POLICY REPORT

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The Balanced Budget Amendment

by Richard E. Wagner

Thirty states have now called for a constitutional convention to consider an amendment requiring the federal government to balance its budget. This is only four states short of the number needed to convene a convention. Various polls have shown that from 70 to 80 percent of Americans favor such an amendment. Only the federal legislature—where the deficit spending originates—has been reluctant to raise the issue.

Political Sources of Budget Deficits[1]

Chronic budget deficits entered our fiscal history during the past two decades. Since 1960 we have had only one year of budget surplus, 1969, and the cumulative deficit acquired during these two decades exceeds $400 billion. Before the Great Depression, budget deficits occurred only during wars and recessions. Budget surpluses were typically created during the other periods to reduce the accumulated national debt. Budget deficits at times other than war or recession were regarded as a sign of profligacy, and in light of this moral value, opposition to budget deficits became an unwritten element of our Constitution. Over the generation that spanned Presidents Roosevelt and Kennedy, this requirement dissolved—the old ethic of responsible fiscal conduct yielded to the Keynesian onslaught that monopolized channels of public opinion during this period.[2] Budget deficits were created during the Great Depression and World War II, but this represented a continuation of our previous experience. The Truman and Eisenhower years were an interregnum. During this period, deficits and surpluses roughly canceled out, though for the first time in our history no concerted effort was made to create surpluses to reduce the national debt. Since 1960, however, deficits have become a way of life. In a democracy a political bias exists in favor of deficit finance.[3] Until the 1960s, this bias remained latent because our political process was constrained by the moral belief that deficits were a sign of fiscal irresponsibility. As this belief weakened, deficit spending attracted increasing political support.

"Debt monetization not only causes prices to rise but also brings about recession. Inflation and recession are inseparable consequences of money creation."

Keynesian economic management calls for a budget deficit when unemployment becomes a problem. The deficit is used to increase spending, which theoretically stimulates employment. Similarly, a budget surplus is called for when inflation becomes a problem. The resulting decrease in spending would reduce the pressure on prices. The Keynesian platform for economic management was viewed as replacing the "old-fashioned" belief in a balanced budget with the new and superior principle of using the budget—deficits *and* surpluses—to stabilize the economy.

The Keynesian precepts required a symmetry in their application: Deficits would be created when unemployment threatened, and surpluses would be created when inflation threatened. However, our budget deficits during the past two decades have occurred in good economic periods as well as in bad, and they have occurred despite repeated statements throughout this period that budget surpluses were just a year or two away. The Keynesian revolution effectively repealed the implicit prohibition on deficit finance. Consequently, it unleashed a fundamental asymmetry regarding budgetary politics. Tax reductions and expenditure increases will both generally strengthen a politician's base of support, while tax increases and expenditure reductions will both tend to weaken that base of support. Compared with a balanced budget, a budget surplus will require some combination of higher taxes and lower expenditures. A budget surplus will, therefore, tend to command less political support than a balanced budget. A budget deficit will make it possible to offer some combination of lower taxes and higher expenditure. Therefore, a budget deficit will tend to command more support than a balanced budget, and *ipso facto*, more support than a budget surplus. Consequently, democracies tend to be in deficit.

Capital Consumption and Inflation Through Budget Deficits

Budget deficits may lead to both capital consumption and inflation. Capital consumption results when private investment is crowded out by the claims

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IN THIS ISSUE

EDITORIAL

Why a Federal Department of Education?

by Richard E. Wagner

An "Ad Hoc Committee for a Cabinet Department of Education" has been formed to push for just what its name implies. Interest groups doing the pushing, to name a few, include the American Association of School Administrators, the Council of Chief State School Officers, the National Association of Administrators of State and Federal Education Programs, the National Association of Elementary School Principals, the National Association of State Boards of Education, and the National Education Association. Who needs a Federal Department of Education? Obviously, the education establishment feels such a need. But should we—taxpayers, citizens, and parents—feel such a need also?

