POLICY REPORT

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Demunicipalization of Services

by Lawrence H. White

The American urban fiscal crisis is far from over. New York has debt-servicing requirements that may reach close to $2 billion by 1983. The city is almost surely going to fail to balance its yearly budget by July 1981, the deadline stipulated by the federal government five years ago. Chicago's government and school system have accumulated a $570 million deficit. Philadelphia faces a cumulative deficit of $93 million by mid-1981. Washington, D.C., recently found itself unable to repay half of a $40 million short-term loan from the federal treasury and is looking to Congress for aid. Cleveland, having garnered much attention last year by defaulting on $15.5 million in maturing obligations, is now quietly in hock to the tune of $111 million. San Francisco has been scrambling to cover a looming $114 million deficit before July 1. Boston, Detroit, and Atlanta limp year to year from budget crisis to budget crisis.[1] All this occurs despite constitutional requirements in each city that the annual current-expense budget be balanced.

The urban taxpayer faces an awesome burden, and no relief is in sight. The prospects are grim for the future, where billions in clouded and unfunded pension liabilities await. Few cities' troubles can be foreseen far in advance—witness the suddenness of Chicago's inability to pay its school teachers—because of shoddy and sometimes deliberately deceptive accounting procedures. About a fourth of the nation's fifty largest cities have never even computed a value for their unfunded pension liabilities.[2]

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A new crop of big-city mayors—Edward Koch in New York, Jane Byrne in Chicago, George Voinovich in Cleveland, William Green in Philadelphia, Dianne Feinstein in San Francisco—is learning to cope with cuts in municipal services. The rhetoric of austerity and the debate over where to make incremental cuts in services draw attention away from the important fact that none of these mayors has raised the fundamental question: What services do we want municipal government to provide in the first place? The urban taxpayer awaits a fresh answer to this question.

"The urban taxpayer faces an awesome burden, and no relief is in sight. The prospects are grim..."

A promising and innovative answer lies in the suggestion that many or all current municipally-provided services are candidates for privatization.[3] "Privatization" means turning over provision of services to the private sector. Services that are candidates for privatization include refuse removal, education, police and fire protection, transportation, hospital and ambulance care, street cleaning and maintenance, and the operation of libraries, museums, parks, zoos, pools, beaches, and other recreational facilities. Two difficulties immediately confront the advocates of privatization: first, the difficulty of explaining why private provision of these services is feasible and how it might work to the taxpayers' advantage; and second, the practical difficulty of overcoming the powerful tax-consuming interest groups who would be opposed to ending municipal provision. At least four varieties of privatization have been suggested, each confronting the issue in a different way.

(1) The municipal government can transfer tax revenues to private firms chosen through competitive bidding. This policy has acquired the rather awkward name of "contracting out." It is already common for street lighting and refuse removal and is virtually universal for construction projects.

(2) The government can transfer tax revenues, in the form of vouchers for specified amounts, to private citizens and let them purchase services in a competitive market. Purchases are to be made from government-approved sellers, one of whom may be an arm of the municipal government. An example of such a plan is Milton Friedman's voucher system for primary and secondary education.[4]

(3) The city government can offer tax credits that encourage the voluntary creation of incorporated private neighborhoods or automatic-membership homeowner associations cemented by perpetual covenants in property deeds. The associations can then arrange for the contractual provision of services to their neighborhoods. The financial

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IN THIS ISSUE

The Census: 10 Years, $1 Billion—for What?

Some people may be under the impression that counting is a rather simple process, one that even a government could perform, but the twentieth U.S. decennial census may change their minds. After 10 years of preparation and with a budget of $1 billion, the government census is encountering so many problems that the very usefulness of its results is being seriously questioned. Many consider the census a vital instrument that helps the government operate more effectively, but the failure of the census to produce accurate information casts doubt on this claim. Even the very desirability of a census has been questioned by those who feel that the census is an invasion of privacy whose main purpose is to facilitate transfer payments from the productive to the unproductive sectors of the economy. Regardless of whether one believes the census to be valuable or detrimental, one thing is clear: The government is not capable of handling the job.

