their daughters do not become pregnant.

It is not nearly as easy to help people as the big spenders would suggest. The proper measure of caring is not the size of the budget for poverty programs; moral leadership must be an element of the solution. The neutrality toward values and behavior that was so characteristic of the Great Society liberal political and intellectual elites who dominated the formulation and implementation of policy from the mid-1960s onward—the aversion to holding persons responsible for the actions that precipitate their own dependency, the feeling that society is to blame for all the misfortunes in the world—has contributed to the current problem.

But, and this is crucial, I have also seen our government, which does not need the political support of the lower stratum of the black population, fail to engage the problem with the seriousness, energy, and imagination that it requires. Ideologies have been allowed to stand

in the way of the formulation of practical programs that might begin to chip away at this dangerous problem. The worthy goals of reducing taxes and limiting the growth of government have crowded from the domestic policy agenda the creative reflection that will obviously be needed to formulate a new, non-welfare-oriented approach to the problem. This lack of a positive, high-priority response from the administration allows the politically, intellectually,



Charles Murray: "Affirmative action is the litmus test in affirming that one's heart is still in the right place."

and morally bankrupt professional poverty advocates to retain credibility and force in our political life.

Thus, I am sympathetic to much of the conservative critique of social policy that Charles Murray has done so much to advance. I would gladly join with the administration in a number of highly partisan political debates: on federal enterprise zones, a youth opportunity wage, educational vouchers for low-income students, stimulating ownership among responsible public-housing tenants, requiring work for able-bodied welfare recipients, dealing sternly with those who brutalize their neighbors. I am no enemy of right-to-work laws or the institution of private property, and I do not trust public bureaucracies as a substitute for private initiative.

But I am also a black man, a product of Chicago's South Side, a veteran in spirit of the civil rights revolution. I am a partisan on behalf of the inner-city poor. I cannot but lament deeply how little progress we have made in relieving their suffering. For me, it is far from enough to fault liberals for much of what has gone wrong. Because I see the

problem as so far from solution and a solution as so central to my sense of satisfaction with our public life, I despair over the administration's apparent lack of commitment to its own proposals on behalf of the inner-city poor. A genuine, unprejudiced commitment from the highest levels of government to resolve this problem, as well as a public acknowledgment of the unacceptability of the current state of affairs, is now required. This is not a call for big spending, nor is it an appeal for slick PR campaigns to show that Ronald Reagan cares as much as Tip O'Neill. Rather, it is a cry for the government to make concern for racial inequality a priority on its domestic affairs agenda.

In some of my writing on this subject, I have placed great weight on black self-help. I have also written critically of blacks' continued reliance on civil rights-era protest and legal strategies, of the propagation of affirmative action throughout business and education. I have urged blacks to move beyond civil rights, and I have drawn attention to the difference between the enemy without, racism, and the enemy within, those dysfunctional behaviors of young blacks that perpetuate poverty and dependency. I have described the political realities of the post-civil rights era and argued that claims based on racial justice alone carry much less force in American public life now than they once did. Indeed, I have argued that some civil rights leaders have engaged in a wanton surrender of the moral high ground as they seek benefits for their own people in the name of justice and yet reveal an indifference or hostility to the rights of others.

Nothing I have said today should be construed as a retreat from those views. Self-reliance is essential to black dignity and a key ingredient for black progress, yet obviously it is no panacea. The active, creative, and committed involvement of government at all levels is necessary as well. But meeting the challenge facing black America today—the challenge of taking control of our future by exerting the leadership, making the sacrifices, and building the institutions necessary for black social and economic development—does ultimately depend upon black action. It is unwise and dangerous to rely on the government to remain sufficiently com-

(Cont. on p. 10)

Minorities (Cont. from p. 9)

mitted to such a program of black revitalization over the long haul. Even as I call for that commitment, I also say to black Americans that reliance upon it is foolhardy.