There is clearly good reason for the growing discontent with American education. In the latest five-year period for which figures are available, public school spending per pupil increased 21 percent, in real dollars. During this same period, the number of pupils *decreased* by 4 percent, although administrative staffs increased by 8 percent. It might be thought that the increase in spending per pupil, especially in light of the increased number of administrators, would be a way of improving the quality of education. But students have been learning progressively less for quite some time now. And as for the contribution to the quality of education made by the increased number of administrators, what about the recent experience in Dallas? A group of students at a Jesuit high school there took a standardized test given to administrators and teachers, and the students came out ahead!

While our schools are teaching less to fewer students, we are paying more. Might not we need a Federal Department of Education to reverse this deterioration? As plausible as this may sound, it contradicts our experience. During the past half-century in particular, control over education has been wrested from parents and citizens by the education bureaucracy, and our troubles with schooling have been intensifying as this wresting of authority and responsibility has been taking place.

We cannot, therefore, look to the creation of a Federal Department of Education, which will ensconce education bureaucrats still more firmly in control, for improvement. To be sure, benefits would accrue to the education establishment. Achieving Cabinet level status typically enhances the budgetary power of those interests represented. With its creation in 1953, for instance, the Department of Health, Education, and Welfare became the growth stock *par excellence* in Washington. The education establishment now seems to be searching for a new source of budgetary stimulation. The reason for this search is easy to understand. Enrollments are now declining, and they will continue to do so throughout the 1980s. Moreover, the opposition to taxation is becoming more effective at the state and local levels of government, where people exercise more control over politics. Both of these trends imply more budgetary stringency for education. The creation of a Federal Department of Education would allow the education establishment to tap a new source of funding to a far greater extent than they have as yet been able to do. Some people might suggest that more money might lessen our troubles. Unfortunately, the reverse is more often true, and it is easy to understand why. Government agencies need problems to increase their budgets and expand their power. What government agency would want to eliminate the circumstances that are used to justify its existence? The more that people are troubled by the state of education, the more daring the education bureaucracy can become in its rush for money and power. A crisis can turn a pussy cat into a roaring lion. Should we truly expect a Federal Department of Education to work to undermine its own existence?

Our choice is really quite simple. We can continue the current trend by setting up a Federal Department of Education. Our education troubles will be intensified, but at least we will have kept on a familiar course. Or we can opt for freedom of choice in education, which would be far better than giving further control over education to a Federal Department of Education and the bureaucratic entourage of life-arrangers who would staff it. ■

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Balanced Budget (Cont. from p. 1)

of deficit finance. Deficits may also bring about monetary expansion. The way in which the deficit is financed will determine whether capital consumption or inflation—or a mixture of both—will occur.

A federal deficit may be financed through the Treasury's borrowing from private citizens. When this happens, government borrowing crowds out private borrowing.[4] In the absence of money creation, the ability to borrow depends upon the willingness of people to save. If people are willing to save $100 billion, this is the amount that will be available to private investors in the absence of a budget deficit. If the government now runs a $40 billion deficit, and if people do not change their willingness to save, private investors will be able to borrow only $60 billion. The $40 billion deficit will have crowded out $40 billion of private investment. To some extent the added competition for borrowed funds will increase the rate of interest, which in turn will induce people to save more. If saving rises to $110 billion, $70 billion will be available for private borrowing. In this case, the $40 billion deficit will have crowded out $30 billion of investment.

Some private borrowing is for consumption, but most of it is for investment. Conversely, some government borrowing is for investment, but the larger part by far is for consumption. What this means is that budget deficits, to an important extent, replace the creation of capital goods with subsidized consumption. By crowding out investment for consumption, deficit finance results in *capital consumption.* As our stock of capital goods is diminished relative to what it would otherwise have been, we become correspondingly less prosperous.

It is not likely within our present monetary system that a budget deficit will be financed entirely by borrowing from private citizens and institutions. To some extent, deficits will be financed by money creation. This will happen if the Federal Reserve System increases its ownership of Treasury debt. Within our present monetary system, this has the same effect as the Treasury printing money to finance the excess of its expenditures over its revenues. This process is referred to as *debt monetization*. As its name implies, it is the conversion of government debt into money through the mechanics of our Federal Reserve System.

