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The UN's Holy War against Population

by Sheldon Richman

This September the United Nations will hold its third decennial international conference dedicated to the proposition that there are too many people in the world. The Conference on Population and Development, to be held in Cairo, September 5-13, "seeks to forge a new consensus that population concerns should be at the centre of all economic, social, political and environmental activities." The number-one topic of discussion will be how to stabilize the world's population because, as the conference literature puts it, "what is needed is a sustainable balance between human numbers and needs and the resources of the planet."

The Clinton administration subscribes to the popular, but flawed, view that "supporting population control efforts is both necessary and useful." One of President Clinton's first acts was to restore funding, cut off by former president Reagan, for the UN Population Fund and International Planned Parenthood.

Why are people afraid of population growth? We are told that if population is not stabilized—or shrunk, as Paul Ehrlich and others would have it—we will all face a miserable future. That is wrong, although there is a crucial caveat, which I will take up later. First, let's be clear about what the anti-natalists believe.

In the special Fall 1992 issue of *Time*, "Beyond the Year 2000," Eugene Linden writes: "The state of the environment in the latter part of the next century will be determined by one factor: human population. If the species doubles its numbers by 2050, to nearly 11 billion, humanity may complete the devastation that accelerated so steeply in this century."

Linden's article, "Too Many People," goes on to say that "the great-grandchildren of today's young people would have to share the planet with only a ragged cohort of adaptable species dominated by rats, cockroaches, weeds, microbes. The world in which they survived would consist largely of deserts, eroded mountains, dead coral reefs and barren oceans, all buffeted by extremes of weather." That is nonsense. But the anti-natalists are prepared to force their beliefs on the rest of us.

Paul Ehrlich, the guru of the population control establishment, has written that we will need "compulsion if voluntary methods fail." Coercion is never far from the anti-natalists' minds. For example, the December 1992 *Carrying Capacity Network Clearinghouse Bulletin*, with which Ehrlich is associated, stated:

> Unfortunately, there is growing evidence that increased funding and access to contraception will *never* by themselves allow us to achieve population stabilization or reduction, because population growth is not *caused* by lack of access to birth control alone. The reason is that, even when provided with full access to contraception, in scores of countries and in hundreds of cultures in the world many couples desire to have many more than the 2.1 children required to attain population stabilization. . . . For at least 15 countries of the world, desired family sizes are double and in some cases even triple what would be needed to achieve population stabilization despite often intensive family planning efforts. . . . *Given cultural traditions, we must ask ourselves whether some peoples will ever voluntarily limit family size.* . . . Considering the severity of the population crisis, the implementation of incentives and disincentives to limit family size as one method of population stabilization is absolutely essential. . . . If incentives

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In This Issue

Roberto Salinas León of CISLE translates as Cato chairman William A. Niskanen meets the press after his speech at Cato's 12th Annual Monetary Conference, "Monetary Arrangements in the Americas after NAFTA," held in Mexico City in May.

Can Government Put Values in the Schools?

Editorial

Concerns about the quality of the public schools and a general moral decline in society have combined to produce a growing interest in teaching values in the schools. From the Rainbow Curriculum in New York City to the attempt in Lake County, Florida, to teach students that "American culture is superior to other foreign or historic cultures" to the Vista, California, school board's policy that teachers discuss the "scientific evidence" that challenges the theory of evolution, different groups are trying to impose their values on all students through control of the public schools.

An obvious problem, of course, is what values—or whose values—to teach. Many civil libertarians answer that question by declaring that no one's values should be taught in public schools, though they rarely seem to object to the schools' teaching students the values of racial tolerance, environmental responsibility, and safe sex. And critics point out that if it were possible to entirely strip the curriculum of values, children would get the message that values are not important.

Some people say that there must be values on which we can all agree—not political or religious values but a basic moral code. Congress recently debated adding character education to the latest education bill. Rep. George Miller (D-Calif.) proposed a national conference and demonstration projects to promote the teaching of such values as honesty, responsibility, and caring. A *Wall Street Journal* reporter was mystified at the failure in committee of Miller's amendment. "Only in Washington," he wrote, "could teaching children to refrain from lying, cheating or stealing be an issue." But Rep. Dick Armey (R-Tex.) correctly pointed out that we don't need bureaucrats in Washington deciding what to teach in millions of classrooms nationwide.

Many teachers object to even the most basic values teaching. According to Charles L. Glenn and Joshua Glenn, writing in *First Things*, a recent survey of undergraduates at one of the country's most selective schools of education found that nearly half would refuse to use a teaching method that relied on "a conscious effort to teach specific virtues and character traits such as courage, justice, self-control, honesty, responsibility, practicing charity, obeying lawful authority, etc." Take a look at that list. There's no mention of such controversial issues as religion or sexuality. Conservatives would criticize the list for being insipid and baseless, ignoring the roots of virtue and character. Yet almost half of our brightest future teachers would refuse to teach such values.

When schools do establish character-education programs, they are often laughably banal. In Tyler, Texas, many schools declare a value of the month, which businesses advertise on billboards or store-window signs. Police officers hand out baseball-style cards featuring their pictures on the front and their favorite value on the back. As Dave Barry would say, I'm not making this up.

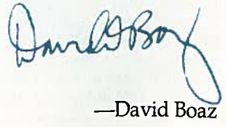
Honesty, charity, and self-control are fine, but the fact is that we do want our children to learn certain political values. A free society needs a political and civic culture supportive of freedom and of constitutional republicanism. Students should leave school with a healthy understanding of the roles of private property, the rule of law, the Constitution, the Bill of Rights, the separation of powers, and the independent judiciary in securing freedom, as well as the basic liberal virtues of toleration, openness, independent thinking, and mutual respect. Theoretically, public schools transmit those values to the next generation.

Some advocates of public schools charge that private schools couldn't be trusted to do so, that they might instead teach a whole range of illiberal values from Ku Kluxism to Farrakhanism. If true, that would be a concern for those of us who advocate educational freedom. But at present, there seems to be no evidence that private schools inculcate values inimical to civil society. In fact, most private schools display a value-based sense of mission, unlike most public schools.

Education of course is closely associated with the concept of indoctrination, which should lead us to worry about putting the education of all children into the hands of the state. As John Stuart Mill warned, "A general state education is a mere contrivance for moulding people to be exactly like one another. . . . It establishes a despotism over the mind."

I think that we do not want politically correct activists imposing a Rainbow Curriculum on 1 million New York City children. Nor do we want Ralph Nader and the National Education Association imposing a new civics curriculum that requires children to participate in movements for social change. At the same time, we should not want rival groups of activists to impose an unscientific creationist curriculum on the schools or to teach that "family values" require intolerance toward gay families.

The fact that competitive markets produce better quality is a good argument for school choice. An even better argument is that the values our children are taught in schools should not be a political football. We will get stronger, more sensible values—and values that reflect the wishes of individual parents—from a diverse, competitive system of private schools than from a politically controlled, bureaucratically run state-monopoly school system.



—David Boaz

Avoid Europe's Mistakes, Speakers Urge in Mexico City

NAFTA Countries Don't Need Monetary Union

Do common markets require common currencies? Should North America follow Europe's lead and move toward monetary union and a supranational central bank? Would it make sense to revive the postwar Bretton Woods monetary arrangement? Those and other questions were the focus of the Cato Institute's 12th Annual Monetary Conference, "Monetary Arrangements in the Americas after NAFTA," held at the Hotel Presidente in Mexico City, May 25-26.

The conference, which was cosponsored with the Center for the Study of Free Enterprise (CISLE) of Mexico and the Fraser Institute of Vancouver, British Columbia, attracted some 300 participants and 50 journalists. Cato vice president for academic affairs James A. Dorn directed the conference along with CISLE executive director Roberto Salinas León. Michael A. Walker, executive director of the Fraser Institute, was also instrumental in planning the conference.