I want to turn now to some other often self-induced obstacles to the attainment of genuine equality for black Americans. By "genuine equality" I mean more than a more-or-less equal material provision; I mean an equality of respect and standing in the eyes of one's fellow citizens. This equality is not possible when large numbers of blacks are not self-supporting, and it requires that blacks believe in their own abilities to effectively compete in American society. But the intellectual evolution of black advocacy has undermined that belief. Some of the most eminent black thinkers seem not to voice much confidence at all in the capabilities of black people.

A great turning point in the history of black Americans was reached when, in 1934, Du Bois was dismissed from the editorship of NAACP's *Crisis Magazine* because of his view that the drive for integration at all costs undermined black people's confidence in their own institutions and capacities. He feared that the fight against segregation, a fight he often led, had become a crusade to mix with whites. He wrote, "Never in the world should our fight be against association with ourselves, because by that very token we give up the whole argument that we are worth associating with."

Just 20 years after these words were written, black psychologist Kenneth Clark managed to convince the Supreme Court that segregation was inherently damaging to the personalities of black children. The reasoning of the Court in overturning the separate-but-equal doctrine—that racial separation is intrinsically damaging to the black personality—was pernicious. The logic seemed to be that unless whites are willing to mix with blacks, black children will suffer self-image problems. Thus, black development and self-respect was made out to be inherently impossible without the cooperation of whites. The famed civil rights leader Floyd McKissick noted sarcastically

that this perspective seemed to mean "if you put Negro with Negro you necessarily get stupidity." Such apparent expressions of black insecurity and inferiority bore out Du Bois's fears voiced two decades before. Once the civil rights struggle moved from ending de facto segregation to forced racial mixing, blacks often seemed to be rejecting the very possibility of beneficial association with themselves.

Many instances of this lack of confidence could be given. In recent years in Chicago, Philadelphia, and Washington, D.C., the potential for the development of independent black schools in the inner cities has been confirmed. These schools demonstrate how the educational progress of poor black children can be accomplished with very limited resources when parents and teachers are willing to make the children's education an urgent priority. Such efforts deserve our support. They would be furthered by certain proposals of the administration, vouchers for private education, for example. Yet, so deeply entrenched is the civil rights mentality that in some communities black children are permitted to languish with limited skills while their "advocates" seek ever more farfetched versions of integration, tacitly rejecting the option of positively promoting the education of their own children themselves.

In 1977, in Ann Arbor, Michigan, black parents faced a difficult problem: their children weren't learning how to read, while white children were learning how to read. A group of civil rights lawyers and educators convinced these parents to sue the public schools for discrimination, alleging that white teachers in Ann Arbor failed to take due account of the fact that the black children spoke Black English, a distinct dialect. Two years later, a federal judge duly ordered the Ann Arbor schools to provide reading teachers with sensitivity training in Black English so as to better teach reading to these black students.

And yet now, six years after the implementation of the court order, young blacks in Ann Arbor continue to lag far behind whites in their reading ability.

This would all be amusing if it weren't so tragic. Advocates won themselves a symbolic victory, but what did they do for the children? How much more "equal" have those children really be-

come? While years of legal wrangling went on, the opportunity for the black community in Ann Arbor to directly address their needs went unexploited. Apparently, it never occurred to black parents that their children might benefit more from a straightforward effort to tutor them in reading. There are 35,000 students at the University of Michigan's Ann Arbor campus, a sizable number of whom are black. One imagines that such a tutoring effort could actually have been undertaken; that it was rejected in favor of the farfetched Black English argument suggests the kind of intellectual malaise of which Du Bois warned a half-century ago. This example illustrates the importance of exploring alternative options in pursuing goals of vital importance to blacks.

