Cato Policy Report

May/June 1987 Volume IX Number 3

Stimulating Growth in Developing Countries

by Mark Frazier and Govindan Nair

As developing countries accept the need for initiatives designed to renew investors' and lenders' confidence, opportunities emerge for stimulating inflows of private capital in concert with effecting comprehensive free-market reforms. Combining new debt-to-equity conversion policies with the creation of Hong Kong-style economic zones may help rekindle near-term growth in the developing world.

Highly indebted developing countries must take three steps to solve the critical problems they face, alleviate their external debt-service burdens, and return to a path of economic growth. First, they need to ensure that their foreign exchange earnings grow faster than the foreign interest they must pay. Second, they need to supplement greater mobilization and more efficient use of domestic savings with measures to attract new inflows of foreign capital. Third, they need to avoid some of the mistakes made in foreign borrowing by orienting the allocation of those capital flows more toward equity investment than toward debt.

Mark Frazier is chairman of The Services Group, an international consultancy specializing in free zones and privatization reforms in developing countries. Govindan Nair is a consulting economist for the World Bank.

Commercial banks have been hesitant to resume lending to developing countries. Their reluctance is attributable in part to their skepticism that debt-burdened countries will adopt the market-oriented reforms needed to rekindle economic growth and export expansion. Private capital flows via direct and portfolio investment are also discouraged by flawed policy conditions in potential host countries. Unless effective means to achieve fundamental policy reforms are found, developing nations' prospects for a return to sustained economic growth will be dim.

Debt Conversions and Free Zones

The use of debt conversions—exchanges of external debt obligations for domestic currency earmarked for equity investment or project financing—has accelerated because such transactions benefit both heavily indebted countries and their creditors. Although they do not entail direct inflows of new capital, debt conversions remove the burdens of interest payments and the eventual repayment of principal from borrowers while offering creditors an avenue for settling or stabilizing high-risk assets.

In net-borrower countries such as the Philippines, Brazil, Chile, and Mexico, a total of almost $6 billion worth of dollar-denominated external debt obligations have been retired over the past three years through debt conversions. Holders of the debt have agreed to exchange their foreign-denominated loans for local currency or real assets in the debtor countries. By acquiring external debt instruments in secondary markets at substantial discounts and converting them to local currency assets at rates approaching par value, foreign investors can save 30 percent or more in project start-up costs. They generally invest those assets in projects that generate hard-currency export earnings and jobs for the host countries.

The success of early debt conversion programs such as Chile's has prompted

(Cont. on p. 14)

In This Issue

Tucker Andersen, managing partner of Cumberland Associates and a Cato Institute board member (left), and Cato president Edward H. Crane (right) talk with Robert Heller, a member of the Federal Reserve Board of Governors, at a Cato lunch.

Hands-Off Management Style Won't Do

President's Message

President Reagan has received some deserved criticism for the hands-off management style that many believe led to the Iran-contra arms scandal. Some of my conservative friends, however, maintain that the Iran episode was an aberration, that the hands-off approach has served Mr. Reagan well both as governor and as president. I disagree.

Ronald Reagan's management style is tailor-made to accommodate the systemic forces behind government growth. That is why taxes and spending grew faster during his eight years as governor than at any other time in California's modern history. It is why federal spending reached a record peacetime high as a percentage of GNP during this administration.

A hands-off style may make sense for an entrepreneurial company, but when one is dealing with the federal leviathan, a hands-on approach is required—that is, if one is interested in controlling and reducing government spending. Hands-on management doesn't mean Carteresque micromanagement. It means appointing the right people to important positions and holding them accountable for their actions. Mr. Reagan clearly has not done that. (For the latest evidence, simply consider Reagan's secretary of health and human services proposing a major expansion of Medicare and Reagan's secretary of labor proposing a $1 billion federal jobs program.)

Hands-on management is essential because of the tremendous forces that lead inexorably to government growth. Thomas Jefferson's admonition that "the natural progress of things is for government to gain ground and liberty to yield" is clearly valid. In the 1920s government spending at all levels amounted to just 10 percent of national income. By 1950 that figure had risen to 26 percent. Last year total government spending was equal to an astonishing 43.8 percent of national income.