Sir Alan Walters, former economic adviser to Margaret Thatcher, said a common market most certainly does not require a common currency, nor does monetary union require economic integration. Furthermore, trying to create a new Bretton Woods system, with "fixed but adjustable" exchange rates, would be like "flogging a decaying horse." For Walters, flexible exchange rates and sound domestic monetary policies are more apt to reinforce a free-trade regime than is moving toward a fixed-rate regime and monetary union, under which there would be pressure to impose controls on the flow of capital and trade.

Sir Alan Walters makes a point at Cato's 12th Annual Monetary Conference, cosponsored with the Fraser Institute and CISLE.

Jerry L. Jordan, president of the Federal Reserve Bank of Cleveland and currently a voting member of the Federal Open Market Committee, likewise felt that "a common currency, or an attempt to fix exchange rates among the NAFTA countries, would be a disaster." In his opinion, "Approaches to international monetary relations that foster competition among alternative currency units and vehicles for asset management are more likely to enhance world welfare, compared with systems like Bretton Woods that mandate change directed by supranational governmental bodies, which tend to ossify over time." With flexible exchange rates, competition among national currencies would discipline policymakers to reach a consensus about the importance of long-run price stability and keep markets open so that wealth creation could occur naturally.

Rogelio Ramírez de la O, president of Ecanal, S.A., whose clients include some of the largest multinational firms, emphasized that at present "only an imperfect currency union" would be possible among the NAFTA countries and that such a union "would be a bad idea" since it could "damage the consensus for free trade."

Instead, what needs to be done, according to University of Toronto economist Jack Carr, is to bind each national government by a monetary constitution that would commit the independent central banks to achieving long-run price stability. John W. Crow, former governor of the Bank of Canada, agreed in principle, noting that central banks must have a clear mandate to achieve monetary and price stability and must be held accountable. If the result of such a commitment is sound money, then the increased certainty about future price levels should help reduce exchange-rate volatility.

Michael Wilson, former Canadian minister for international trade, said in a luncheon speech that the North American Free Trade Agreement provides a solid basis for hemispheric growth. He said

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GATT Debated at Cato Forum

Friedman, Murray Keynote Seminars in San Jose, Phoenix

Cato Events

April 21: The Institute held a **"New Perspectives for the Nineties"** city seminar in Phoenix with keynote speaker Tim Ferguson, columnist for the *Wall Street Journal*, and luncheon speaker Charles Murray, Bradley Fellow at the American Enterprise Institute. Also on the program were Cato's president Edward Crane; Michael Tanner, director of health and welfare studies; and executive vice president David Boaz.

April 28: At a Policy Forum titled **"Privatizing the Planet: An Alternative Vision of Environmental Protection,"** Sen. Malcolm Wallop (R-Wyo.) said that real environmentalism is not the commandeering of other people's resources but rather the unleashing of the incentives to good stewardship that are provided by private property rights and competitive markets.

May 4: Judy Shelton, senior research fellow at the Hoover Institution, spoke about her new book, ***Money Meltdown: Restoring Order to the Global Currency System*** (Free Press), at a Book Forum. To restore a stable global monetary order, Shelton advocates a modified Bretton Woods arrangement under which national currencies would be linked to gold and have fixed exchange rates.

May 10: Publication of the new Cato book ***Perpetuating Poverty: The World Bank, the IMF, and the Developing World*** was celebrated at a Book Forum featuring several of the contributors to the volume. Participating were Cato senior fellow Doug Bandow and Ian Vásquez, director of the Project on Global Economic Liberty, coeditors of the book; Nicholas Eberstadt, visiting scholar at the American Enterprise Institute; Professor George B. N. Ayittey of the American University; and Cato distinguished fellow Paul Craig Roberts. Bandow discussed the general failure of World Bank and IMF loans. Eberstadt applied the lessons of that failure to the former Soviet republics. Ayittey discussed the dismal record of foreign aid in Africa, and Roberts pointed out that the conventional notion of aid was devised after World War II when confidence in the market economy was at an all-time low.

Competitive Enterprise Institute president Fred L. Smith, Jr., welcomes Sen. Malcolm Wallop to a Cato-CEI forum on environmental issues.

Judy Shelton, author of *Money Meltdown*, calls for linking national currencies to gold at a Cato Policy Forum.

May 12: A Policy Forum asked whether it is **"Time for Perestroika in America's National Parks?"** Karl Hess, Jr., author of the Cato book *Visions upon the Land*, criticized the government's administration of the national parks and called for decentralization of control. Bill Chandler of the National Parks and Conservation Association agreed with some of the criticism of the Park Service but defended the basic system. R. J. Smith of the Competitive Enterprise Institute called for outright privatization of the parks.

May 23: Cato associate policy analyst James Bovard discussed the theme of his new book ***Lost Rights: The Destruction of American Liberty*** (St. Martin's) at a Book Forum. Bovard gave examples of how government increasingly tramples on the freedom of citizens.

May 25-26: The Institute's **12th Annual Monetary Conference: Monetary Arrangements in the Americas after NAFTA,** cosponsored with the Center for the Study of Free Enterprise (CISLE) of Mexico and the Fraser Institute of Canada, was held in Mexico City. The speakers included Federal Reserve Board governor Lawrence B. Lindsey; Lawrence A. Kudlow, economics editor at *National Review*; Jerry L. Jordan, president of the Federal Reserve Bank of Cleveland; Hernán Büchi, former finance minister of Chile; Carlos Boloña Behr, former finance minister of Peru; Michael Wilson, former Canadian minister of international trade; Gerald P. O'Driscoll, former vice president of the Federal Reserve Bank of Dallas; John W. Crow, former governor of the Bank of Canada; Alan Walters, vice chairman of AIG Trading; Professor Arnold C. Harberger of UCLA; Professor Steve H. Hanke of Johns Hopkins University; Professor George A. Selgin of the University of Georgia; Cato chairman William A. Niskanen; and Cato distinguished fellow Paul Craig Roberts.

June 3: A **"New Perspectives for the Nineties"** city seminar was held in San Jose, California, with William J. O'Neil, founder and chairman of *Investor's Business Daily*, as the keynote speaker and Nobel laureate Milton Friedman as

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Milton Friedman makes a point to gubernatorial candidate Ron Unz after Friedman's luncheon address to a Cato seminar in San Jose.

Replacing the Income Tax with a National Sales Tax

Policy Forum

The Cato Institute, in conjunction with the National Tax Research Committee, recently held a seminar on "Replacing the Income Tax." Among the speakers were Jack J. Valenti, president of the Motion Picture Association of America; Shirley D. Peterson, an attorney with Steptoe and Johnson and former commissioner of the Internal Revenue Service; James L. Payne, author of Costly Returns: The Burdens of the U.S. Tax System; *Stephen Moore, director of fiscal policy studies at the Cato Institute; and Laurence J. Kotlikoff, chairman of the Department of Economics at Boston University. Excerpts from their remarks follow.*

Jack Valenti: Our tax system sinks under the weight of over 1,000 pages of almost impenetrable prose, dense arithmetic, and a bewildering parade of obscurities. I doubt that there is a single person in the Western Hemisphere who has read every page, and I will wager that whoever has read it doesn't understand one quarter of what he or she has read. Abuses grow, an underground economy flourishes, avoidance is common, evasion increases, investment is punished, and savings are penalized. No other country in the world relies on such a cluttered mess of rules and regulations that are both contradictory and abrasive. We have given birth to a priesthood of lawyers and accountants who gravely inspect the entrails of our system and then charge outrageous prices for the knowledge that they alone possess. Compliance with our turgid tax code costs us over $600 billion a year. Small companies, I am told, pay, on average, $390 to figure out how to pay each $100 in taxes they owe the government. There is something mystically unwieldy about that. About $130 billion in taxes is avoided, and on top of that, operating the Internal Revenue Service costs about $7 billion a year.

I believe this seminar is the beginning of a steady but relentless march toward a better tax system. That system would be very simple, easy to obey, and easy to enforce. Collection would go very smoothly, cheating would be hard, savings would not be taxed, people with equal spending choices would pay the same tax, taxes would distort economic choices as little as humanly possible, the tax would be out in the open, people would know exactly what they were paying at any particular moment, exports would be rewarded by being relieved of the income tax burden thereby making them more competitive abroad, and imports would no longer have a competitive advantage over home-grown goods.