In the absence of debt monetization, budget deficits will place an upward pressure on interest rates and will crowd out private investment. To reduce the pressure on interest rates and to alleviate some of the crowding out, the Federal Reserve System will tend to allow some debt monetization.[5] With debt monetization, the supply of loans is no longer limited to what people save. If $10 billion of money is created through debt monetization, the amount of lending (to continue the above illustration) will rise to $120 billion. With $40 billion of government borrowing, $80 billion will be available for private borrowing. As a result, the budget deficit will have crowded out only $20 billion of private investment. Debt monetization reduces the extent of crowding out, for the inflation in the stock of money is used to provide the resources necessary to finance the additional $10 billion of investment.

> **"The choice of inflation today implies the acceptance of unemployment tomorrow. The failure to accept this implication... results in stagflation."**

Recession and Stagflation Through Inflation

Debt monetization not only causes prices to rise but also brings about recession. Inflation and recession are inseparable consequences of money creation. When money is created, particular sets of people, including government, acquire additional purchasing power. As they spend this money, employment will increase because of a rise in demand for goods and services. In addition, there will be a change in the pattern of economic activity. Resources will flow into those areas where the newly created money is spent, as well as into closely related areas. To the extent the newly created money is used to finance investment, there will be a relative expansion in the capital goods industries. The monetary expansion will bring about a change in the pattern of economic activity. Total spending will increase, but spending will increase most heavily in capital goods industries.

While monetary expansion will bring about economic expansion, it will, at the same time, set in motion forces leading to a subsequent recession.[6] Inflation implies subsequent recession; inflation and recession are an inseparable pair. The pattern of economic activity changes because the monetary expansion alters the anticipated profitability of different lines of investment. The amount of investment expands because such investments now appear to be more profitable than they formerly appeared. The monetary expansion, by making it cheaper to borrow, has created this mirage of profitability. However, much of this increased investment will turn out to be unprofitable, *unless the inflation is accelerated.* In the absence of such an acceleration, these investments will be liquidated or revised, thus bringing about economic contraction. Excess capacity (unemployed capital) will exist along with unemployed labor, with both resulting from the previous inflation. The money expansion creates an artificial economic high by leading people to make investments that will turn out to be unprofitable. As these mistakes are recognized and corrective action taken, economic contraction will result. Such contractions are necessary to correct these economic errors.

What if the government attempts to counteract the economic contraction by further money creation? With a sufficiently strong injection of money, the

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Balanced Budget (Cont. from p. 3)

contractionary forces can be temporarily offset; but the distortion in prices and the pattern of investment will have been intensified. This greater distortion increases the latent amount of economic contraction in the economy. A dilemma results by attempting to resist the necessary contraction. If the monetary expansion is brought under control—or not allowed to accelerate further—an even stronger economic contraction will result. Thus we can find rising prices accompanied by unemployment—a scenario never anticipated by Keynesian economic theory. This situation, called stagflation, is a natural outgrowth of inflation and, in particular, of attempting to resist or counteract by further money expansion the recession that was made necessary by the initial credit expansion.[7]

What About Fiscal Policy?

It is commonly argued that a balanced budget amendment would conflict with the needs of an activist fiscal policy. Budget deficits could no longer be used to fight unemployment, nor budget surpluses to fight inflation. This mode of thinking is based on the presumption of a trade-off between inflation and unemployment, which is referred to as the Phillips Curve.[8] Within this framework, more inflation implies less unemployment, and vice versa. Such recent situations as stagflation are a mystery within this framework, for both inflation and unemployment occur simultaneously. This alleged tradeoff is now coming to be recognized as an inaccurate description of economic reality. Rather, the choice of inflation today implies the acceptance of unemployment tomorrow. The failure to accept this implication, by turning to further money creation, results in stagflation. Since budget deficits create economic instability, they cannot be a tool for promoting economic stability.