The problems with the census are so severe that a House subcommittee concluded that "doubts about census accuracy have never before been as great." Vincent P. Barabba, the director of the Census Bureau, has admitted that "We underestimated the complexity of the task." What may turn out to be the most accurate assessment was offered by Gay Hammett, district manager for the Walnut Creek census office outside San Francisco, when she said, "I think the whole census is going to be a failure."

The Census Bureau has had the least success in the crucial task of compiling and utilizing accurate address lists. Many of the address lists purchased by the bureau systematically ignored low-income areas because the lists were prepared for commercial vendors. Problems with some address lists included reported errors in excess of 50%; other lists excluded whole subdivisions. Last April the city of Detroit set up a special telephone service to provide the Census Bureau with 3,000 addresses of inner-city households. None of the 3,000 homes has either received a form or heard from a census taker.

Once preliminary address lists are compiled, they are sent to local post offices for corrections. The Manhattan post office received an 850,000-name address list containing 107,000 errors. George Shuman, the Manhattan postmaster, has estimated that 13% of the census forms in Manhattan went to the wrong addresses, were never delivered, or were returned to the post office.

The Census Bureau has encountered numerous other problems. In Maryland, the responses from a 4,000-person area were lost. The eastern section of Los Angeles has found itself with only one-third of the needed Spanish language forms. Bilingual census takers must now interview another 8,000 homes to fill this gap, a process that the bureau admits may never be completed.

Enforcing compliance with the census has proven to be another major stumbling block. The national response rate is running at about 85%, but many large metropolitan areas, such as New York City, have rates as low as 68%. Although failing to answer the census carries legal penalties, many people have flatly refused to cooperate. Other people may have lost the forms, forgotten to fill them out, or simply not have had the time and energy to bother with them. The townspeople of Imperial, Nebraska, refused to spend the approximately 45 minutes necessary to complete the long forms they received.

The Census Bureau's inability to find and keep competent workers also contributes to its poor performance. Part of this problem is due to massive computer errors that held up employees' paychecks for up to seven weeks, causing many of them to quit. The turnover rate for census enumerators is running at around 50%, and New York City claims it has only half of the enumerators it needs. Those employees who have remained on the bureau payroll often perform their duties incorrectly. Many of the census supervisors have ordered workers to fill in any blank lines on the questionnaire and to "correct" any answers they feel may be wrong.

Any mistakes that are made will not be trivial: The Census Bureau has estimated that between $50 and $75 billion in federal aid is directly tied to the census count. Every person not counted will affect the allocation of hundreds of dollars. The scramble for transfer payments has created national divisiveness and pitted state and local governments against each other. Both the city of Detroit and Hispanic Americans in Chicago have already filed suits against the Census Bureau because they feel they are being undercounted and therefore will receive less federal aid. Representation in Congress is also at stake. In 1970 Oregon lost a congressional seat to Oklahoma because the census counted a few hundred less people in Oregon.

Despite the huge investment of resources, money, and time, despite the invasion of privacy and the inconveniences caused by the census, tax dollars based on census results may continue to be meted out in a random and arbitrary manner. Who knows, maybe this is better than other methods currently used to dispense government transfers. ■

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obligations and voting rights of homeowners are spelled out by the deed covenants. More than 20,000 such deed-based associations and private communities exist in the United States. This approach, which we may call "neighborhood-privatization," has recently been advocated by Mark Frazier.[5]

(4) Finally, the government can extricate itself entirely from the service sector simply by ending its own provision of services, auctioning off or homesteading away its plants and equipment, and removing any restrictions on private provision. Residents are then free to purchase services, individually or in voluntary association, from private entrepreneurs. For example, New York long ago opened the market for removal of commercial refuse. This approach is known as "load shedding." When legal impediments to restrictive covenants are eliminated, it resembles neighborhood-privatization.