To my untutored eye, the one alternative that fits those specifications like a glove is a national sales levy. For starters, the country would save over $600 billion in compliance costs.

Shirley Peterson: My views on the need for restructuring our tax system grow out of a somewhat unique set of experiences. I have practiced tax law for 20 years, and I have served as the commissioner of the IRS and as assistant attorney general in charge of the Tax Division at the Department of Justice. In short, when it comes to the workings of our tax system, I have just about seen it all, and that experience has led me to the conclusion that we should repeal the Internal Revenue Code and start over. Some of you may have seen a recent article in *Fortune* entitled "Our Screwed-up Tax Code." The article began with this statement: "The U.S. tax system is an unwieldy, inefficient, ungodly mess and last summer's shenanigans in Washington only made it worse. It penalizes the very investment that we need to create jobs and improve living standards. It makes U.S. companies less competitive internationally and encourages them to expand overseas instead of at home." That statement capsulizes the problem.

My view is that we cannot fix it by more tinkering at the margin; the only solution is to start over. The call for reform is not new. In the mid-1970s the secretary of the treasury, William Simon, called for fundamental reform. He commissioned a study of the tax system entitled "Blueprints for Basic Tax Reform," which still stands as the seminal work on tax reform. Over the past 80 years our system has served the nation well; notwithstanding its current faults, we do have the most effective and efficient tax system in the world. However, eight decades of amendments to the code have produced an almost impenetrable maze. Today, changes in the tax law are driven by political considerations and revenue constraints, and wise tax policy has virtually nothing to do with it. The result is a code that does not reflect a consistent philosophy and is so complex that the vast majority of taxpayers find it incomprehensible. There have been many attempts at tax reform over the past 25 years, but none of those efforts has attempted to restructure the entire code. In my view, we have reached the point where further patchwork will only compound the problem.

There are at least four reasons for change. The first is to reduce complexity. The second is to reduce the burden on taxpayers. The third is to eliminate disincentives for savings, and the fourth is to enhance our competitive position in a global economy.

The current level of complexity undermines compliance. Many people have the view that others, such as the rich and foreign-controlled corporations, do not pay their "fair share" of taxes. And taxpayers attribute the inequity to the complexity of a code that offers loopholes to those who can afford to pay lawyers and accountants to find them. Complexity drives some taxpayers out of the system altogether. In 1990 there were 10 million people in this country who, although required by law to do so, did not file tax returns. And 34 percent of those nonfilers, or about 3.5 million people, were entitled to refunds. Many of those nonfilers fell out of the system simply because they could not cope with its complexity. Even the simplest tax forms are not simple. Would you believe that the instruction booklet to the 1040 EZ is 14 pages of fine print? Complexity also breeds disrespect for the law and for the government agencies responsible for its interpretation and administration.

Complexity imposes an undue burden on our citizens and on businesses, which must divert scarce resources from productive activities to tax-compliance efforts. The burden imposed by the tax system falls on the large and the small alike. Indeed, some of the most obscene complexity can be found in the earned-income credit, which, ironically, was intended to help the working poor.

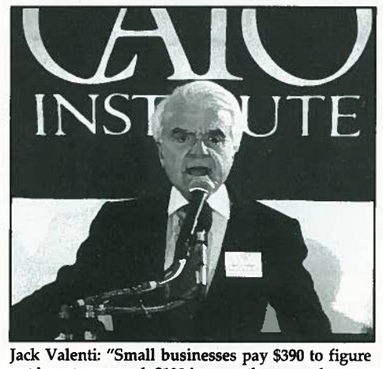
Our current tax law also discourages savings. Individuals are taxed on their earnings and taxed again on income from savings. Corporate profits are taxed twice, once at the corporate level and again at the shareholder level. Capital gains, including gains from inflation, are taxed, and the tax law still favors debt over equity. The tax system thus bears some responsibility for the current low rate of savings in the United States.

Finally, there has been a profound change in the world over the eight decades since the income tax was first enacted. Technology has made the world a smaller place. Investments and currency move at lightning pace across borders and eventually come to rest where the investment will be safe and earn the highest return. If we are to compete effectively in a global economy, we must reduce the tax burden on investment, and we must reform the law governing multinational activity.

It is questionable whether a coherent, principled proposal for a new system could survive the political process today. If I were president, I would appoint a bipartisan commission. I would choose the 12 wisest men and women I could find; I would lock them up in a room; and when they came out I would say to the Congress, "Vote it up or down, no amendments, just like military base closings."

James Payne: Charles Adams's great book, *For Good and Evil: The Impact of Taxes on the Course of Civilization*, shows again and again that taxation is an agent of destruction. From the Romans on, every regime has injured its people through its tax system. I especially love the quote from the Russian tax collector who kept a diary of all the nasty things that Ivan the Terrible did. One day the diary entry is, "I did no harm to anyone today, I was resting." When tax collectors are working, people are hurting.

That is a point that rulers, including our present legislators, have a natural tendency to forget, avoid, or cover up. They come here to Washington to run a welfare state and give away money, and they don't want to think about the unwelfare state, the equal and opposite system that takes money away. Congress does not know how destructive our tax system is. The most alarming figures on its destructiveness have been blotted out or ignored; they have never reached these halls. For years the IRS has been saying that it costs less than one-half of 1 percent of revenue to collect the income tax, and that figure has been repeated by scholars, journalists, and others. To correct this misleading figure, I made a study of the entire cost of the tax system, collecting all of the different studies and filling in the gaps with my own calculations. The main costs are, first, the compliance cost, which is the burden of record keeping, form completion, calculations, and so forth. The place to start here is the study that was commissioned by the IRS from Arthur D. Little Co., which came up with the figure for 1985 of 5.4 billion hours of work for the federal tax



Jack Valenti: "Small businesses pay $390 to figure out how to pay each $100 in taxes they owe the government."

system. That works out to be the entire labor force of the state of Indiana working all year on federal tax compliance. The monetary cost of those hours, adjusted for 1992, is $245 billion. That's 16 times the estimated cost of the Los Angeles earthquake.

And compliance isn't the largest cost. The biggest cost is the disincentive cost—the penalty on investment, savings, and work. A number of economists have studied that. In 1985 Charles Ballard and his associates came up with a disincentive cost for the entire U.S. tax system of 33.2 percent of revenue. That means that raising an additional $100 in taxes causes a loss of production worth $33.20. In addition to the two main costs, there are many other costs—enforcement, collection, litigation, tax shelters—that take, at a very conservative estimate, 8 percent of revenue. So the total marginal figure becomes 65 percent of revenue for all the costs. That is, raising an additional $100 burdens the economy with a $65 loss. Those numbers are not known in Washington. Congress has never asked for them. No one in the Office of Management and Budget or the General Accounting Office has put together such a study.

Our problem today is that we're telling Congress that we want an alternative tax system when they are still relatively satisfied with what they have. If we say we want an alternative plan, given the congressional mindset, we'll end up with an additional tax.

Stephen Moore: Let me briefly summarize the problems with our current income tax system. First, the system is economically inefficient. Taxing savings and investment is not in the interest of the American economy or our children. Second, the cost of compliance with the system is huge and growing. Third, the IRS is an agency that is invading our liberties and our privacy rights.

Many critics argue that abolishing the income tax is a political pipe dream. But three years ago few people had even heard of the term-limits movement, and now term limits have been passed in 15 states—with several more states and hundreds of communities likely to pass them this year. Replacing the income tax may be the next great political idea to catch fire. So the question is, with what do we replace the income tax?