There are many instances of impressive accomplishments that black Americans in the past have managed under very difficult circumstances, indeed, under circumstances dramatically more difficult than those that blacks now confront. The black literacy rate rose dramatically after emancipation, though free public schools were virtually nonexistent. Independent black businesses and entire black towns flourished in the late 19th century. Despite the terrible economic and social oppression to which slaves were subjected, they created vibrant family, religious, and cultural traditions that continue to enrich black America today. Indeed, despite rampant discrimination and difficult economic circumstances, the black migrant communities in the North in the early decades of this century did not experience the kind of social dislocation and family instability that plagues today's ghettos. In 1925 in Harlem, 85 percent of black families were intact. Single teenage motherhood was virtually unknown. It was likewise in Buffalo, New York, in 1910.

The point is simple: without liberal apologists to tell them what little they could do for themselves or how inevitable their misery must be, poor black folk in years past were able to maintain their communities and establish a firm foundation for their children's progress. This heritage is the underpinning of a collective black strength waiting to be tapped today. The question, though, is whether black leaders have the intellectual disposition and political savvy

needed to bring it about.

Much of the leadership in the civil rights organizations and in Congress remains wedded to an outmoded conception of the black condition. Theirs is too much the story of discrimination, repression, hopelessness, and frustration, and too little the saga of uplift in the march forward to genuine empowerment whether others participate or not. They require blacks to present themselves to American society as permanent victims incapable of advancing without the help of benevolent philanthropy. By evoking past suffering and current deprivations, some black leaders seek to feed the guilt—or worse, the pity—of the white establishment. The idea that whites are responsible for the solution of black problems can persuade the black individual that he can do nothing about his situation himself. It can also convince black communities as a whole that the only thing they can achieve through collective action is the election of one of their own to public office—a worthy goal, I suppose, but hardly the stuff of which economic development is made. Blacks must not allow themselves to become doomsayers always alert to exploiting their suffering by offering it up to sympathetic whites as a justification for pressing black demands. It is impossible that equality of status in American society could lie at the end of such a road.

I would like to close with a few words about quotas, now a much-debated topic with the administration considering revision of Executive Order 11246. My concern, in the context of this talk, is the inconsistency of the broad reliance on quotas with the attainment of genuine equality in American society.

The demand for quotas, which many see as the only path to equality, in a sense concedes the notion that blacks can never be truly equal. Aside from instances in which quotas are ordered by a court in the face of explicit finding of illegal discrimination, the use of differential standards for hiring and educating blacks and whites acknowledges the inability of blacks to perform up to the standard of whites.

Thus, at Harvard, Derek Bok publicly declares—in defense of black interests, he thinks—that without his university's enlightened quota system only 1 percent of the entering class would be black.

Well, the inescapable truth of the



Murray and Loury talk with Jeff Zuckerman, executive director of the Equal Employment Opportunity Commission, after Policy Forum.

However, without the benefit of such a system, 8 percent of the current Harvard class is Asian, and roughly half of it is women. In New York City today, when the last police sergeants' exam was passed by 10 percent of the whites who took it, 4.5 percent of the Hispanics, but by only 1.5 percent of the blacks, the city agreed to scrap the test and promote a quota for blacks. The test, they say, is discriminatory since fewer blacks passed and since the city's legal department does not think it could be defended as job-related. And yet the very same test was explicitly formulated under a court-ordered consent decree at the cost of a half-million dollars so as to be job-related.

So widespread have quotas become that all blacks, especially at the elite levels of employment, must now deal with the perception that without quotas they wouldn't be there. All blacks. Many black leaders seem proud to say that they owe their accomplishments to political pressures for diversity of one sort or another. When blacks can't pass high school proficiency tests as a condition for getting their diplomas, throw out the test, they demand. When black teachers can't exhibit skills of the same order as whites, the very idea of testing teachers' skills is attacked. If young black men are arrested at a higher rate than whites for crimes against blacks, well, it must be because of racism in society.

When black students are unable to gain admission to elite exam schools in the public school system, let's ask a federal judge to mandate black excellence.

Charles Murray: I must place my remarks within the context of the fact that I'm white. What Glenn just gave us was a distinctively black perspective; I think it's useful for me to comment, as a white, on what I have been seeing the past year as I have talked about race relations and on what I find deeply disturbing.