The Place of Constitutional Rules

We would be far better off with a government that balanced its budget than with one that was chronically in deficit. Yet, our existing political institutions have an affinity for deficits. It is the recognition of this gulf between desirable and actual budgetary policy that underlies the call for a balanced budget amendment to the Constitution. Constitutional rules can serve an important function in preventing or curtailing undesirable outcomes that might nonetheless emerge from the legislative process.

In terms of securing political support, a legislator will typically fare better under a deficit spending policy than under the restrictions of a balanced budget. This happens because deficit spending makes it possible to confer additional expenditure programs or tax reductions upon desired constituencies. Each legislator individually will be motivated to support deficit financing. By refraining from such participation, the deficit will not be affected, but the benefits to his particular constituents might be reduced or even eliminated. Yet, in the long run, all legislators and their constituents would be better off with a balanced budget and a healthy economy. A constitutional rule making mandatory a balanced budget is a way of escaping this troublesome dilemma.

Balanced Budgets and the Constitution

There is a sense in which a budget must of necessity be balanced. The fundamental distinction is perhaps not so much one of balance versus imbalance, as one of explicit or open balance versus implicit or secretive balance. Government expenditure indicates that resources will be put to uses decided upon by government. Deciding how to finance those expenditures is a question of choosing from whom to extract resources. Whether the budget is balanced or in deficit does not alter the fact that resources are transferred from citizens to government. All it alters is whether this transfer is explicit and open, as it is with a balanced budget, or implicit and secretive, as it is with a budget deficit. In either event, resources are being transferred from the private sector to government. This is inescapable. What is at issue is only whether this transfer should be aboveboard or under the table. An argument for a balanced budget is an argument for truth in packaging.

It has long been recognized that effective and responsive budgetary policy requires that politicians bear responsibility for their budgetary choices. This is simply an extension of the principle that people are likely to make better choices when they bear the responsibility for the consequences of those choices than if they are able to escape the responsibility. A balanced budget promotes accountability. The essence of fiscal wisdom was articulated by Knut Wicksell in 1896, when he observed that fiscal responsibility requires that proposals for expenditure must be coupled with suggestions for covering the cost.[9] If it is possible to propose expenditure programs without having to make an explicit proposal to cover the cost, fiscal irresponsibility will result, since accountability is eroded. A balanced budget requirement is simply a requirement that government should make explicit the resource extractions promised by and implied in its expenditure promises. It is simply a requirement that one should take responsibility for one's actions. If a politician is to promise expenditure programs for his constituents, he should be asked to take responsibility for covering the cost of those programs. This simple point is the essence and true meaning of the balanced budget amendment.

The balanced budget amendment is often lumped together with the tax limitation amendment as different approaches to containing the size of government. Although they share similar aims, there is a very important difference between the two approaches. The tax limitation approach would limit the size of government to some percentage of GNP. It makes no effort to deal with the reasons government has become so wastefully large. In this sense, it treats the symptoms rather than the cause of our troubles. The balanced budget approach, on the other hand, reflects an awareness of the institutional defects that produce public sector profligacy and reflects a desire to remedy these defects. These defects, it might be noted, extend beyond the ability to avoid responsibility for budgetary choices. Such other defects, which cannot be examined in this essay, include the shift in the locus of power from the legislature to the bureaucracy, the effective increase in the ability of various interests to enact budgets, and the Federal Reserve System of monetary control. Since these defects are not dealt with by the balanced budget amendment, their remedy requires other actions. However, the irresponsibility made possible because the cost of government programs can be left implicit rather than being made explicit is addressed and remedied by the balanced budget amendment. The balanced budget and the tax limitation approaches would both constrain the size of government. Only the former, however, attempts to correct the defects of our present institutional order. A balanced budget by itself is, of course, no panacea, since the various other defects would remain. Nonetheless, it represents a desirable first step in creating a set of fiscal institutions that will soften the conflict between democracy and prosperity that has developed over the past generation or so, for it will to some extent reduce capital consumption and inflation, which in turn will eliminate one of our most important sources of economic instability. ■

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FOOTNOTES

[1]See James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977), for an examination of many issues pertinent to this topic. For an extension of this perspective to the United Kingdom, see James M. Buchanan, John Burton, and Richard E. Wagner, *The Consequences of Mr. Keynes* (London: Institute of Economic Affairs, 1978).