The *Washington Post* and other defenders of big government would have us believe that the American people want more government spending. But that obviously is not the case. Just last year a CBS News–*New York Times* poll showed that a remarkable 83 percent of Americans favored a reduction in federal spending and no tax increase. Yet the hand-wringers in Congress are promising us increases in both spending and taxes. The question is, why? There are four identifiable systemic forces behind the growth of government.

First, there is what Milton Friedman calls "the tyranny of the status quo"—the merits of a proposed program can be debated for years, but once it's in effect the only debate is over how much its budget should be increased. He argues that the status quo is protected by an Iron Triangle consisting of the direct beneficiaries of a program, the bureaucracy that administers it, and the congressional oversight committee that reaps the political benefits.

Second, there is the simple phenomenon of concentrated benefits and diffuse costs. A program that means millions of dollars to a group or company may mean only a few cents to the average American taxpayer. So who do you think is going to show up in Washington to express an opinion about the value of the program?

Third, there is the insight of Cato Distinguished Senior Fellow and Nobel laureate James Buchanan and the Public Choice school: bureaucrats are like the rest of us—they respond to incentives. The problem is that in the public sector there are often incentives to increase expenses, to have more bureaucrats working under one, and to rationalize new expenditures. There is no bottom line as in the private sector to tell one that resources are being misallocated or that the public's not buying.

Fourth, there is the breakdown in the constitutional order that leads Americans to accept the idea of the rule of men taking precedence over the rule of law. It leads them to view Washington as an arbiter of how the public largess is to be distributed—rights and private property be damned—and the greedy converge on the nation's capital like a pack of hungry wolves.

Against that background of bias toward more government, the nation's media report events from Washington with a wide-eyed credulity that's remarkable to behold. Their innocence is something. They treat Washington as if it operated just as their high school civics texts said it did—as if its actions were a fair and disinterested reflection of the national will—when in reality it's running the most rigged game in the country.

Certainly we can't expect to make progress in combating those forces through a laissez faire management approach. Those who support the free market should recognize the need for a president who does more than share Mr. Reagan's vision of an America of limited government and respect for individual rights. He or she must realize that such a vision dictates the need to challenge the status quo and must possess the hands-on management style required to get the job done.

All of which underscores the importance of groups, such as the Cato Institute, that seek to protect and enlarge the interests of the private, voluntary sector of our society. We are proud to have been involved in that effort for the past decade and look forward to continuing and expanding our programs in the decade ahead.

—Edward H. Crane

Scholars Examine U.S. Constitution and Economic Liberty

Conference organizer James Gwartney (left) and Montana State University professor Richard Stroup (right), both Cato adjunct scholars, talk with Nobel laureate James M. Buchanan, a Cato Distinguished Senior Fellow.

The 200th anniversary of the Constitution provided the theme for a conference sponsored by the Policy Sciences Program of Florida State University in March. Selected papers from the conference will appear in the Fall 1987 issue of the *Cato Journal*.

Speakers at the conference, titled "Government, the Economy, and the Constitution," focused on the economic principles that should underlie the writing of a constitution and on what the U.S. Constitution says about economic matters.

Nobel laureate and Cato Distinguished Senior Fellow James M. Buchanan and Gordon Tullock of the Center for Study of Public Choice each offered reflections on the main ideas in their book *The Calculus of Consent*, 25 years after its publication. Buchanan argued that individuals enter into a government in order to enhance their well-being and that constitutional rules must therefore create a positive-sum outcome in which all are better off, just as in a market exchange. In considering such issues, he said, public choice analysts draw on the wisdom of social contract theorists, including James Madison.

Tullock called for a "self-enforcing" constitution rather than one full of provisions to bind the government (like the Bill of Rights). He cited the rise of the civil-service interest group as one of the most important changes in our system of government.

In another paper, Richard A. Epstein, James Parker Hall Professor of Law at the University of Chicago and author of *Takings: Private Property and the Power of Eminent Domain*, discussed the constitutional underpinnings of property rights and the role of the public trust doctrine.