Before I describe the Cato proposal, I would like to emphasize why two alternative proposals are not workable. The first is the consumed-income tax. Now, a consumed income tax system would be a vast economic improvement over the system that we have today. It would reward savings, investment, and productivity. But there is a serious problem with the consumed-income tax: it is still an income tax. What has mobilized the American public is the idea of abolishing the income tax entirely. If you have a consumed-income tax, you are still going to have an IRS monitoring how much money you make and how you spend it. The consumed-income tax also doesn't eliminate the vast compliance costs of our current tax structure.

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Income Tax (Cont. from p. 7)

The second proposal under consideration is a value-added tax, which has five major flaws. First, as experience in Europe has shown, a VAT is an engine of government growth. Second, the VAT is a hidden tax. What we want in our tax code is the greatest possible visibility for each tax. Third, VATs have not led to a reduction of income taxes in Europe; in fact, they have only been an addition to the income tax system. The same thing is likely to happen in the United States. Fourth, VATs have not increased savings rates in Europe because they don't replace the income tax. Fifth, the anti-VAT caucus has over 120 members of the House of Representatives, mostly conservative Republicans. When 120 of the most pro-business Republicans oppose a VAT under any circumstances, you are not going to have a political constituency for a VAT.

What we argue for at the Cato Institute is a national retail sales tax. Let me emphasize that we are talking about a complete *replacement* of the personal income tax, the corporate income tax, and the capital gains tax. You can imagine what impact that would have on investment in the United States. The sucking sound you would hear would be the United States sucking investment from all over the world. But you don't have to imagine it. We commissioned one of the best economists in the country, Larry Kotlikoff, to analyze the impact of replacing the income tax. According to his calculations, the national sales tax rate would have to be in the neighborhood of 16 to 20 percent, depending on what exemptions were allowed. He found the following effects: first, the U.S. savings rate would double. Second, the capital stock in the United States would rise by about 15 percent. Third, output would increase by about 6 percent above and beyond its normal increase. And fourth, there would be about a 10 percent reduction in interest rates.

The major objection to the proposal is, of course, that it would be a regressive tax system. It's very easy to overcome that problem: create the equivalent of a zero tax bracket. We would propose something like a $3,000 per person exemption from the sales tax. The government could issue a magnetic card that would exempt your first $3,000 of purchases. Thus, a family of four with an income of $12,000 would pay a tax of zero. A family of four with a higher income would pay a higher percentage of their total lifetime income in taxes.

The tax code is sapping America of its economic strength and vitality. We should not be rearranging deck chairs on the Titanic. The present system is fundamentally flawed. Americans want to get rid of it. A national retail sales tax to replace the income tax is the right way to move toward a consumption-based system.

Laurence Kotlikoff: U.S. savings is in crisis and has been for over a decade. Last

Shirley Peterson: "Would you believe that the instruction booklet to the 1040 EZ is 14 pages of fine print?"

year's national saving rate was only 2.7 percent; the year before it was even lower at 2.6 percent. Those numbers are down from the average rate of around 9 percent that prevailed in the 1950s and 1960s. So our saving rate has declined by over two-thirds in the course of the last four or so decades. Our domestic investment rate has also declined. Last year's rate was 3.8 percent, about half of the rate that prevailed in the 1950s and 1960s. And the fact is that most of U.S. domestic investment is financed by U.S. national saving, at least over time. The consequence of having low domestic investment is that capital is being accumulated at a lower rate, so capital per worker is growing less rapidly, so labor productivity is growing less rapidly, so real wages are growing less rapidly. And indeed, our growth in real wages has gone from about 3 percent per year in the 1950s and 1960s to around 0.7 percent per year right now. That is the legacy that we are leaving to today's children.

What is behind the decline in the U.S. saving rate? Whose consumption has gone up? It is not the government that is purchasing more goods and services out of our national output. It is the public that is consuming a larger share of our output. Which group within the public? The elderly. In large part the increase in consumption by the elderly reflects the enormous transfers we have been making from young working people to older people in the form of pay-as-you-go Social Security and Medicare benefits. And those transfer payments, especially Medicare benefits, continue to grow. It is important to talk about the tax structure, but it is also important to understand that unless we get entitlement growth under control, none of this will matter. Our national saving rate will not be 3 or 2.7 percent, it will be zero, or it could even go negative.

The consumption tax has two features that give it an advantage over the income tax in stimulating saving and depressing consumption relative to saving. One, it has better incentives for saving. Two, it has what economists call "income effects"; it places a relatively larger tax burden on older generations who have higher a propensity to consume. The typical older person today is consuming about 13 percent of his remaining lifetime resources every year. A typical 30-year-old is consuming about 5 percent of his remaining lifetime resources. A consumption tax structure places a larger burden on the elderly than on young people. So, given where we have been heading with respect to the distribution of consumption, I think a consumption tax is a fair tax to think about, because it will realign relative consumption in the country.

Will a consumption tax work? Within the mainstream academic community there is a consensus that a consumption tax structure would be much more healthy. The simulation studies that have been conducted actually show even bigger effects than Steve was mentioning. The effects will take time, however. If we switch to a consumption tax today, it will take 20 or 30 years to have the big impact that we are looking for. It took a long time for us to go from a 9 percent saving rate down to a 2.7 percent saving rate. It is going to take us a long time to get out of the hole we are in.

Which consumption tax should we adopt? We have the Danforth-Boren proposal, the Nunn-Domenici proposal, the national retail sales tax proposal, and David Bradford's proposal. Each of them is better than what we have. But I think that Steve is right that it is important to have transparency and a clean structure. The national retail sales tax, coupled with an earned-income tax credit, would be very transparent. When I was first approached by Cato to study the retail sales tax, I thought it was kind of an extreme proposal, but the more I think about it, the more sense it makes.

We have to look comprehensively at our marginal tax rates, no matter what kind of system we adopt. If we adopt a retail sales tax with a large earned-income tax credit, which people start to lose as they earn more money, we may encourage people not to work and earn more money. So we have to be very careful about the incentives. I think Steve's idea is to give everybody a flat amount of money independent of how much they earn. I think this variant of Milton Friedman's negative income tax proposal is a very, very good idea for us to take seriously. If you really look at the effective marginal taxes that people are facing at all levels—the poorest people, low-income people, middle-income people, high-income people—you find that almost everybody is in a marginal tax bracket of almost 50 percent or more, if you include state taxes and payroll taxes as well as federal income taxes. It is time that we lowered those taxes to give people incentives to work. ■

Cato Events (Cont. from p. 4)

the luncheon speaker. Also on the program were Cato's president Edward H. Crane; executive vice president David Boaz; and Michael Tanner, director of health and welfare studies.

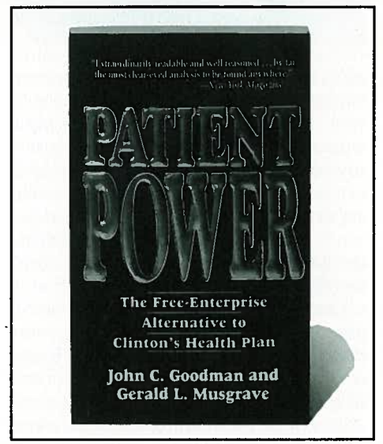
June 8: A Policy Forum titled **"The New GATT Agreement: Open Trade or Global Bureaucracy?"** featured a debate on whether the agreement will encourage free trade or set up a meddlesome organization that will burden trade with environmental rules. Joe Cobb, John M. Olin Fellow at the Heritage Foundation, said the World Trade Organization, which would be created under the new agreement, would not have the authority to impose environmental or protectionist rules and would tend to liberalize trade. Fred Smith, president of the Competitive Enterprise Institute, warned that the new bureaucracy may have bad unintended consequences. ■

Antonio Martino, who now deals with European Community affairs as the new foreign minister of Italy, spoke on a "A Monetary Constitution for Europe?" at Cato's 1990 monetary conference.

Cato Distributes 300,000 Copies of *Patient Power*

More than 300,000 copies of the abridged version of *Patient Power*, Cato's prescription for free-market health care reform, are in print, and grassroots promotion of the reform's centerpiece, medical savings accounts, is intensifying. According to Michael D. Tanner, director of health and welfare studies, the ideas embodied in *Patient Power* are being advanced by groups such as Americans for Free Choice in Medicine, Americans for Health Care Reform, and Advocates for Self-Government.