Dramatic saving in the production of services is the most obvious benefit of privatization. The saving comes from the great superiority in productive efficiency of profit-motivated private firms over sluggish municipal bureaucracies. A profile of Waste Management, Inc., a private refuse-collection firm that contracts with some 140 communities, reports that the firm "figures that because of its productivity, its costs are 25 to 30 percent lower than those of most municipal collectors....Thriving on efficiency, the company has learned how to pare costs to the bone with highly efficient equipment, minimal crews, and precise route scheduling."[6] A Columbia University study of refuse collection in more than 2,000 metropolitan areas found municipal collection to be 30% more expensive than private collection in a typical small city.

"Dramatic saving in the production of services is the most obvious benefit of privatization."

A study contrasting towns that contract for policing services with comparable noncontracting towns found that the latter paid 72% more per capita. A private firm provides fire protection services to a number of Arizona communities at a price averaging about half that paid for municipal provision by neighboring towns.[7] Some private and parochial schools can provide a better education than public schools at a fraction of the expense.

These gains in productive efficiency are achievable through all four varieties of privatization. The four approaches differ, however, in the degree to which they allow the price mechanism to direct production toward the satisfaction of the most urgent consumer wants. Only in a true market for services can a consumer express the extent of his willingness to pay for more and better services of various sorts by his choices of what, how much, and from whom to buy. Load shedding directly creates a true consumer market for services, while neighborhood-privatization does so indirectly. Homeowners can choose among a variety of services and providers and can alter their choices if they become dissatisfied. Providers of service face the market test constantly: To survive they must discover and deliver what consumers want.

Contracting out, on the other hand, creates no consumer market for services. It instead retains tax financing and zero priced or arbitrarily priced provision. Service of a uniform type and level is chosen for all households through political mechanisms: Some homeowners cannot have thrice-weekly curbside trash collection while others have weekly backyard pickup. The voucher system retains tax financing while creating a rigged consumer market for services. In education, for example, the number of schools and variety of schooling methods would presumably be limited to those designated "legitimate" by the government. The level of service consumers may choose is constrained by the amount of the voucher.

A secondary benefit of privatization is an escape from the interruptions and threatened interruptions of service due to strikes by municipal employee unions. The list of strikes in 1980 is long and growing. Over a dozen people died in fires during the walkout of Chicago's firefighters in March. The first six months of the 1979–80 school year saw over 215 strikes by public school teachers. New York City was brought to a near standstill by the strike of its transit workers in April. A walkout of

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other city workers—notably police—has been threatened.[8]

Public employee unions exploit cities, and the political cowardice of the city governments lets them do so. Private firms in a free market have neither such an ability nor such an incentive structure. To take a dramatic example, a study by the private Economic Development Council found that, even before the transit strike, a second-year New York subway token-booth attendant received $21,888.41 in total annual compensation, while a middle-level bank teller in New York earned $11,766.57.[9]

How do advocates of privatization overcome political opposition? Contracting out has already raised the ire of the powerful American Federation of State, County, and Municipal Employees.[10] Unions, although they were successful in defeating California's tax-cutting Proposition 9 in June, seem to be losing power. Public employee union membership grew dramatically during the 1970s, but that trend has slowed. The unions are weakest in right-to-work states, sunbelt states, and nonmetropolitan areas, areas experiencing the greatest economic growth and growth in local public sector employment.[11] Increasing militancy by unions in the big northern cities will only hasten the decline of municipal service provision and hence in the security of the unions' monopoly position. If the taxpayers' revolt continues, mayors and city councils will find it easier to circumvent union resistance to privatization. Assistant Secretary of Labor William Hobgood has commented: "Public officials perceive themselves in a much stronger position now. The taxpayers have lost their traditional empathy for teachers and other public servants."[12] City officials may want to tie load shedding or neighborhood-privatization to a system of tax rebates in order to elicit maximum taxpayer support for the program.

Two major objections to privatization have been raised. First, some economists claim that municipal services are in essence collective goods, and if those who do not pay for them cannot somehow be excluded from using them, eventually no one will pay and providers will be unable to give adequate service. Hence, the argument runs, contracting out is the only feasible form of privatization.