In the first place, I am extremely pessimistic about race relations right now. I don't see any way out of a lot of holes we have dug for ourselves. If I am short on solutions—something I've been accused of a lot—it's because I truly do not have any for some of the problems I have been observing.

In talking to predominantly white groups, I find that the concern over black-white relations that 20 years ago was deeply emotional, grounded in the most fundamental ways of looking at

Foreign Trade (Cont. from p. 1)

municipal governments. For example, local construction codes are a popular device to keep out foreign-produced building supplies.

Myth #3. Imports are dragging down the American economy, depressing employment especially in manufacturing. In reality, the rapid rise in employment in the United States in recent years is the envy of the rest of the world. Total U.S. civilian employment has increased from 98.8 million in 1978 to 107.2 million today. That 8.4 million rise far exceeds the increase in Japan and Western Europe combined.

Then again, we hear so much about the decline in U.S. manufacturing. But I'll let you in on a well-kept secret. Industrial production reached an all-time peak in 1984, when the Federal Reserve's index averaged 122. 1985 is on a high plateau, averaging 124 since January. Moreover, manufacturing's share of the real gross domestic product has held steady for the last 30 years—at about 25 percent. Indeed, services have loomed larger than goods production in the United States at least since 1929, which is as far back as the national income accounts go.

In addition, the total number of manufacturing jobs has fluctuated in the vicinity of 19 million since 1970. This is not booming growth, but it is certainly a far cry from the supposed decline and fall of U.S. manufacturing that we hear so much about. My colleague at the Center for the Study of American Business, Richard McKenzie, is doing research that shows that the total employment of production workers in the United States is continuing to rise. The fastest growing opportunities for production workers are occurring in the service industry. Manufacturers are performing fewer activities in-house and are contracting out more to suppliers, many of whom are classified as part of the service sector. The total employment of production workers rose from 47 million in 1975 to 62 million in July 1985.

The Myth of Protecting Jobs

Myth #5. Protection is the way to save jobs. Wrong again. Protectionist actions increase the cost of producing

goods and services in the United States, reducing the competitiveness of American products. A recent study by Arthur Denzau at the Center for the Study of American Business shows that if the United States had imposed a 15 percent import quota on steel in 1984, as the steel industry sought, 26,000 steel-worker jobs could have been saved—but at the cost of 93,000 jobs in the steel-using industries. Higher prices for protected domestic steel would have made American automobile and durable-goods producers less competitive.

Protectionism is the most inefficient welfare program ever designed. A government spending program in which the benefits delivered to recipients amounted to only 50 or 60 percent of

Protectionist actions increase the cost of producing goods and services in the United States, reducing the competitiveness of American products."

the costs would be criticized as shamefully wasteful. But in the case of protectionism, the typical increase in prices paid by American consumers far exceeds the total wages of the jobs that are "saved." In the case of footwear quotas, the ratio of costs to benefits was 9 to 1; in the case of steel and autos, 4 to 1. Protectionism is a politician's delight because it delivers visible benefits to the protected parties while imposing the costs as a hidden tax on the public.

Myth #6. Workers in import-affected industries deserve to be treated more generously than other employees. I know of no reason why workers in industries facing serious international competition should be viewed as more meritorious than, say, defense workers who lose their jobs when government contracts are completed or cancelled. After all, the line of causation from the government's budget deficits to the high-priced dollar to rising imports to reduced employment is far more indi-

rect than the link between a government decision to close a military facility and the resultant economic hardship.

Recommendations

The most effective way of dealing with the rising tide of imports is not to try to dam up foreign trade. It is to increase the competitiveness of American industry. I would like to suggest five positive approaches to foreign trade policy that would help American business compete.