Meanwhile, Michael Reagan, host of a nationally syndicated radio show, is promoting *Patient Power.* He plans to send callers the pamphlet summarizing the proposal and to encourage his listeners to buy the paperback book. Tanner also reports that a member of the ruling Canadian Liberal party who serves on the health committee in parliament has ordered 100 copies of *Patient Power* so that medical savings accounts can be studied as a reform option.



Tanner has maintained his hectic schedule of speaking engagements. In recent weeks he's presented the case for "patient power" in Baltimore; Portland, Maine; Columbus, Ohio; Birmingham, Alabama; Lansing, Michigan; Detroit; Chicago; and Los Angeles. In May he debated Edmund Becker, dean of the Emory University Medical School and a member of Hillary Rodham Clinton's health care task force, in Atlanta.

Cato has published three new studies related to health care. Robert E. Bauman's Policy Analysis, "70 Years of Government Health Care: A Timely Look at the U.S. Department of Veterans Affairs" (no. 207), argues that the federal record in managing a large health care system does not inspire confidence. Tom Miller's Policy Analysis, "Nickles-Stearns Is Not the Market Choice for Health Care Reform" (no. 210), says that the Consumer Choice Health Security Act sponsored by Sen. Don Nickles (R-Okla.) and Rep. Cliff Stearns (R-Fla.) is seriously flawed. Stan Liebowitz, in the Policy Analysis "Why Health Care Costs Too Much" (no. 211), found that the major culprit in the seemingly endless rise in health care costs is third-party payment, which removes the patient as a major participant in financial and medical decisionmaking. ■

Population (Cont. from p. 1)

and disincentives for a two-child family are not instituted now, the only policy option remaining would be a desperate last ditch use of coercive mandatory sterilization or other such programs [emphasis added].

Make no mistake about it: the disincentives regarded here as noncoercive are, in fact, coercive. They include higher taxes; migration restrictions; and the state's withholding of advantages in housing, jobs, and other services for couples with too many children. And if such subtle coercion does not work, the anti-natalists are ready to move on to compulsory sterilization or, ominously, "other such programs." We know what that means.

So here is a frank admission of what many of us have long thought—that voluntary methods won't accomplish the anti-natalist program. People in the developing world will have to be compelled if they are to give up their traditions and have fewer children. In other words, rich white people will tell poor black, brown, and yellow people not to have children.

Population and Economic Growth

The anti-natalist establishment would have us believe that population growth retards economic development and degrades the quality of life. That is a poorly examined supposition that withers under some simple considerations.

There are striking examples of remarkable economic growth occurring along with dramatic population increases. Economist Sudha Shenoy notes that in the 36 years between 1951 and 1987 the population of Hong Kong, which was poor after World War II, almost tripled, much faster than the increase in Britain and India. Nevertheless, Hong Kong's economy developed rapidly, and by 1969 Hong Kong was the largest exporter in the developing world.

Hong Kong is not unique. Shenoy writes that Britain's 19th-century population growth was far faster than India's growth in the 20th century. India even had long static periods not found in Britain. Yet Britain became a rich country and India, the recipient of the most foreign aid since World War II, still struggles economically.

What was true for England was also true for the rest of the Western world, including the United States. As Peter Bauer points out, if the anti-natalists were correct, no country would be developed today. In many parts of the developing world, rates of economic growth exceed those in the West. According to the World Bank, from 1966 to 1980 real gross national product *per person* grew in the developing world at an average rate of 3.4 percent—faster than the rate of population growth in many of those countries. In the industrial countries the average rate of growth in per capita output was 3.1 percent.

What Do People Want?

In thinking about population and quality of life, it is important to defer to what people want instead of imposing one's own choices on them. As we survey the world, we readily find that people often choose to live in areas with high population densities. Indeed, they not only choose to, they are willing to pay a premium to do so. In the United States the cost of living is higher in the major cities than in small towns and sparsely populated rural areas. Yet for a long time rural America has lost population to the cities.

> **"Rich white people will tell poor black, brown, and yellow people not to have children."**

Throughout the world people move, sometimes at great personal risk, from less to more crowded areas. Hong Kong is the most crowded place on earth; some 5.8 million people live in 400 square miles—a population density of over 14,000 per square mile. (In contrast, China's density is a mere 288; India's is 658.) Yet Hong Kong has been a magnet for immigrants, including many illegal ones. Similarly, people move from Malaysia, which has a population density of 132 people per square mile, to adjacent Singapore, with a density of almost 12,000. What are they moving for? The opportunities provided by free markets and the division of labor, which is related to population size and density. Large populations have other amenities not found elsewhere: educational opportunities, a wide array of consumer products and services, and cultural institutions. We will understand much more about population when we begin to watch how people vote with their feet.

What else do people want? Besides consumer goods they want long healthy lives. Since the world's population began rapidly growing in the 17th century, life expectancy and infant mortality have steadily improved. In the industrialized world, life expectancy has gone from less than 30 to about 75 years over the last 200 years. In the developing world, it has increased 15 to 20 years since the 1950s.

For most people, the good life revolves around having children. In much of the developing world, large families are highly valued for both economic and cultural-religious reasons. Those who want the state to decide how many children people may have fail to realize that most people will suffer a severe decline in the quality of their lives if that decision is taken away from them. That decline will even have material consequences as loss of morale degrades productivity.

That is a sorely unappreciated point. Rather than put themselves in the place of the men and women who would lose the right to decide how many children to have, the anti-natalists resort to sterile measures such as per capita income. As Peter Bauer has written:

> In the economics of population, national income per head founders completely as a measure of welfare. It takes no account of the satisfaction people derive from having children. . . . The birth of a child immediately reduces income per head for a family and also for the country as a whole. The death of the same child has the opposite effect. Yet for most people, the first event is a blessing, and the second a tragedy. Ironically, the birth of a child is registered as a reduction in national income per head, while the birth of a farm animal shows up as an improvement.

Besides gratification, children in less developed economies also provide parents with material benefits. They do so indirectly by inspiring their parents to work harder and smarter and to save more, a fact forgotten by those who argue that children consume scarce capital. They also directly produce wealth at an early age by participating in family farming. Later, they provide retirement income for their parents.

In contrast to developed countries, the flow of wealth within families in developing economies is from children to parents. Men and women in those countries thus rationally seek large families. With industrialization, those men and women will tend to have fewer children, since the investment per child (for education, for instance) will rise substantially. That is, of course, the "demographic transition" widely noted in the literature.

The Economics of Population Growth

The anti-natalists are preoccupied with what they see as the negative externalities—the downside—of population growth. Economists such as Julian Simon and Peter Bauer point out that the obsession with dubious negative externalities has led to a neglect of the benefits of population growth. A larger population allows for a more elaborate division of labor, which increases productivity and incomes. It also makes a modern infrastructure feasible because of economies of scale. It is infrastructure—good roads and modern transportation and communications systems—that protects against famine and other calamities and facilitates the spread of new ideas and techniques that improve the standard of living. Simon notes that the number of scientists and the amount of scientific knowledge rise with the growth of population.

The dire pictures of starvation broadcast by television originate in the African countries—Ethiopia, Sudan, Somalia—with the sparsest populations. Those countries do not suffer from land shortages due to teeming masses; land is plentiful and in some cases free. Rather, they suffer from civil war, primitive if any infrastructures, and government-controlled economies. Even so, the number of people stricken by famine worldwide has fallen over the last 30 years. Famines do not occur in Hong Kong, Singapore, Taiwan, or South Korea. Even severe drought need not cause starvation, as the case of Botswana shows.