Forrest McDonald, author of *Novus Ordo Seclorum: The Intellectual Origins of the Constitution*, examined the relationship between capitalism and constitutional government in the United States.

Robert Higgs, William E. Simon Professor of Political Economy at Lafayette College and author of *Crisis and Leviathan: Critical Episodes in the Growth of American Government*, delivered a paper titled "Can the Constitution Protect Private Rights during National Emergencies?" The paper began, "The answer is no." Higgs argued that during wars and other national emergencies—and we live in "an age of permanent emergency"—the executive and legislative branches are quick to assume new powers, and the Supreme Court almost always concurs.

Peter Aranson of Emory University, editor of the *Supreme Court Economic Review*, called for a return to substantive due process as a means of protecting economic rights based on a rediscovery of "the great clauses of the Constitution that the Framers designed explicitly to protect economic liberties."

Other speakers at the conference included political scientists Robert Lineberry and James McGregor Burns and legal scholar Calvin Woodward. The conference was organized by Cato adjunct scholar James Gwartney of Florida State University. ■

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

David Boaz . . . . Editor
David Lampo . . . . Managing Editor
Tyler Cowen, Daniel Klein, Sam Staley . . . . Contributors

Correspondence should be addressed to: *Cato Policy Report*, 224 Second Street SE, Washington, D.C. 20003. *Cato Policy Report* is sent to all contributors to the Cato Institute. Single issues are $2.00 per copy. *Cato Policy Report* is published bimonthly by the Cato Institute, 224 Second Street SE, Washington, D.C. 20003.
ISSN: 0743-605X

CATO INSTITUTE

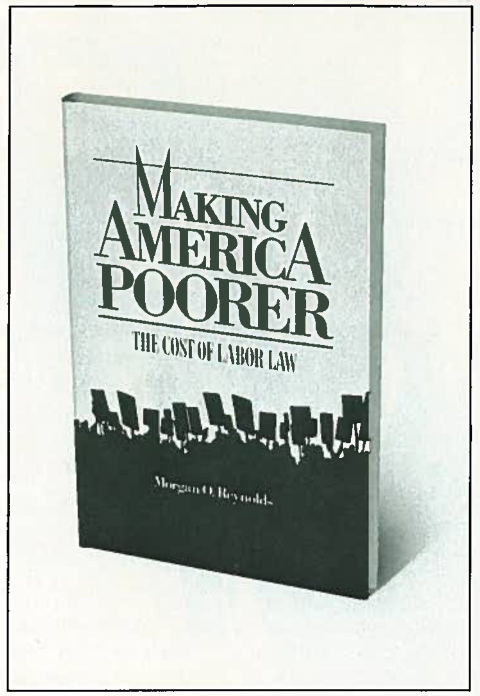
"A Powerful Indictment"

Preferential Labor Laws Cost U.S. $196 Billion a Year

Each year federal labor laws cost the United States 4.9 percent of GNP, or about $196 billion, concludes economist Morgan O. Reynolds of Texas A&M University in *Making America Poorer: The Cost of Labor Law*, just published by the Cato Institute.

Reynolds argues that since the New Deal such laws have granted unions legal privileges and immunities not available to any other group in society. Unions "can compel firms to bargain with them in good faith, an undefined term, and make their private property available for union use. Unions represent all employees in a bargaining unit, whether all employees want that representation or not. And, by and large, unions are immune from payment of damages for personal or property injury in labor disputes."

Those provisions and others, Reynolds says, "distort the playing field in U.S. labor relations" and "hinder the discovery of superior forms of labor relations."



After examining unions' legal privileges and immunities and summarizing the principles of productivity—the process through which a society becomes wealthier—Reynolds explains how unions affect productivity and economic growth. By keeping their wage rates above market levels, for instance, unions not only impose a $10 billion social cost on the economy but also transfer $70 billion a year from nonunion—and mostly lower-paid—workers to union members. That wage rate inflexibility boosts the nation's unemployment and reduces its output.