The flaws in this argument are numerous. First, it is in most cases clearly a myth that the services in question share the characteristics of collective goods. There are in fact low exclusion costs associated with refuse removal, schooling, courts, transportation, ambulance and hospital care, water, power, sewage, libraries and museums, parks and zoos, and recreational facilities. These services either are or have been privately provided, and municipalities themselves already charge user fees in a number of instances. Where user fees would be difficult to impose, for example, in admission to public parks, the reason lies in the way facilities were originally built by municipalities for free entry, not in the nature of the facilities. Residential police and fire protection have the most plausible claim to collective goods status because of the open and unincorporated way neighborhoods have been structured in response to municipal provision, making exclusion of nonpayers difficult. New communities, neighborhoods, and housing complexes can easily be incorporated to provide private protection services to their residents. These services are often purchased from private firms by commercial customers, such as shopping malls. In old communities, neighborhood-privatization may be a way of creating a market for protection services.

The second objection to privatization rests on the concept of the natural monopoly: Regional economies of scale prevent competition by multiple firms in a single area. Space is insufficient here to examine fully the empirical relevance of this concept to municipal services, but the natural monopoly argument cuts both ways. The desire to allow the most efficiently sized producers to prevail is a reason *against* the closing of markets to potential competitors. Both municipal provision and contracting out set the size of the service region arbitrarily, not allowing markets to determine what is in fact the most efficient size and who is the most efficient producer. The desire to prevent monopolistic pricing is likewise a reason *against* the financing of services through taxation by a municipal government. Tax financing of services forecloses the consumer's option to turn to rival producers (including self-production) no matter how much is charged.

Even if "natural monopoly" zones were to arise where a free market in services prevailed, there would always be active competition for customers near the borders of the zones. The borders themselves would move because innovation changes economies of scale over time. The entire zone would be subject to potential competition. Regional economies of scale in a free market would provide residents with the incentive to form voluntary landowner associations or corporate communities for the purpose of soliciting competing bids from rival providers. Economies of scale are therefore consistent with competition.[13] Tax-imposing municipal governments can hardly be the cheapest way to organize the delivery of desired services when they inherently lack any mechanism for registering what services particular households are willing to pay for. The facts cited earlier suggest that, on the contrary, the dearness of municipally-provided services is only now becoming apparent. ■

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[1]David Rosenthal, "Behind the 8-ball Again," *New York* 13:15 (14 April 1980), pp. 39–42; "Belt-tightening Time for Big-city Mayors," *U.S. News and World Report* 88:9 (10 March 1980), pp. 76–78; Richard Phalon, "Grim Times in Fun City," *Forbes* 125:5 (17 March 1980).

[2]Richard Greene, "You Can't Fight City Hall—If You Can't Understand It," *Forbes* 125:6 (3 March 1980), pp. 92–99.

[3]See Lawrence H. White, "Privatization of Municipally Provided Services," *Journal of Libertarian Studies* 2:2 (Winter 1978), pp. 187–97; Mark Frazier, "Privatizing the City," *Policy Review* 12 (Spring 1980), pp. 91–108; Robert Poole, Jr., *Cutting Back City Hall* (New York: Free Life Editions, 1980).

[4]Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 85–98.

[5]Frazier, "Privatizing the City."

[6]Charles G. Burck, "There's Big Business in All That Garbage," *Fortune* 101:7 (7 April 1980), pp. 106–12.

[7]Frazier, "Privatizing the City," p. 100. For other comparisons, amplification of the theoretical arguments for privatization, and further references to the literature, see White, "Privatization of Municipally Provided Services," and Poole, *Cutting Back City Hall*.

[8]"Public Workers Take to the Warpath," *U.S. News and World Report* 88:10 (17 March 1980), p. 73; Michael Rosenbaum, "Strike City," *New York* 13:13 (31 March 1980), pp. 61–62.