1. *Reduce the budget deficit.* Although the linkages are complex and indirect, financing a string of \$200 billion deficits has raised real interest rates substantially, and that, in turn, has attracted large amounts of foreign capital. The substantial inflow of foreign money has increased the demand for dollars and has resulted in a major appreciation of the dollar. The high relative value of the dollar has made it easier for foreign companies to compete against American companies.

2. *Gear tax reform to enhance productivity and competitiveness.* Most tax reform proposals to date ignore the repercussions on international trade. The industries hardest hit by imports are those whose tax burdens would rise the most under the various tax proposals submitted by Messrs. Bradley, Gephardt, Kemp, Kasten, Regan, Reagan and Rostenkowski.

This is not the time to elevate the development of an ideal tax system to the top of the roster of public issues. Tax policy must continue emphasizing incentives for the items important to enhancing our international competitiveness: saving, investment, and research and development.

3. *Renew the regulatory reform effort.* The costs of producing goods and services in the United States can be decreased by launching another effort to reduce government regulation of business. Studies of U.S. and Western European regulation show that we impose much higher economic costs in achieving similar social benefits. Closer attention to the tremendous burdens imposed by EPA, OSHA, and other regulatory agencies would help restore industrial competitiveness.

4. *Reduce U.S. barriers to U.S. exports.* About one-half of our trade deficit with Japan could be eliminated if

Congress rescinded the bans on the export of timber and oil. Also, restraints on the export of strategic goods should be administered with common sense. It does not contribute to national security to prevent American companies from selling items overseas that are readily available from foreign competitors.

5. *American business and labor must face the challenge of increasing their productivity.* We cannot blame our poor production practices on foreigners. The answer is not to prop up industries with import restrictions or government subsidies or to try to prevent businesses by law from closing or "run-

ning away." Labor and management in each company need to face the challenge of enhancing their competitive-

"Protectionism is the most inefficient welfare program ever designed."

ness. Protectionism is counterproductive because it lessens the pressure on management and labor to lower costs and improve quality. The painful fact

Baby Boom (Cont. from p. 1)

reimpose the 'family values' of the 1950s, against the failed social programs of the 1960s."

Left, Right, and Babyboom presents the proceedings of Cato's April 1985 conference, "Reassessing the Political Spectrum." Contributors to the volume include Democratic pollster Pat Caddell, Republican consultant Lee Atwater, congressmen Vin Weber (R-Minn.) and Tim Wirth (D-Colo.), Washington Post editorial writer Michael Barone, American Enterprise Institute opinion analyst William Schneider, and many other distinguished political observers.

Caddell and Atwater agree that baby-boom voters—those born between 1946 and 1964—can be characterized as fiscally conservative and socially liberal. Atwater emphasizes the "new values" that characterize baby boomers—self-actualization, quality, opportunity, tolerance, and social conscience, as well as hostility to bigness in government, business, and other institutions. Caddell argues that the party that first gives the baby boomers a chance to act on their "collective social conscience" to effect social and political change will be the majority party for the rest of the century.

Schneider argues that the Democrats' problem is that the country came to see them as the party of the federal government, and the federal government as the establishment. He urges Democrats to "make the power of government once again seem populist

LEFT, RIGHT & BABYBOOM

America's New Politics

Lee Atwater
Terry Nichols Clark
Mervin Field
Stuart A. Lilie
William S. Maddox
William Schneider
Vin Weber

Michael Barone
Pat Caddell
Edward H. Crane
Paul Kleppner
Dotty Lynch
Paul H. Weaver
Tim Wirth

edited by David Boaz

is that foreign competition is a most effective spur to greater productivity.

Fundamentally, free trade is a consumer issue because the consumer bears the burden of protectionism. Why are consumer organizations mute on the subject of protectionism?

I'll conclude by quoting my favorite advocate of free trade, Lee Iacocca. In defending new joint-production arrangements with foreign companies, Iacocca bluntly observes: "If you don't go to the lowest-cost source, you're an idiot." But supposedly that is true only for business. When consumers follow Lee's advice, they are attacked for being unpatriotic.

ors emerging in such cities as New York, Houston, and San Francisco.