Unions' work rules and opposition to new technology cost the United States another 1 percent of GNP annually, while about 0.6 percent of GNP is lost due to the cost of strikes and the administrative cost of collective bargaining.

Much of the book is an answer to *What Do Unions Do?* by Richard B. Freeman and James L. Medoff of Harvard University, a 1984 book whose premise is that unions increase productivity.

Reynolds's book is drawing high praise from labor experts. James T. Bennett, editor of the *Journal of Labor Research*, writes, "Reynolds's analysis provides critical insights for such significant issues as the problem of [the] 'competitiveness' of American industry and the decline in productivity of American workers. His major proposal, the 'deregulation' of labor relations, is a bold, innovative stroke."

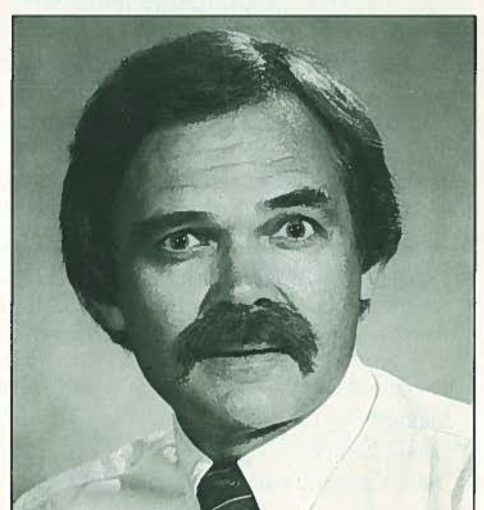
Simon Rottenberg of the University of Massachusetts calls the book "a lucid and powerful indictment of American public policy that promotes the establishment and entrenchment of monopoly power in labor markets. [It] raises sensible questions about a public labor policy that has somehow survived for over half a century, despite the damage it has done to the country and its working people."

Making America Poorer is available in hardback for $21.95 and in paperback for $9.95.

Estimated Annual Cost of Private-Sector Unionism in the United States

Source of Loss due to Unions	Amount ($ Billions)	Percent of GNP
1. Wage differentials		
Social loss	10	0.25
Forced transfers to union members	(70)	(1.75)
2. Wage inflexibility	52	1.3
3. Work rules, absenteeism, delay of new technology	40	1.0
4. Lost output and damages due to strikes, violence, disruptions	12	0.3
5. Administrative costs of bargaining, negotiating, grievances, arbitration	12	0.3
Total	126	3.15
Total including forced transfers	196	4.9

SOURCE: Morgan O. Reynolds, *Making America Poorer: The Cost of Labor Law* (Washington: Cato Institute, 1987).



Morgan O. Reynolds

Ties to Pakistan Court Disaster

By using Pakistan as its geopolitical outpost in South Asia, the United States is courting disaster for both itself and its ally, writes Ted Galen Carpenter in a new study from the Cato Institute.

Carpenter, Cato's director of foreign policy studies, writes, "Pakistan is an extraordinarily frail ally—an impoverished nation with a history of political separatism and instability, governed precariously by a military strongman who faces mounting domestic opposition."

Instead of attempting to perpetuate Pakistan's status as a U.S. client—a role implicit in a 1959 security guarantee and the current $3.2 billion five-year aid program—the United States should pursue a "sophisticated disengagement strategy," Carpenter argues. He urges the Reagan administration to offer the Soviet Union "an extremely tempting package deal": the strict neutralization of both Pakistan and Afghanistan.