[9]Hillel Levin, "The Comparison Game: How Transit Workers Fare," *New York* 13:15 (14 April 1980), p. 42.

[10]"Public Workers Fear Tax Revolt May Increase Private Contracting," *New York Times*, 24 July 1978, p. 1.

[11]James H. Seroka, "Local Public Employees Unionization: Trends and Implications for the Future," *Policy Studies Journal* 8:3 (Winter 1979), pp. 430–37.

[12]"Public Workers Take to the Warpath," *U.S. News and World Report*.

[13]See Harold Demsetz, "Why Regulate Utilities?" in Yale Brozen, ed., *The Competitive Economy* (Morristown, N.J.: General Learning Press, 1975), pp. 15–20.

What's Good for U.S. Steel Is Bad for America

by Tom Hazlett

Japan has once again become America's enemy. It has not bombed our shores. It has not taken any hostages. It has not harmed a single American citizen. *It is selling us things too cheap.*

Steel imports from Japan increased 37% from February 1979 to February 1980. (Total imports were up 25.4%.) This increase has led the steel industry to flood Washington with cries, requests, and complaints. U.S. Steel, the largest American steel manufacturer, has filed 67 cartons of documents (weighing in at 1,000 pounds) in a complaint to the Department of Commerce attempting to prove that foreign steel producers are "dumping" steel to American consumers "below cost." According to the *New York Times*, "Petitions from U.S. Steel filed on March 21 alleged that the [foreign steel] products were being imported at between 40 and 70 percent below the cost of production. It wants penalty duties assessed that would raise the price of imports and could sharply curtail their shipment."

The *Times*, as do almost all observers not on the steel company payroll, staunchly opposes any increase in trade barriers, yet seems to be taken in by much of the argument advanced by U.S. Steel. As the *Times* notes, "An open import policy means cheaper goods and contributes to an expanding world economy. It also threatens jobs, helping countries that don't play by fair trade rules to export their unemployment." Although the observation about free trade rules is indisputable, the fear of other countries' tariff barriers is as unfounded as it is commonplace.

"This increase has led the steel industry to flood Washington with cries, requests, and complaints."

To get to the core of the international trade question, Milton Friedman likes to imagine the ultimate trade deficit: a world in which Americans produce absolutely nothing that they consume but import everything. In this case the trade deficit would precisely equal the GNP. As long as Japan, Germany, and other nations are willing to take our greenbacks in exchange for their goods, 220 million Americans can be fat and happy—other nations do all the work, and we print all the dollar bills (our one remaining "productive" enterprise).

This fantasy illustrates that the expense in trading with others is not represented by what we import but by what we export. Looked at in this light, the idea that "dumping" is harmful to our interests is like the idea that walking into a supermarket with prices that are too low is harmful. The fantasy could never become a reality because our foreign trading partners would be doing all the work and getting nothing—except green pieces of paper—in return. Those green pieces of paper would certainly not be valued in and of themselves but only insofar as they might be used to lay claim to some goods or services of value. It is clear that the offer to sell will be made only in order to obtain the means to exercise a demand to buy.

We can now look at international trade as exchanges whereby both parties are made better off (or else the exchange would not occur). Moreover, the lower the price we are offered, the better the terms for us, just as in any purchase. And if foreign nations are so unenlightened as to impose high tariffs and thus raise the prices of goods we export to them, that should not be cause to raise our tariffs in retaliation. That would only serve to further harm the interests of American consumers.

Because foreigners sell to us only in order to be able to buy back things of value, increased American purchases of foreign steel will necessarily lead to increased foreign purchases of other American products. Although the former means decreased domestic employment and lower profits, the latter means increased jobs and profits—and inevitably by a larger amount. This is a simple manifestation of the gains from specialization, what Adam Smith first identified as the wealth-producing magic of the division of labor. In this

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✓Washington Update

✓A new act that would limit the powers of OSHA has become stalled in the Senate Labor Committee. The bill would exempt 90% of all employers from routine safety inspections. The measure has not advanced beyond the committee stage because of the lack of support from big business and the virulent opposition of the AFL-CIO.