Rep. Weber argues that "the old linkage of activist government—better times—Democrat is rapidly becoming less government—better times—Republican," while Rep. Wirth contends that most Americans are less interested in the size of government than in how the public and private sectors can best work together.

Dotty Lynch, former pollster for the Gary Hart campaign, examines "why the gender gap didn't happen" and credits the Reagan campaign with convincing young working women that economic issues were more important than women's rights. Journalist Paul Weaver argues that America's "corporatist/managerialist regime" is being weakened by intellectual and cultural factors, so that we are slowly moving toward a more individualist society or, as Weaver puts it, "a kind of 'proto-neoliberarianism'."

Cato president Edward H. Crane urges opening up the intellectual and political system through education tax credits, abolition of the Federal Election Commission, and limiting terms of members of Congress in order to develop more political competition. Historian Paul Kleppner discusses how political leaders use ideas to appeal to their supporters and foresees a time of political specialization, with people interested only in a few issues that affect them directly.

Left, Right, and Babyboom: America's New Politics is available in paperback for \$6.95.

Understanding Financial Regulation

Financial Reform in the 1980s, by Thomas F. Cargill and Gillian Garcia (Stanford: Hoover Institution Press, 1985), 214 pp., \$19.95/\$10.95.

The regulatory structure of the nation's banks, savings and loans, and credit unions is in a state of flux. The formerly well established rules of the game are being widely challenged as rapidly changing technological and economic conditions create new profit opportunities and competitive pressures for traditional depository institutions. In *Financial Reform in the 1980s*, Thomas Cargill and Gillian Garcia set out to describe and explain the events of the volatile 1980s and to consider where recent changes in regulatory and monetary-control policies might lead. In so doing, the authors make two primary contributions.

First, they provide a useful aid for understanding the apparently sudden changes in banking law and structure. The legal, regulatory, and market-driven changes occurring over the past six years have substantially altered the system of bank regulation and control established during the 1930s. Cargill and Garcia attempt to place these recent changes in perspective by providing a brief overview of U.S. financial history through the late 1960s. They then discuss in more detail the events of the 1970s that led to the recent financial reforms. The authors also review the specific changes that have occurred, ex-

amining the impact of the Federal Reserve Board policy redirection announced in October 1979, as well as the 1980 and 1982 acts of Congress.

Second, while most academics and policymakers treat monetary policy and financial-institution regulation as conceptually separate, Cargill and Garcia emphasize their interdependence. The

Policy Report Reviews

authors examine how financial innovation and regulatory reform have affected the Federal Reserve's ability to control the money supply. They note that recent financial innovation has made illogical, incomplete, and, to some extent, irrelevant the commonly accepted definitions of money.

In their consideration of recent events, Cargill and Garcia recognize the problems created by extensive regulation of depository institutions, paying particular attention to the savings and loan industry crisis. The authors are, however, willing to accept the need for federal direction of monetary policy "even in . . . an Adam Smith world of competition," though they do recognize the difficulties inherent in the Federal Reserve's attempts to control the money supply.

The book does become a bit technical at times for the general reader, particularly in its later chapters. On the other hand, Cargill and Garcia use tables effectively to summarize important private and regulatory innovations occurring as early as the turn of the century. In addition, they provide a table that describes state and federal agency responsibilities by category of regulation and depository institution.

All in all, the discussion, tables, and a bibliography make *Financial Reform in the 1980s* a valuable resource for understanding the current state of the shifting structure of the financial-services industry.

Urban Transit: The Private Challenge to Public Transportation, ed. Charles A. Lave (Cambridge, Mass.: Pacific Institute and Ballinger Publishing Co., 1985), 372 pp., \$35.00/12.95.