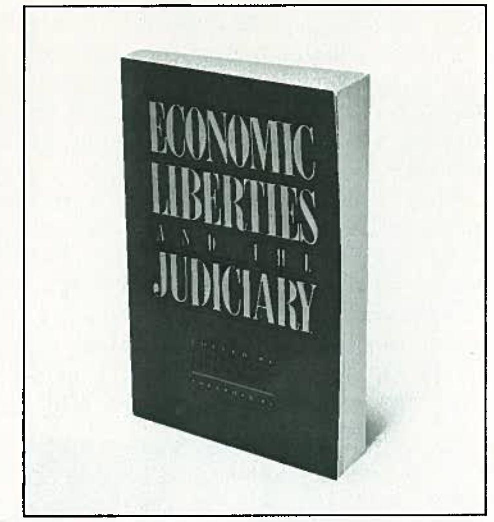
Through Carpenter's proposed deal, the United States would achieve the removal of Soviet forces from Afghanistan and Moscow could extricate itself from that quagmire without a humiliating diplomatic surrender. Equally important, "Pakistan and Afghanistan would cease being pawns in a superpower struggle and would have the opportunity to solve their own massive internal problems."

Carpenter warns that the United States' extensive military assistance to Pakistan antagonizes both India and the Soviet Union and gives them "a common focal point for their foreign policy concerns, thus helping to cement an otherwise curious alliance between a democracy and the world's most notorious totalitarian state." In addition, Carpenter points out, Pakistan's nuclear weapons program could embroil the United States in a nuclear conflict on the Indian subcontinent.

Carpenter's study, "A Fortress Built on Quicksand: U.S. Policy toward Pakistan," is part of the Cato Institute's Policy Analysis series.

"Principled Activism"

Constitution Protects Economic Rights



A new school of thought about judicial matters is presented in *Economic Liberties and the Judiciary*, edited by James A. Dorn and Henry G. Manne and published by the George Mason University Press for the Cato Institute.

Dorn, editor of the *Cato Journal*, and Manne, dean of the George Mason University Law School, call the new approach a "principled judicial activism" whose proponents "view the Constitution not primarily as a blueprint for majoritarian democracy but as a charter for limited government and individual rights."

Dorn and Manne write, "The major question addressed in this volume is whether the judiciary will restore its protection of economic liberties—as intended by the Framers—or continue to allow majoritarianism to subvert the freedom of individuals to determine the uses of their land, labor, and capital and to freely carry out mutually beneficial exchanges."

Contributors to the volume include Supreme Court justice Antonin Scalia, Richard A. Epstein of the University of Chicago, Bernard H. Siegan of the University of San Diego, Stephen Macedo of Harvard University, Wesley J. Liebeler of UCLA, Robert D. Tollison of the Center for Study of Public Choice, and federal budget director James C. Miller III.

In the foreword, Judge Alex Kozinski of the Ninth Circuit Court of Appeals writes, "For the first time in a generation, legal scholars are mounting a serious challenge to the jurisprudential approach that has dominated American legal thinking since the New Deal. The articles in this volume are at the forefront of this challenge."

Nobel laureate James M. Buchanan says, "This exciting volume explores the argument for a 'principled activism' by the judiciary, as opposed to the nonprincipled activism of Justice Brennan and to the nonactivism of Justice Rehnquist."

Economic Liberties and the Judiciary is available for $28.00 in hardback and $15.75 in paperback from the Cato Institute.

Henry G. Manne

James A. Dorn

NATO: Is It Time to Withdraw?

Policy Forum

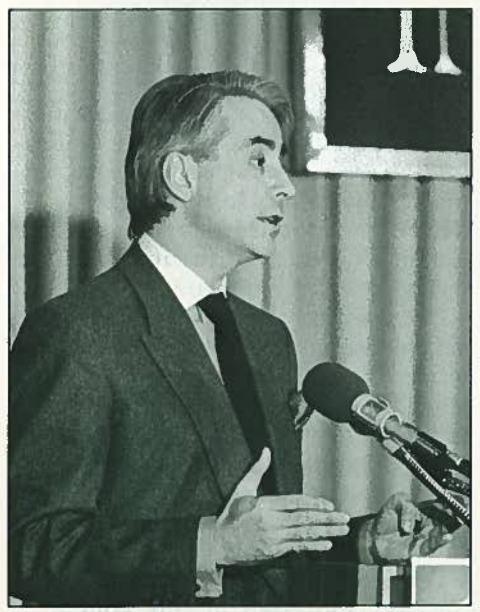
The Cato Institute regularly sponsors a Policy Forum, at which distinguished analysts present their views to an audience drawn from government, the media, and the public policy community. A recent forum, held at the Mayflower Hotel in Washington, featured three speakers: Melvyn Krauss, professor of economics at New York University, senior fellow at the Hoover Institution, and author of How NATO Weakens the West; *Richard Burt, U.S. ambassador to West Germany; and Earl C. Ravenal, Distinguished Research Professor of International Affairs at Georgetown University and senior fellow at the Cato Institute. Michael Kinsley, editor of the* New Republic, *served as moderator.*