✓The Senate voted 44 to 30 to terminate the Credit Control Act of 1969 on 1 July 1981, thus abolishing the President's authority to impose credit controls in an emergency. President Carter had invoked this act last March to justify the Federal Reserve Board's sweeping restrictions on consumer credit and money-market funds. Although the sponsors of the bill had pushed for an earlier expiration date of the Credit Control Act, it was necessary to compromise on the July 1981 date in order to ensure passage of the bill. As a result, it will not affect any current Federal Reserve programs.

✓Because of its failure to simulate realistic driving conditions, the Environmental Protection Agency has been misinforming the public with its estimates of gasoline mileage for automobiles. According to a study by a House government operations subcommittee, the mileage gap was only 5% in 1974, but by 1978 it had risen to 21%. Cars rated at 27.5 miles per gallon by the EPA delivered an average of only 19 miles per gallon—a 30% difference.

✓Taxes rose more sharply than either prices or business output in 1979, according to the Tax Foundation. Its index of federal, state, and local taxes climbed 13%, while prices of goods and services went up 9% and real business output rose by only 2%.

✓The ailing Chrysler Corporation has received its first $500 million installment of federally guaranteed loans, but not before the company was forced to temporarily halt payment to its thousands of suppliers around the world. Chrysler's future looks anything but promising. The government's own loan guarantee board, charged with overseeing the $3.5 billion package of private and public aid, estimates the automaker will lose $1 billion in 1980—double previous projections. Meanwhile, the Republican staff of the Senate Budget Committee has released a report questioning Chrysler's ability to survive, much less prosper. "We believe the risk is high that Chrysler will not achieve its profit predictions and, in fact, will not return to profitability," the report stated.

✓Those who contended that the Chrysler bailout was an extraordinary circumstance that would not set a precedent for similar action may soon be proved wrong. One form or another of federal help is being advocated in Congress for mutual savings banks, other automakers, the steel industry, and many pension funds.

✓The Supreme Court has reaffirmed its support for state laws that tax the out-of-state income of corporations doing business within a state. In a unanimous decision, the justices upheld a Wisconsin tax law that was applied to the Exxon Corporation's income. The court agreed that Exxon's marketing of gasoline in Wisconsin was sufficiently related to the company's exploration and refining of oil in other states as to bring its entire income under taxation. The justices further contended that the accounting procedures adopted by a company are not "binding on a state for tax purposes."

✓The House voted 310–95 to strengthen enforcement of the 1968 Fair Housing Act by allowing housing discrimination suits to be heard by administrative law judges at federal agency hearings as well as in the federal courts. President Carter has called the bill the most important civil rights legislation in more than a decade. Despite the lopsided vote on final passage, the House defeated by a single vote an amendment that would have left enforcement with federal magistrates only. The House also defeated an amendment that would have permitted realtors to include information on the racial and religious character of neighborhoods in talking with prospective buyers.

✓General Motors recently issued a detailed report estimating the total cost of its compliance with federal, state, and local regulations since 1974. GM claims it has spent $2.5 billion on automobile safety, $106 million for noise control, $3.6 billion on pollution control, and $511 million on OSHA regulations. Administering all of the regulatory paperwork cost another $1.4 billion. In 1979 alone GM's total cost of compliance exceeded $3 billion.

✓By the time the House Appropriations Committee finished with a $39.6 million water projects bill, the outlay was raised to $210 million. Three of the nine projects are in the Mississippi district of the chairman of the committee, Jamie Whitten, and two others are in the districts of subcommittee chairmen.

✓Pentagon records have revealed that the cost of providing military aircraft service to legislators (including their spouses and staff) may exceed $2 million each year. The military not only covers the cost of the plane flight but also pays for such incidentals as hotels, food, and beverages. This is in addition to the millions that Congress provides each year for travel on commercial planes and the millions that the military spends on overseas junkets.