It is encouraging to see that the current wave of free-market thinking is now reaching such areas of longstanding—and virtually unchallenged—government control as urban transit. The 14 essays of *Urban Transit: The Private Challenge to Public Transportation*, contributed by economists and civil engineers, investigate a variety of market mechanisms that might be injected into urban transit.

The first three essays are largely historical, explaining the origins of government's control of city transit, and most of the others present case studies that demonstrate the advantages of moving toward a free market. The costs of public operations, which very often run large deficits, are shown to be far higher than those of similar private operations. The success of many private, unsubsidized facilities in less developed countries is discussed, as is the potential for private, unregulated urban transit in our own country.

Urban Transit may not be exciting reading, but it may generate an important debate on transit alternatives. It offers a useful overview of the issues and solid research that can be incorporated into broad empirical arguments and proposals for reform. ■



James Bovard, author of a Cato study on legalizing competition in mail delivery, talks with the Wall Street Journal Report, a cable television show.

Minorities (Cont. from p. 11)

cause you're black, and you doubt your own abilities because you wonder yourself whether you're there only because you're black. My editor at the *New Republic*, who had clearly been ordered to edit my article because she didn't particularly like it herself, argued with me at great length and in great detail over every line. She was clearly resistant to anything I could not pin down to the nth degree. Finally, she said, "Well, maybe it's okay that this sort of thing gets printed. When I was a freshman in college, I had a roommate who was one of the quota students, and she was so torn up by it that she had a nervous breakdown and quit." Q.E.D.

Why was it that this person, with the personal experience she had, was so resistant to the message of my article? I think it is because social scientists do not measure certain kinds of outcomes. If it is true that of a thousand blacks placed because of the quota system, every one of them feels deep, important psychic pain and every one of them is to some degree debilitated professionally, personally, by the quota, then we should take a sober view of the "progress" we have made in the job market for blacks. But the only thing we count is the bodies that quotas mandate for various positions. We cannot count the other effects of quota policies, and because we cannot count them we pretend they don't exist.

When somebody, particularly a white, says that a black feels just the way you or I would in that position, he is perceived to be taking a let-them-eat-cake attitude, whereby we're doing them good by taking away opportunities. Somehow it's okay for whites to implement policies as long as they provide greater outcomes, simply measured, but it's not legitimate for whites to worry about problems that would in fact cause them intense pain if they were put in the same position.

Glenn hit on something extremely important in terms of what might be done. Much of the action the Reagan administration could take has nothing to do with spending money. Ronald Reagan is extremely good at using the presidency as a bully pulpit. He ought to be a lot better at it with respect to race relations.

Let me tell an anecdote that epitomizes what I'm saying. I wrote an article for the *New Republic* a year ago. I was arguing that affirmative action systematically created a situation in which all blacks who had jobs were subjected to the kinds of doubts that Glenn was just talking about. A lot of your white co-workers think you're there only be-

cause you are feeling resentment at welfare mothers and black criminals. You're feeling what is rapidly turning into a resurgence of racism among people who were far less racist a few years ago. And the reason you are feeling this way is not necessarily because you are inherently racist but because something strange has happened in the dialogue in this country. You have not felt it legitimate to say, 'I think it's a real bad idea for blacks to commit crimes and to have babies they can't take care of' without thinking that those would be racist remarks. But you can separate blacks into good and bad, just as you separate whites into good and bad. So it's okay to feel disdainful of the welfare mother. What you have to do, however, you white gas station owner out in Iowa, is to recognize that an inner-city woman in Detroit who's holding down two jobs and still raising her kids is just like you. She has the same values and the same aspirations. You have to not only respect but welcome her in some important sense as one of your fellow citizens."

We must build this kind of bridge again. We must quit thinking in terms of whites being nice to blacks and start thinking once more in terms of some fundamental principles shared by people whom we respect regardless of color.