Melvyn Krauss: It's an honor to be on the same platform as both Ambassador Burt and Earl Ravenal. Earl has done a lot of good work in measuring the cost of NATO to the United States. He came up with a figure of $130 billion a year—an enormous amount of money. Other people have come up with even larger figures; the Department of Defense's estimate is $150 billion.

One of the questions that interests me as an economist is that if we're spending $130 billion or more a year on NATO, what we are getting from it? In my view, not very much—certainly nothing to warrant that kind of expenditure.

Secretary of Defense Caspar Weinberger recently wrote that "U.S. troops are a political signal to the Soviets that intimidation will not work." According to NATO proponents, this is one benefit that we get from the alliance. But what the U.S. troops in Europe really represent is the Europeans' lack of faith in our commitment to defend them. Those troops are hostages held by our allies to guarantee an American military response if the Warsaw Pact countries were to invade the West. The argument—the famous trip-wire argument—is that given the adverse balance of conventional forces, our troops would likely be slaughtered. Because no American president would be able to sit by while that happened, we would end up using nuclear weapons in retaliation. So the trip-wire strategy ensures that the U.S. nuclear guarantee will be upheld.

The truth of the matter, which Secretary of Defense Weinberger does not want to face, is that during the past decade the Soviets' intimidation of Western Europe has worked, and precisely because our commitment of troops to Europe, and NATO in general, has made our European allies weak. The Soviets, who fear most a rearmed and united Europe, must be grateful indeed.



Richard Burt: "What we have achieved from NATO over the last 40 years is peace in Europe."

NATO proponents also argue that, as one of my critics put it, it would be better to do battle with the Warsaw Pact nations in Germany than "on Broadway." But forward defense is a myth and an illusion. We have no credible conventional deterrence in Europe because of the conventional forces imbalance, and the reason for the imbalance is that the European members of NATO, protected by our military guarantee, do not want to cut into their welfare-state budgets and spend enough money on defense. According to Bernard Rogers, the NATO commander, a Warsaw Pact invasion would lead us either to surrender or to launch a nuclear first strike against the Soviets within days, if not hours.

There are in effect only two types of deterrence operating in Europe today: nuclear deterrence and what I call "detente deterrence"—that is, bribing the Soviets not to attack. Now, perhaps Ambassador Burt will tell you about the many good things that the Europeans have done and are doing. But my message to you is that whatever they are doing, it is not enough, because the imbalance in conventional forces remains.

Another benefit that we supposedly get from NATO is bases in Europe. But the real issue is whether we would have access to those bases when we needed them. We have good reason to be skeptical about our access to NATO bases. Consider the behavior of the Italians at Sigonella, the NATO base in Sicily, during the *Achille Lauro* affair—Italian forces squared off with U.S. forces when we tried to transfer Muhammad Abbas here for American justice.

Yet another reason used to justify the money we spend is that our membership in NATO gives the United States control over the foreign and defense policies of our allies. Well, NATO advocates must be living in a different world than the world I live in. If what they say is true, how come the Europeans steadfastly refuse to increase their conventional weapons spending to sufficient levels even though the United States has pressured them to do so for years?

Furthermore, what have our European allies done to support us in our fight against the spread of communism in the Third World? Have they supported us in El Salvador or Nicaragua? Have they supported us in Angola? Not only have they not supported us, but in many instances they've actually opposed us. If that is having control over the foreign policies of our allies, then let's have less control.

Now, some of you may think that even though we're not getting many benefits for $130 billion a year, we can't leave NATO because that is exactly what the Soviets want us to do. In my view, the Soviets' true objective is not to split Europe from America but to use the European allies to emasculate U.S. policy.