✓The House and Senate's lopsided override of President Carter's veto of a Congressional move scrapping his oil import fee was the first override by Congress of a Democratic President's veto since 1952. The overwhelming margin of the override (10 to 1 in the House and nearly 7 to 1 in the Senate) indicates how leery congressmen are of being accused by their opponents in November of having raised taxes. ■

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case it can be seen that the consumers of America have more to gain, in dollar terms, than the workers and owners of the steel companies have to lose from foreign imports because, if the reverse were true, the steel industry could simply reduce its wages and profits to make American Steel competitive, i.e., available to domestic consumers at a lower price.

Rather than reducing their own prices, the steel lobby and unions are running to the government claiming that widespread unemployment will develop unless they receive protection from low-priced imports. This is rather persuasive evidence that they have other opportunities too valuable to make it feasible for them to lower their wages and prices. Such a finding is proof positive that Americans should produce less steel and allow those who are more efficient to supply our needs, thereby freeing our steel industry's labor and capital to produce in more efficient areas.

It is no surprise that a coalition of seven steel companies, allied with the steelworkers' unions, is storming the Capitol steps in a move to eliminate "cheap foreign imports." Their mission is to prove to the International Trade Commission that such imports are causing the domestic industry "material injury." As consumers, we should all hope desperately that that is just what the Japanese, German, and third world exporters are trying to do. Competition means beating out less efficient competitors, a process so beneficial to the public that its virtue is hardly anywhere openly debated. When the Treasury raised import prices 5% in the first quarter this year, the steel companies quickly followed with an identical 5% price hike of their own, a fact clearly suggesting that raising taxes or tariffs on those steel products that are dumped is simply a cynical use of governmental powers.

Fortunately, the Carter administration's policies are, in this instance, in the general interest as opposed to the special interest, and Carter is now reducing import duties in retaliation for the steel lobby's request to further punish foreign importers (who still only sell 13% of the domestic supply) for alleged dumping. The administration, which has proven itself no loyal friend to the principle of free trade, thinks that bailing out steel producers with higher prices will only worsen inflation and punish those industries that must buy steel—particularly the auto and construction industries, which currently have formidable problems of their own.

The *New York Times* correctly points out that

> there is no good economic reason why American steelmakers cannot meet competitive world prices, even allowing for occasional dumping. The Americans have plentiful resources, skilled labor and easier access to large markets. But to reverse their long decline, they need to rebuild with the most modern technology. That may require indirect government help in the form of less arduous pollution standards for new plants. It will certainly require some respite from high labor costs. Most important, American industry needs government policies that produce business investment, private incentives to save, and tax relief.

If increased foreign competition makes it necessary for American steel companies to shed the regulatory straitjacket tailored for them by Washington, we should be sympathetic to their struggle to escape, stand tall, and compete. But if the plea is that only anticonsumer prohibitions on free trade will save a desperate, uncompetitive industry whose greatest efficiency is in lobbying Congress, increased foreign imports will be a sure sign that it is indeed time to switch our allegiances. The consumers may well be trusted with this decision; the "Washington 535" certainly should not be. ■

Briefs

□ President Carter may have used billions of dollars of taxpayers' money as a campaign fund in the Democratic primaries. Carter controls the $29 billion in discretionary funds at the administration's disposal. Immediately before many Democratic primaries, Carter made a generous grant to the state where the primary was being held. Not only might this make him more popular among the voters, but the potential for federal aid can be used to win the endorsements of state and local officials. For instance, on the day that the mayor of East St. Louis, Ill., endorsed Carter, the White House awarded the city a new $7.8 million courthouse. Perhaps the most remarkable example was in Florida, where in the six weeks prior to last fall's straw vote, Carter poured over $1 billion into the state. One congressman remarked, "One more grant and the state will sink under the weight of these projects." Other states that were awarded millions of dollars right before their primaries include Pennsylvania, New York, and New Hampshire.