Population size, density, and rate of growth do not in themselves inhibit economic development or depress the quality of life. If you examine the list of countries and their population densities, you find that with a few exceptions the ones with the highest densities are also the ones with the highest per capita GDPs. One exception is the United States, which has a low density and high per capita GDP. Another is Bangladesh, which has a high density and low per capita GDP. But obviously, density is no bar to success. Many poor areas have lost population and became poorer still; Ireland before the potato famine is an example. As Jane Jacobs wrote in 1969, "If densely populated Japan and Western Europe were poor and if thinly populated Colombia, the Congo and Brazil were prosperous, then a rather nice case might be made for the idea that overpopulation causes poverty."

> **"People not only choose to live in areas with high population densities, they pay a premium to do so."**

Some people ask why there is poverty. That is the wrong question. Mankind was born into poverty; it requires no explanation. What needs explaining is wealth. Why is there wealth?

The short answer is provided by Julian Simon in the title of his book *The Ultimate Resource*. People create wealth—under certain circumstances. To fear the addition of people is to ignore their capacity to solve problems. Any short-term problems that may result from additional population—higher prices, congestion, pollution, noise—stimulate people, under the right conditions, to find technological solutions that then leave society better off than *before the problems arose*. The evidence is all around. Surely human life is better now than it was in 10,000 B.C. when the world could barely support an estimated 5 million people, or in A.D. 1 when the population was 250 million, or in 1650 when 545 million people lived. Who believes mankind would have progressed as it has were it not for the "pressure" of more people?

Necessity is the mother of invention. As we saw with oil in the 1970s, a rise in the price of a resource motivates entrepreneurs and inventors to discover alternative sources as well as substitutes. The discovery of more efficient ways of doing things effectively expands the supply of resources. One reason the oil reserves stretch further into the future than previously is that technological advancement has reduced the amount of oil needed per task. Oil and gasoline are cheaper in real terms than they were before the OPEC embargo in 1973—indeed, before 1950.

Two important facts about resources are woefully misunderstood. First, what matters is not resources per se but the services they render. Even the depletion of a resource would not matter if a substitute worked just as well or better. Copper has been important for wire and pipe, and its imminent exhaustion has long been predicted. But the fortune tellers not only forgot that copper can be reused, they also failed to foresee that plastic and glass (in the form of fiber optics) would become superior substitutes for copper pipe and wire.

The more important fact about resources is that, as such, there is nothing "natural" about them. They are all man-made. Nature has provided a variety of materials, but no instructions for their use. They are worthless until a human mind invents a use for them. Less than 150 years ago the discovery of oil on one's land lowered the property's value. Same stuff: one day a liability, next day an asset. What's the difference? Human ingenuity. The materials most essential to the current information revolution are silicon, the stuff of computer chips, and glass, for making fiber-optic cables. Both come from a superabundant material that has long been underfoot: sand.

A resource is a natural material for which a human being has discovered a purpose. Thus, since there are no natural resources, we can't run out of them. As long as there is human ingenuity, there will be resources. And a growing population means an ever-expanding pool of human ingenuity. As Simon Kuznets said, scarcity does not explain underdevelop-

(Cont. on p. 12)

Policy Analysis Studies

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210. **Nickles-Stearns Is Not the Market Choice for Health Care Reform** by Tom Miller (June 13, 1994)
209. **The Futility of U.S. Intervention in Regional Conflicts** by Barbara Conry (May 19, 1994)
208. **Prison Blues: How America's Foolish Sentencing Policies Endanger Public Safety** by David B. Kopel (May 17, 1994)
207. **70 Years of Federal Health Care: A Timely Look at the U.S. Department of Veterans Affairs** by Robert E. Bauman (April 27, 1994)
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Population (cont. from p. 11)

ment; underdevelopment explains scarcity. People are the solution, not the problem.

Just as a growing population does not exhaust resources but creates them, so does it not produce unemployment. The West did not experience long-term mass unemployment during its rapid population growth. The same is true for parts of the developing world, such as Hong Kong. Where mass unemployment is found, one must look for the underlying political causes: minimum wage laws, wage rigidities produced by politically powerful labor unions, and other government restrictions that prevent the labor market from finding the market-clearing wage.

Those who argue that population growth brings unemployment do not notice that they contradict themselves. When they emphasize the amount of resources each person uses, they appear to believe that people only consume, neglecting the ideas and goods people produce. But when anti-natalists warn that "overpopulation" causes unemployment, they seem to believe that people *only* produce and never consume. Actually, people *demand* things as well as produce them; additional people create new employment opportunities for others.

Conclusion: Institutions Count

I have said that population is no barrier to a rising standard of living, but I have repeatedly indicated a caveat. It is time to make it explicit. A growing population is no problem as long as the social system is free-market capitalism. Only capitalism can produce the wealth required by what would otherwise be "surplus population," in Malthus's sense. Indeed, it is capitalism that made the notion of surplus population obsolete. In 1650, about a century before the Industrial Revolution, the earth could barely support only half a billion people. Thus, it is capitalism that has enabled the other 5 billion people to live today. To the extent that capitalism is burdened by government and antagonistic social values, such as envy, a "population surplus" will emerge.

Capitalism is the freedom to work, to innovate, to take risks, and to reap the rewards and thus improve the condition of oneself and one's family. Capitalism is what makes that freedom possible: personal security, secure property rights, freedom of association, freedom of contract. Only in such an environment do people have the incentive to search for solutions that advance all of society.

The comparisons of West and East Germany, South and North Korea, and Hong Kong or Taiwan and China are too plain to be denied. Societies prosper when they rely on free markets to organize economic affairs, when property rights and contracts are protected through the rule of law, when government is strictly limited. But when political authorities attempt to regiment and plan the economic activities of citizens, they produce stagnation, misery, and death. However one defines "quality of life," the theoretical and empirical evidence demonstrates that it is best enhanced by limiting government power and letting free human beings create.

We have no choice in this matter. A growing population and the freedom of individuals to decide how many children to have are great blessings. But they can have benevolent results *only* in a free, capitalist society. Statism of any variety inevitably brings economic regression, and in response, statist regimes make scapegoats of families that have or wish to have more than the "proper" number of children. Then, like China, the regimes turn to coercive population control, usually subtle, sometimes not. The choice we have is capitalism and free families or statism and population control. There is no third way.

The Australian author Rita M. Joseph put it well: "There is no such thing as a humane population control policy. . . . The very notion of population control, and the delusion that governments can practice it wisely or fairly, is itself one of the most dangerous ideas that has ever threatened the human race." Aside from its inhumanity, as Jane Jacobs wrote, population control is "quackery" because "it carries the promise that something constructive is being done about poverty when, in fact, nothing constructive may be happening at all."

Contrary to the belief of the anti-natalists, who will gather soon in Cairo, there is no conflict between liberty—for individuals and for families—and social well-being. The second flows inexorably from the first. The surest way to sabotage social well-being is to let governments intrude on the freedom and privacy of people, particularly in the most intimate matter of having children.

Conference (Cont. from p. 3)

NAFTA has already encouraged the pace of trade and investment integration. He called for further opening of trade in investment and financial services but said a monetary union is a bad idea.

Lawrence B. Lindsey, a member of the Board of Governors of the Federal Reserve System, reminded everyone that if the dollar is to remain the primary choice for an international currency, U.S. policy must be characterized by noninflationary money growth and open markets. When foreigners voluntarily choose to hold U.S. currency, they help push their own policymakers toward adopting policies that are "less inflationary, more pro-market, and more internationally open."

The lessons that should be evident from an examination of failed development policies, according to Lindsey, are that "widespread prosperity cannot be engineered from the central planner's rule book"; that "higher real incomes do not flow from the ink of the currency printing press"; and that "restricting the free flow of goods and investment may protect the few, but at enormous cost to the many."

As Cato distinguished fellow Paul Craig Roberts pointed out, "The market economy was kept out of Latin America for many decades by development economists and aid-giving agencies." The only successful strategy for development, therefore, is to "shut down the architects" of the failed development policy and turn to privatization, sound money, and the free market. Or as Jordan said, "Institutional arrangements such as enforceable property rights are much more essential to economic development than are politically created and controlled organizations, no matter how well-intentioned their missions."