Melvyn Krauss and Richard Burt talk with Cato chairman William A. Niskanen before Cato forum on NATO.

The 1983 Euromissile crisis is an object lesson in the dynamics of emasculation through alliance. When the Soviets pressured the allies not to accept missiles from the United States, the Europeans hesitated, thus raising the threat of a split in the alliance. The Reagan administration then agreed to drop its tough anti-Soviet line and alter its East-West policies to those of the Europeans if only they would accept the missiles—which the Europeans had asked for in the first place. Reagan gave up on boycotting the European companies that were involved in subsidizing the gas pipeline. He softened his rhetoric and his policy. True, a split in the alliance was avoided, but at what price? The administration's tough anti-Soviet policies came to an end, just as the Europeans and the Soviets had wished. The Kremlin learned from this episode—and is now using Europe in its attempt to undermine the Strategic Defense Initiative (SDI).

What could we save if we pulled out of NATO? We could save a great deal of money that could be used for better purposes—developing SDI, reducing the budget deficit, or perhaps even making liberals happy by strengthening the U.S. welfare state. But pulling out of NATO doesn't mean ipso facto reducing our defense spending. We could have a more efficient and rational allocation of resources within our military budget. We could also save our allies from their descent down the slippery slope toward pacifism and neutralism. The issue is not whether we should have allies but whether we want strong allies or weak allies. NATO has given us weak allies.

Richard Burt: I would like to explore two questions. First, what are the facts about the present U.S.-European security relationship? Second, is there a viable alternative to the status quo?

If one looks back on 20th-century history, one cannot deny that the United States has a fundamental strategic interest in the freedom of Western Europe. It is because of that interest, not because we believe we are doing the Europeans a favor, that we have maintained a commitment to ensuring the region's security. It would be a grievous strategic setback to the United States if Western Europe was lost. In making his case for a U.S. withdrawal from NATO, Professor Krauss asked, "What are we getting from the status quo?" and answered, "Not very much." I violently disagree. What we have achieved from the status quo over the last 40 years is peace in Europe, and that is a remarkable achievement given modern European history.

The two pillars of our deterrence have been the presence of U.S. troops and the threat of U.S. nuclear weapons being used in the defense of Europe, and that deterrence has worked. I believe in the dictum "If it ain't broke, don't fix it." And though some adjustments to the alliance need to be made, just as adjustments have been made over the last 40 years, the status quo is fundamentally viable. Professor Krauss's assertion that NATO has made the allies weak is just plain wrong. The asymmetry between U.S. and Western European defense efforts is not as great as he maintains; over the past 30 years the defense burden undertaken by the Europeans has increased. If war was to break out in Central Europe today, 90 percent of the land forces, 75 percent of the naval forces, and 50 percent of the air forces would be European.

The allocation of the economic burden has changed too. Throughout the 1970s European defense spending increased in real terms by 2 percent a year, while U.S. defense spending decreased by 1 percent a year. In the 1980s there were four years in which American defense spending had a higher rate of growth, but currently at least 6 of the 15 NATO countries' defense budgets are growing faster than ours. I predict that the trend will continue.

(Cont. on p. 8)

Melvyn Krauss: "U.S. troops in Europe are hostages to ensure that the U.S. nuclear guarantee will be upheld."

NATO (Cont. from p. 7)

But I don't think we can look at this issue simply in terms of spending. We also have to look at the social costs. For example, the Federal Republic of Germany, the country I know best, has the largest land army in Western Europe —500,000 troops. Chancellor Kohl extended the draft last year. The Federal Republic also has 400,000 foreign troops on its soil—American, British, Belgian, and French forces. Thousands of nuclear weapons are deployed there; it hosts chemical weapons as well. Each year more than 5,000 major military maneuvers are conducted in the Federal Republic and more than half a million aircraft sorties are flown in its skies, creating sonic booms and noise. So in a country that is densely populated—60 million people in a region the size of Oregon—they put up with a tremendous military effort. Frankly, I don't think most Americans would accept that kind of effort on U.S. soil. The Germans are not hostile to defense; they live with the realities of defense to a far greater degree than most Americans. And we should take that social burden of theirs into account.