□ The oil companies are not the only ones being hurt by the Carter administration's "windfall profits" tax. Also suffering are approximately 2 million Americans who own royalty shares in oil wells. Many of these people are senior citizens, widows, or people on fixed incomes. Not only are they being taxed at the same 30% to 70% rate as major oil companies, but they are unable to recoup their losses the way oil companies do by passing most of the tax on to their consumers. Small royalty owners also face the additional problem of keeping adequate records of their royalty income. For those who cannot afford to hire an accountant this can be a serious problem.

The "windfall profits" tax is a classic example of intervention whose actual consequences conflict with its stated purpose. Its supposed goal is to help the "little man" by taxing away the profits of the large oil companies. The ultimate effect is to hurt the owners of royalty shares, many of whom are on low or fixed incomes. It is expected that royalty owners will pay about $30 billion in new taxes. ■

"To be governed . . ."

"Son Of Sam" strikes again

"Son of Sam" killer David Berkowitz is collecting Social Security disability payments while he serves time in Attica state prison, the [New York] Daily News reported in today's edition.

The newspaper said the payments have been handled by Berkowitz's court-appointed conservator and were confirmed by Representative William Whitehurst, R-Va.

It quoted a highly placed source in the Bureau of Disability Determination in the Social Security Administration as saying payments to Berkowitz, 27, had been approved because of his inability to hold a job due to mental illness.

Berkowitz is serving 315 years in prison for six killings in New York City.

Whitehurst's staff is probing the payment of as much as $60 million a year in Social Security payments to inmates across the country. . . .

—*San Francisco Chronicle,* June 5, 1980

Let him take an Excedrin and go to bed

Agricultural Dept. officials also claim not to know the details of the Justice Dept. probe (into the rice industry), although Attorney General Benjamin R. Civiletti telephoned Agriculture Secretary Bob Bergland from Florida on May 20 to inform him of the subpoenas. But Dale E. Hathaway, Agriculture Under Secretary for international affairs and commodity programs, notes that the rice industry is the "only major grain commodity in the country where there are no regularly reported prices." "That situation," Hathaway says, "irritates the Secretary."

—*Business Week,* June 9, 1980

He who lives in a glass house...

More evidence of the government's shortcomings in safety showed up in a 1976 study in which congressional investigators applied OSHA standards to 30 federal facilities, including offices, hospitals and warehouse-type buildings. They found 14,000 violations.

—*U.S. News & World Report,* June 9, 1980

Price indexing—par excellence

In the latest issue of Argus Research Corporation's weekly economic review, Argus chief economist Jeffrey Nichols advocates a different sort of incomes policy: "Tie the salaries of the President, his Cabinet, Congress, and the governors of the Federal Reserve inversely to annual changes in the consumer price index."

—*Business Week,* June 9, 1980

America's helping hand

Informing Ivan: The chill in Soviet-American relations hasn't interrupted the flow of U.S. government publications that are shipped regularly to the Soviet Union, courtesy of the American taxpayers.

This annoys Senator Jim Sasser, D-Tenn., who has conducted his own private investigation. Here are some of his findings:

It cost $12,000 in fiscal year 1979 to send the Kremlin some 23,000 documents, including the Defense Intelligence Agency's "Review of Soviet Ground Forces" and CIA maps and atlases of Afghanistan, Yugoslavia, Angola, Pakistan, Israel and South Korea.

It cost just about as much to see that Fidel Castro received our government publications, including copies of the U.S. Army's field manual, technical manual and a guide to the LANCE missile.

Even the Iranian government is on the free mailing list. The government gets some 3100 publications at a cost of $1800 a year.

The cost figures, incidentally, don't include mailing, which is also paid by the American taxpayers.

—*San Francisco Chronicle,* June 11, 1980

The consumers' friend

Those irrepressible regulators at the Department of Energy were caught last week with red tape all over their faces. Firing off a fusillade of contradictory rulings over the past two weeks, they first ordered Standard Oil of Ohio (Sohio) to raise its gasoline prices immediately by 10¢ per gal., then reversed themselves and ordered the increase rescinded, and finally proposed that Sohio add the extra 10¢ per gal. by early July.

—*Time,* May 19, 1980

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