[2]On this fundamental shift in the framework for budgetary policy, see Lawrence C. Pierce, *The Politics of Fiscal Policy Formation* (Pacific Palisades, Calif.: Goodyear, 1971).

[3]See W. Mark Crain and Robert B. Ekelund, "Deficits and Democracy," *Southern Economic Journal* 44 (April 1978): 813–28.

[4]Crowding out is examined in Keith M. Carlson and Roger W. Spencer, "Crowding Out and Its Critics," Federal Reserve Bank of St. Louis *Review* 57 (December 1975): 2–17.

[5]For an examination of how interest rates link budget deficits and monetary expansion, see Raymond E. Lombra and Raymond G. Torto, "The Strategy of Monetary Policy," Federal Reserve Bank of Richmond *Monthly Review* 61 (September/October 1975): 3–14.

[6]A seminal exposition of this theme is Friedrich A. Hayek, *Prices and Production*, 2nd ed. (London: Routledge & Kegan Paul, 1935). For an extensive survey of the foundations of these matters, see Gerald P. O'Driscoll, Jr., *Economics as a Coordination Problem: The Contributions of Friedrich A. Hayek* (Kansas City: Sheed Andrews & McMeel, 1977).

[7]On stagflation, see Gerald P. O'Driscoll, Jr. and Sudha R. Shenoy, "Inflation, Recession, and Stagflation," in *The Foundations of Modern Austrian Economics*, ed. Edwin G. Dolan (Kansas City: Sheed & Ward, 1976), pp. 185–211.

[8]The Phillips Curve comes from A. W. Phillips, "The Relation Between Unemployment and the Rate of Change in Money Wage Rates in the United Kingdom, 1869–1957," *Economica* 25 (November 1958): 283–99.

[9]Knut Wicksell, *Finanztheoretische Untersuchungen* (Jena: Gustav Fischer, 1896). A large part of this book is translated as "A New Principle of Just Taxation," in *Classics in the Theory of Public Finance*, ed. Richard A. Musgrave and Alan T. Peacock (London: Macmillan, 1958), pp. 72–118.

INFLATION MONITOR

A regular feature of *Policy Report*, the "Inflation Monitor" reports on the effects of inflation as a monetary phenomenon and demonstrates its distorting influence on the structure of relative prices in the economy.

	PERCENTAGE CHANGE (ANNUAL RATE)			
	Latest 1 month	**Latest 3 months**	**Latest 6 months**	**Latest 12 months**
M-1	−5.4	−2.0	1.2	5.8
M-2	1.1	3.0	5.5	7.4
M-3	7.5	4.8	7.5	8.6
PRICE OF GOLD	87.9	76.8	37.2	40.0
CPI-URBAN WAGE EARNERS	14.1	10.5	9.5	9.9
COMMODITIES, LESS FOOD	12.5	11.6	10.6	8.7
FOOD	21.4	19.7	13.1	13.5
SERVICES	13.1	9.2	8.7	9.8
FINISHED GOODS	12.3	13.6	12.4	10.0
CONSUMER GOODS, FOOD	19.0	21.2	19.0	12.0
CONSUMER GOODS, NON-FOOD	10.6	11.8	9.7	9.6
CAPITAL EQUIPMENT	9.8	10.0	9.1	8.6
PRODUCER PRICES, BY STAGE OF PROCESSING				
COMMODITIES				
Crude materials, non-food	37.2	25.3	23.3	18.4
Intermediate materials, less food	11.1	11.5	11.1	8.9
Capital equipment	9.8	10.0	9.1	8.6
Consumer finished goods, less food	10.6	11.8	9.8	9.7
FOOD				
Farm products	39.4	27.0	26.8	21.1
Consumer foods	19.0	17.9	17.5	12.5

All figures are taken from the *Chartbook on Prices, Wages, and Productivity* (U.S. Department of Labor), *Monetary Trends* (Federal Reserve Bank of St. Louis), and the *Wall Street Journal*.