Manuel Ayau, president emeritus of Francisco Marroquín University in Guatemala, questioned the status quo of central banking and argued that if Latin American countries had adopted free banking rather than allowed their monetary arrangements to be monopolized by government, past inflationary episodes would not have occurred.

Cato's Ian Vásquez and Gerald P. O'Driscoll, Jr., flank Federal Reserve Board governor Lawrence Lindsey at a press conference.

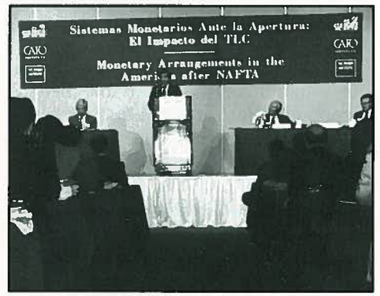
Cato vice president James Dorn, who organized the 12th Annual Monetary Conference, listens to a question at opening press conference.

Juan Andrés Fontaine, a former director of research at Chile's central bank and now a private consultant and adjunct scholar with the Centro de Estudios Públicos, was sympathetic to F. A. Hayek's case for currency competition. To move in that direction, he would "abolish exchange controls and authorize the free circulation of foreign monies for the payment of goods and services, including taxes"; "minimize central bank regulations on the private issuing of money substitutes"; and, following Chile's example, allow securities and deposits to be linked to the consumer price index.

Cato adjunct scholar and University of Georgia economist George A. Selgin noted that NAFTA fails to allow real free trade in banking services. The current rules of the game do not provide for full-fledged branching, and they impose domestic regulations on foreign banks. Thus, U.S. banks can have only subsidiaries, not branches, in Mexico and Canada, and both branches and subsidiaries of Mexican and Canadian banks operating in the United States are subject to U.S. banking regulations rather than less restrictive home-country regulations. A more efficient arrangement would allow genuine competition among regulatory rules—so that instead of being forced to abide by high-cost rules, banks could select those rules most conducive to wealth creation.

The conference concluded with a panel on future policy directions in the Americas. Lawrence A. Kudlow, economics editor for *National Review*, criticized the austerity programs typically advocated by the International Monetary Fund. He said Mexico and other Latin American countries should strive for growth by cutting the size of government, lowering marginal tax rates, and setting the framework for private enterprise. Moreover, if developing countries want to stabilize the value of their currencies, they could follow the example of Argentina and fix their currencies to the dollar by instituting currency boards—an arrangement that was discussed at length by Cato adjunct scholar and Johns Hopkins University economist Steve H. Hanke. Other panel members included Cato senior fellow Gerald P. O'Driscoll, Jr.; former Chilean minister of finance Hernán Büchi; and Edward L. Hudgins, Cato's director of regulatory studies.

A number of the conference speakers participated in nationally televised press conferences, and Jordan and Lindsey had a



Mexican economist Rogelio Ramirez de la O addresses more than 300 participants in Cato's annual monetary conference, held in May in Mexico City.

private meeting with President Carlos Salinas de Gortari of Mexico. Other conference speakers included Jaime Zabludovsky, Mexico's undersecretary for international trade negotiations; Josefina Vázquez, administrative director of *Editorial Principios*, Mexico; Victor Manuel Terrones, president, National Chamber of Commerce of Industry, Mexico; Herbert G. Grubel, member of the federal parliament, Canada; Arnold C. Harberger, professor of economics, UCLA; Cato chairman William A. Niskanen; Luis Rubio, general director, Centro de Investigaciones para el Desarrollo (CIDAC), Mexico; John G. Greenwood, chairman and chief economist, G.T. Capital Management; and Luis Pazos de la Torre, general director of CISLE.

U.S. Should Stay Out of Regional Conflicts

VA Is Frightening Model for Government-Run Health Care

Cato Studies

The decades-long record of the federal government in providing health care through the Veterans Health Administration offers cautionary lessons to those who would expand government health care, writes Robert E. Bauman in "70 Years of Government Health Care: A Timely Look at the U.S. Department of Veterans Affairs" (Policy Analysis no. 207). For most of this century the U.S. government has owned and operated the largest health care system in the nation, the Veterans Health Administration, which has 171 hospitals, 362 outpatient clinics, 128 nursing homes, a $16-billion 1994 budget, and 266,000 employees. Bauman, who represented Maryland in the U.S. House of Representatives from 1973 until 1981 and later served in the Office of General Counsel of the VA, marshals distressing evidence of the way government dictates and rations health care when it controls a national medical monopoly. He points out that the major problems of the VHA's operations, often ignored in the current health care debate, will be present, and magnified, under President Clinton's Health Security Act.

For example, over half of patients with routine medical problems wait from one to three hours to be seen for a few minutes by an overworked doctor struggling with increasing numbers of patients and piles of government forms, regulations, controls, and policy directives. Because of lengthy waiting lists, patients in need of specialized care, such as cardiac or orthopedic diagnosis, even at the system's best medical facilities, cannot be seen by a specialist for 60 to 90 days and wait months more if surgery or other special testing and procedures are required. As a result, 90 percent of eligible veterans choose private alternatives to the VHA.

Nickles-Stearns Health Care Bill Is Seriously Flawed

The Consumer Choice Health Security Act, sponsored by Sen. Don Nickles (R-Okla.) and Rep. Cliff Stearns (R-Fla.) and widely touted as the "conservative" alternative to President Clinton's health care plan, is seriously flawed, says Tom Miller in "Nickles-Stearns Is Not the Market Choice for Health Care Reform" (Policy Analysis no. 210). Miller, the senior policy analyst for the Competitive Enterprise Institute and director of its Economic Policy and Regulatory Reform program, points out that Nickles-Stearns (as introduced last November) sets contradictory objectives: universal coverage on the one hand and increased consumer choice, individual responsibility, and competition in health insurance markets on the other.

Miller charges that the legislation endorses compulsory universal insurance coverage, imposes a standardized "minimum" package of health insurance benefits, has cost-sharing requirements that would undercut the appeal of tax-free personal savings (medical savings accounts) for medical expenses, contains efforts to eliminate risk selection in insurance markets that would be both futile and counterproductive, and provides inadequate incentives for restraining health care costs and hampers the use of more effective devices to do so.

Although Nickles-Stearns would make health insurance more portable, avoid structural disruptions in coverage, and encourage individuals to choose health insurance in a more cost-conscious manner, Miller concludes that, absent a major overhaul, it would neither ensure that health care markets remain private and voluntary nor make them more competitive, efficient, and responsive to consumers' wishes.

Mandatory Drug Sentences Endanger Public Safety

Mandatory minimum sentences for nonviolent drug offenders are the best thing that ever happened to violent criminals, says David B. Kopel, a former assistant attorney general for the state of Colorado, in "Prison Blues: How America's Foolish Sentencing Policies Endanger Public Safety" (Policy Analysis no. 208). Kopel, who is also a former prosecutor for New York City, shows how mandatory minimum sentences enacted in the 1980s have led to the early release of violent criminals to make room in prison for nonviolent, often first-time, drug offenders. Despite record booms in state and federal prison construction, the average American prison system remains 15.4 percent over capacity. Forty states, two territories, and the District of Columbia are currently under court orders to reduce prison overcrowding, writes Kopel. The federal system is 38 percent over capacity.

The drastic increase in the state and federal prison population is primarily the result of policy changes. In 1981 only 22 percent of federal prisoners were drug prisoners. Today 60 percent of federal prisoners are drug prisoners, and that figure is expected to hit 70 percent next year. In virtually every state there has been a major emphasis on imprisoning drug offenders. Illinois prisons, for example, hold five times as many drug prisoners as they did five years ago.

Kopel uses free-market analysis to show that trying to control drug use through imprisonment is doomed to fail. Instead of spending more money on prison space for nonviolent offenders, Kopel argues that we should return prisons to their original purpose of incapacitating violent criminals. He advocates revision or repeal of mandatory minimums for consensual offenses, tightening of parole standards, and tougher laws aimed at repeat violent offenders.