I grew up in a small town in Iowa that had one black family in 15,000 people. My parents were not liberal activists, I can't remember a single lecture I was given as a child, but somehow I grew up assuming that racism was not only awful but senseless. The fact that I can't remember how I came to feel that way bespeaks something very positive that has been true for many people in the history of this country. For a long time the ideal of equality, however much it might have been violated in the fact, remained deeply embedded as an ideal. It struck all sorts of chords the strength of which we have forgotten.

It may be that the truly pernicious aspect of affirmative action construed in terms of quotas is that it has had the effect of denigrating an extraordinarily powerful ideal that was shared by all sorts of Americans. And in that ideal lies the only potential for redeeming some of the problems of American blacks and race relations that have been getting not better but worse over the last couple of decades. ■

"To be governed..."

No room for spending cuts

A congressional investigation has uncovered "numerous examples of extravagant" trips on luxury liners by federal employees traveling at taxpayer expense. . . .

In one case, an official and his family, returning to Buenos Aires, Argentina, from home leave in Los Angeles, flew to Cartagena, Colombia, and then took a 25-day cruise to Buenos Aires. . . .

The source . . . quoted the [General Accounting Office] as saying the voyage cost \$18,156, compared with the \$3,360 had the trip been made by air. . . .

[Rep. Jack] Brooks ordered the investigation in March 1984 after his committee held a hearing into the case of a U.S. Information Agency employee who took his family on a taxpayer-funded \$17,371 trip up the Mississippi on the plush Delta Queen as he returned home from an assignment in South America.

— *Washington Post*, Oct. 22, 1985

Going for the gusto is America's philosophy

Medical and psychiatric reports released by the State Department yesterday indicate that Soviet sailor Miroslav Medvid . . . jumped "impulsively" into the Mississippi River, "grabbing for the glitter and gusto" of life in the United States, "rather than [acting] on any deep-rooted political or moral beliefs."

— *Washington Post*, Nov. 9, 1985

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Next project: the first motel swimming pool

The Cleveland Park Historical Society is trying to prevent the demolition of the Park and Shop shopping center . . . by asking the city to designate the dilapidated, one-story commercial strip a historic landmark. . . .

Several architectural historians say that the Park and Shop is the earliest example in Washington of shopping centers with off-street parking and that it may be one of the earliest commercial-strip shopping centers in the country.

— *Washington Post*, Nov. 9, 1985

What's wrong with this sentence?

The most successful American corn harvest ever . . . averaging a record 116.6 bushels per acre compared to 115.1 bushels estimated last month . . . will yield more headaches than rewards.

— *Washington Post*, Nov. 13, 1985

Give us time, we've only been at it for 70 years

It is necessary to mobilize scientific and technical thought, to ensure rapid economic growth. We need a new system of economic management. And contrary to what is often said in the West, this does not mean changing the foundations of the system. The human factor is the decisive one, and the implementation of this program depends on new approaches and requires certain changes in personnel.

— Soviet foreign policy spokesman Leonid Zamyatin in *Newsweek*, Oct. 28, 1985

The price of peace

On the first business day after details of President Reagan's new arms-control plan were reported earlier this month, the congressional switchboard lit up with phone calls from anxious defense contractors. . . .

The president's proposal to halve the strategic arsenals of both superpowers and eliminate mobile missiles triggered an "immediate spasm" from America's major weapons makers. . . .

— *Washington Post*, Nov. 19, 1985

Pro-family legislation

When Rep. Beryl F. Anthony Jr. (D-Ark.) presented the House Ways and Means Committee last weekend with an amendment preserving a small portion of the timber industry's tax benefits, he said it favored small growers who could not afford to produce trees without tax breaks.

The committee member did not mention that those small growers include his father, an uncle and several other relatives. . . .

Based on figures provided by a cousin of Anthony's, one of the two new tax breaks in the amendment would preserve a total of more than \$500,000 in annual tax deductions for Anthony's relatives by 1990. . . .

Asked whether he knew that his family's holdings fell just inside the limits of one of the new tax breaks, Anthony said: "I didn't know exactly where they would fall."

— *Washington Post*, Oct. 31, 1985

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