✓ Washington Update

✓ Despite the overwhelming defeat of standby gasoline rationing authority in the House of Representatives on May 10, the President still possesses the authority to ration and allocate any material he deems scarce, critical, and necessary under the Defense Production Act of 1950.

A battle is shaping up in the House over the Act, which the Banking Committee wants to extend for another year and enlarge to include a multi-billion-dollar synthetic fuels program. The Congress has repeatedly failed in recent years to enact a synthetic fuels program under its own name, so this year it is being marketed as a defense bill. As one member of the committee pointed out, however, the fact that the *Banking* Committee reported the bill seems to indicate that the bill is being pushed less for reasons of defense than for economic reasons.

✓ The Senate Banking Committee held hearings in late may on the Credit Control Act of 1969. Senator Jesse Helms (R–N.C.) and Rep. Ron Paul (R–Tex.) have introduced bills to repeal the Act, which gives the President plenary power over the U.S. financial system and authorizes him to use the Federal Reserve Board as his instrument of control. The Board may take any type of action it pleases, up to and including prohibition of or limits on "any extensions of credit under any circumstances the Board deems appropriate."

In a letter to Chairman Proxmire, Arthur Burns stated that if "this or a later President chose to invoke the Act, the Federal Reserve could exercise dictatorial power over the economy.... [M]y advice to your Committee would be to rescind it...." But in his statement to the Committee, Secretary of the Treasury Blumenthal declared that the "Administration opposes such efforts to circumscribe the President's ability to cope with economic emergencies or distortions."

✓ The so-called Fed membership problem—the continual flight of member banks out of the Federal Reserve System—haunts Congress. In June the House Banking Committee will try for the third time this year to report a bill to the House floor that would impose reporting and reserve requirements on all financial institutions (some smaller institutions would be exempt from the reserve requirements), whether members of the System or not. The latest bill would drop the total required reserves by approximately two-thirds over the next 10 years, and give the Fed a virtual monopoly of control over the nation's financial system.

✓ The White House has received many hard blows recently. The Senate voted to lift sanctions against Rhodesia; the House defeated gasoline rationing; the House Democrats repudiated decontrol of oil prices; five House Democrats launched a "draft Kennedy" campaign; the SALT II Treaty appears to be in trouble in the Senate; the legislation implementing the Panama Canal treaties is definitely in trouble in the House; Bert Lance was indicted; Gerald Rafshoon is being investigated; and Jack Anderson says the President himself should appear before the grand juries investigating the various scandals. For those nostalgia buffs in Washington, it seems like the summer of 1973 over again.

✓ An Act passed last year requires the Treasury to mint and sell at least 1.5 million gold medallions during each of the next four years. At present, the Treasury intends to begin marketing the medallions through the post offices in the late spring or early summer of 1980. The medallions will be of two weights—one will contain an ounce of gold and the other a half-ounce—and are intended to compete with the Krugerrand.

✓ Figures released by the Social Security Administration show that public income maintenance programs disbursed \$3.6 billion in 1945 and \$153.3 billion in 1976, the last year for which figures are available.

✓ In late June or early July the Administration will send its "comprehensive financial reform" plan to Congress. Reportedly, the plan would phase out usury regulations on savings accounts, permit interest-bearing demand deposits (which become illegal on January 1, 1980), and permit federally chartered thrifts to offer variable rate mortgages. Hearings are already being held in the House on bills to restore interest-paying checking accounts and to repeal Regulation Q. Favorable action benefiting small savers will probably be taken this summer.

✓ H.R. 1, government financing of congressional campaigns, went down to a stunning defeat in the House Administration Committee on May 24, with a vote of 8 to 17, despite the pleas of House Speaker O'Neill for passage. Perhaps the vocal constituent opposition to the bill contributed to its defeat.