United States Should Avoid Regional Conflicts

The Clinton administration should rule out military intervention in Haiti, Bosnia, and other regional conflicts except when there is a direct threat to American national security, recommends Barbara Conry, a Cato foreign policy analyst, in "The Futility of U.S. Intervention in Regional Conflicts" (Policy Analysis no. 209). Conry argues that although regional wars have increased since the end of the Cold War, Washington must recognize that outside parties can do little to resolve them. If anything, military intervention tends to exacerbate such conflicts because intervention, by its very nature, can never be impartial. Intervention also increases anti-American sentiment; diminishes American credibility when missions fail, as happened in Somalia; weakens domestic support for future military operations, even in the event of a genuine threat to U.S. interests; and creates threats to national security where none previously existed.

Conry writes that the notion that global stability is a vital national interest is built largely on the discredited domino theory and the idea of deterrence by example, both of which are usually irrelevant in the context of actual events. Washington should recognize that a certain degree of international disorder is the normal state of affairs, she says. Most regional conflicts, however tragic they may be for the participants, have little impact on American security interests.

Washington Should Not Interfere with Mideast Peace Agreement

The United States should not interfere as Israel and the Palestine Liberation Organization attempt to implement the Oslo agreement and Jerusalem and Damascus continue their peace negotiations, writes Leon Hadar in "The Real Lesson of the Oslo Accord: `Localize' the Arab-Israeli Conflict" (Foreign Policy Briefing no. 31).

Hadar, an adjunct scholar at the Institute and an adjunct professor at the American University, points out that, with the end of the Cold War, the Arab-Israeli conflict lost any worldwide importance it may have had. The United States no longer has a reason to meddle in the peace process or make significant political, economic, or military commitments to the regional players.

Hadar says that it is very likely that high-profile American involvement in negotiations would actually hinder the peace process by further inflaming radicals in both the Israeli and Palestinian communities who oppose the Oslo agreement. Rather than try to prop up the agreement with Camp David-style economic aid or peacekeeping troops, Washington should adopt a low-profile policy. Such benign neglect will force the Israeli and Palestinian leaders to confront their remaining problems and negotiate in good faith, thereby maximizing the chances of a durable peace.

Hadar concludes that economic cooperation between Israel and the emerging Palestinian entity (and eventually other states in the region) is the key to both peace and prosperity in the Middle East. The highly educated Israeli and Palestinian populations, strong merchant traditions, and prosperous diasporas all favor a thriving regional economy based on free trade, which will strengthen any peace settlement far better than would foreign aid or peacekeeping forces. Conversely, large-scale American assistance would act as a disincentive for cooperation and encourage ill-advised economic nationalism. ■

Sustainable Development Examined

The agenda for the forthcoming UN International Conference on Population and Development in Cairo is based on the erroneous notion that population poses natural limits to human economic development, according to the latest issue of *Regulation*, the theme of which is environmental regulation. In his article, "The Challenge of Sustainable Development," Jerry Taylor, Cato's director of natural resource studies, examines the concept of sustainable development and concludes that there are no accurate signs that population growth or resource scarcity places any limits on prosperity.

After noting that commodity prices have been falling, indicating a lessening of scarcity, and that pollution is a problem of defining property rights and using corrective technologies, Taylor concludes: "The world is not only sustainable, but is more sustainable than ever before in the sense that future generations will inherit more natural and man-made capital to meet their needs than any preceding generation. That will be the case, however, only as long as the global economy is left relatively unrestrained by well-meaning but woefully misguided environmental planners."

Other articles in the issue include

- James Lis and Kenneth Chilton's study of the real nature of America's urban smog problem, showing that the Environmental Protection Agency consistently uses misleadingly high measures that burden localities with unnecessarily restrictive air-quality policies that can cost up to $4.90 for each dollar of health benefits;
- Kent Jeffreys's critique of the Clinton administration's proposed Superfund reforms, which argues that the only way to make Superfund work is to make it a state and local, not a federal, program;
- Robert K. Niewijk's rebuttal of the notion of contingent valuation, which is used to assign values to environmental amenities in lawsuits and legislation; and
- Elizabeth M. Whelan's response to the latest cancer scare. ■

Institute Names Adams, O'Driscoll To Adjunct Posts

Cato welcomes two new distinguished scholars to its ranks. Gerald P. O'Driscoll, Jr., former vice president of the Federal Reserve Bank of Dallas, has been named a senior fellow of the Institute. He is a long-time friend of Cato and a frequent participant in Cato's monetary conferences. O'Driscoll is the author of *Economics as a Coordination Problem* and coauthor, with adjunct scholar Mario Rizzo, of *The Economics of Time and Ignorance*.

Gerald O'Driscoll

Charles Adams

Charles Adams, author of *For Good and Evil: The Impact of Taxes on the Course of Civilization*, has become an adjunct scholar of the Institute. He recently participated in a seminar on "Replacing the Income Tax," cosponsored by Cato and the National Tax Research Committee. ■

"To be governed..."

Another rent in the fabric of a just society

Schools in the top quarter of Dr. [Jason] Frand's study [of M.B.A. programs]—mostly better-endowed private institutions—assign a full-time staffer to provide computer support for every 75 students. Midway down the list, the ratio jumps to 354-to-1. "We're developing a have and have-not group of students in our business schools," Dr. Frand says.

—*Wall Street Journal*, Apr. 6, 1994

The U.S. Postal Service: When it really doesn't have to get there any time soon

SOMETIMES OVERNIGHT IS OVERKILL. Do you automatically send packages overnight every time you want priority handling? That can become a pretty expensive habit.

But you do have another option. A quick and far more affordable option. Priority Mail™ from the Postal Service. It's not overnight, but it's delivered fast, specially handled and only $2.90. . . . When you don't want to overpay for overnight delivery, **we deliver for you.**

—ad in the *Washington Post*, Apr. 3, 1994

In fact, why don't you go ahead and raise your prices now?

Herman Cain, chief executive officer of Godfather's Pizza, said he would be forced to lay off employees to pay for benefits that would be mandated by the president's [health care] plan. . . .

In responding, the president . . . argued that Mr. Cain's costs would be less than the businessman estimated and that his competitors would face the same situation. "Why wouldn't you all be able to raise the price of pizza 2%?" Mr. Clinton asked.

—*Wall Street Journal*, Apr. 8, 1994

Tax increases won't hurt much, Clinton aide says

Bernard V. Craighead, a Democratic National Committee official involved in promoting President Clinton's health care plan, has been charged in U.S. District Court with failing to pay federal income taxes for three years.

—*Washington Post*, Apr. 9, 1994

Compulsory volunteering

Hospital volunteers are often in short supply. . . .

A major help has been the requirement that Prince George's County [Md.] public school students devote 36 hours of community service time each year from grades 7 through 12. . . .

Compulsory community service for junior and senior high school students benefits both the student and the hospital. . . .

Since this is National Volunteer Week, perhaps other school systems will climb aboard the volunteering bandwagon.

—Bob Levey in the *Washington Post*, Apr. 19, 1994

Building on its eradication of poverty in other countries

The World Bank plan, released today, details how to spend $2.4 billion over the next three years, and the rest later. . . .

World Bank officials caution that poverty will not be eliminated in Gaza and Jericho in one year. . . . But they have to start somewhere, and this is it.

—*New York Times*, May 3, 1994

Which of these values is exclusive to the religious right?

[In his new book, Dan] Quayle repeatedly identifies himself with views of the religious right.

The final point of his six-point "family values" agenda calls for "a value-based education where virtues such as integrity, responsibility, industry, morality and courage are taught."

—*Washington Post*, May 4, 1994

If only businessmen could see these opportunities themselves

Cable companies should be grateful that the FCC is cutting their rates, says FCC Chairman Reed Hundt. The reason: They'll make more money in the long run.

Hundt said yesterday that the 17 percent price reductions ordered by his agency will enable cable companies to attract customers who until now have been scared away by the cost.

—*Washington Post*, Apr. 6, 1994

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