✓ The balanced budget movement, which is heavily supported by some taxpayers' groups, is running into a dilemma in Congress. It seems that in 1981 it would be possible and desirable to lower taxes, but such a move would probably result in an unbalanced budget. The question the balanced budget people will have to face is, Shall we have lower taxes and risk an unbalanced budget, or shall we have high taxes and a balanced budget? Already the Senate Budget Committee has voted to postpone a multi-billion-dollar tax cut in order to balance the budget in 1981. The Social Security taxes enacted in December 1977 are scheduled to climb again next year, and inflation brings additional billions into the Treasury each year by pushing producers into higher tax brackets. It is these higher taxes that will balance the budget, if it is ever balanced at all.

✓ The bill creating the Department of Education cleared the Senate, but House managers are hesitant to bring it up in the House. It narrowly squeaked through the Government Operations Committee, and the Committee has yet to seek a rule on the bill allowing it to bring the bill to the House floor. ■

"To be governed..."

Life among the lotus-eaters, I

"President Carter steadfastly maintained at his news conference today that he did not personally rule on requests to use the White House tennis court, as was charged most recently by James Fallows, formerly the President's chief speechwriter.

"'I have never personally monitored who used or did not use the White House tennis court,' the President said. The President acknowledged, however, that he did 'let my secretary, Susan Clough, receive requests from members of the White House staff' to avoid having two groups try to use the court at once."

—*New York Times*, May 1, 1979

Life among the lotus-eaters, II

"Nine months after quitting under fire as President Carter's chief adviser on health and drug abuse, Dr. Peter G. Bourne has landed on his feet with a handsome job at the United Nations. Recommendations from White House friends helped the British-born psychiatrist get a two-year position in April coordinating a new program set up to improve the world's water supply.

"Bourne is negotiating with the U.N. for annual pay that may go as high as $50,000 after taxes."

—*U.S. News & World Report*, May 7, 1979

Frontiers of product liability

"A number of wheels on some 1960-65 G.M. trucks were collapsing when the load limits of the trucks were exceeded by overweight campers. G.M. argued that the overloading, against which it warned in its instruction manuals, constituted owner abuse. The court held that there was abuse, all right, but it was 'reasonably foreseeable'; everybody knows trucks are going to be overloaded. Only 'unforeseeable abuse' might have excused G.M."

—*Fortune*, Apr. 9, 1979

Improvement for whom?

"President Carter said in an interview released Saturday [April 28] that he now believes a President should be limited to one six-year term....'I think that if I had a six-year term, without any prospect of reelection, it would be an improvement.'"

—*Los Angeles Times*, Apr. 29, 1979

Marvels of socialism dept.

"Since the early 1950s, the rate of foodgrain growth in China has been the lowest of any region in the poor world. Growth in output has been so low that there is a very real possibility it may run second in the race against population."

—*New York Review of Books*, Apr. 5, 1979

Adam Smith flies again

"Aided by a prosperous local economy and grasping opportunities opened up by airline deregulation, commuter airlines, which serve areas their bigger competitors find uneconomical, are taking to the Western skies like flocks of geese.

"The developments here parallel the growth of local air service nationally, according to a recent Civil Aeronautics Board study, apparently rebutting critics of deregulation who said smaller cities would be left without air service."

—*New York Times*, Apr. 12, 1979

Fiscal responsibility, etc.

"The most important thing the House has accomplished in three days of work on the budget is to raise the fiscal 1979 spending ceiling by $1.5 billion. The extra money in the current year's budget is meant to glue together a Democratic coalition for the fiscal 1980 budget.

"For conservatives, the extra money would buy two destroyers, originally intended for Iran. For liberals, it would buy food stamps for the poor and renewal of aid 'targeted' on cities with high unemployment. The extra money also would permit additional loans in disaster areas."

—*Wall Street Journal*, May 3, 1979

Theory and practice

"Carson City [Nev.]—Legislators in this tourist dependent state were urged yesterday by U.S. Senator Paul Laxalt to get into the gasoline business by authorizing the spending of up to $10 million for fuel on the world open market.

"Laxalt said he is philosophically opposed to 'the government doing a job private industry should be handling. But this is an emergency situation.'"

—*San Francisco Chronicle*, May 11, 1979

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