The crucial question, in my view, is this: if the Americans left NATO, would the Europeans actually do more, as Professor Krauss asserts? He maintains that if we went home—if we took away the security blanket—the Europeans would grow up. But that argument has serious problems. For one thing, the terms Europe and Europeans are not really meaningful because Europe is not united; it is a collection of sovereign nations with different histories, economies, and psychologies. For that reason, the kind of integrated, united defense effort that Professor Krauss talks about is unlikely, if not impossible, in the near term. National rivalries, which led to two major wars in this century, still exist, and they would probably grow much stronger in the absence of a U.S. security umbrella.

Some 200 people gathered at the Mayflower Hotel for what one observer called "the most important debate on whether the U.S. should be in NATO since 1951."

Another mistake that Professor Krauss makes is to assume that the political conditions in Western Europe are such that a U.S. withdrawal would lead to a stronger European defense effort. But the security debate in Europe is polarized between a majority view and a minority view. The former advocates a stronger NATO and a continuing U.S. military presence in Europe; the latter seeks an accommodation with the Soviets and a withdrawal of U.S. forces.

The supporters of a stronger Western European defense effort understand that a push for appeasement would take place following an American pullout, which is precisely why they support a continuing U.S. military presence in Europe. On the other hand, those who seek an accommodation with the Soviet Union, such as the Greens in the Federal Republic of Germany, would also like to see the removal of U.S. troops. So an American withdrawal from Europe would pull the rug out from under the very people who advocate a stronger European defense. There is a perverse mirror-image relationship between the proponents of a withdrawal in the United States, many of whom are on the right wing of the political spectrum, and those in Europe, many of whom are on the left wing. Professor Krauss's argument plays right into the hands of the Greens in Germany and opponents of a stronger defense in other countries.

Europe continues to be a prime Soviet interest, and though the Soviets would be concerned if the United States pulled out and they had to face a

Cato senior fellow Earl Ravenal considers a point made by Richard Burt, U.S. ambassador to West Germany.

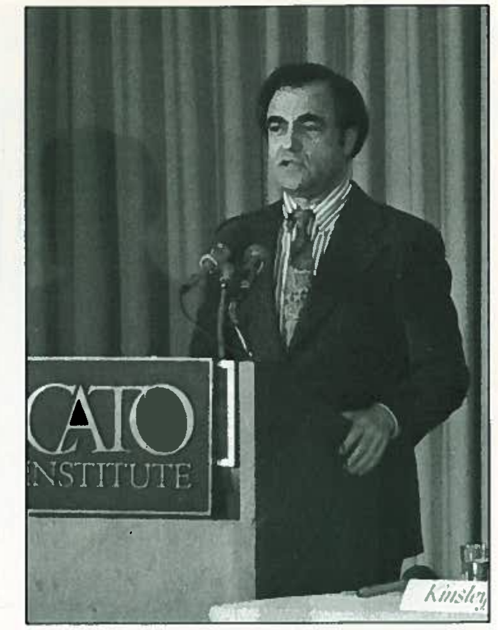
united, integrated Europe, what they would really like to see is a Europe that not only is fragmented and weak but lacks an American presence. In my view, our abandoning NATO would be a fundamental strategic mistake. It would be as important a development as the Sino-Soviet split in the fifties and the early sixties. It would change the global strategic landscape to the detriment of not only Western Europe but the United States.

Earl C. Ravenal: The very fact that today we're asking whether the United States should withdraw from NATO is a testament to how far the debate has advanced over the past several years. When the question was raised by a handful of people in the academic and the policymaking communities as recently as 10 years ago—certainly 20 years ago—it was taken as an infallible sign of unreliability, excitability, or even disloyalty.

What has changed the landscape of the debate is the intrusion of a new faction of NATO critics: the neoconservatives. They have enlivened the debate and brought it to the surface. Unfortunately, the neoconservative position proceeds from a certain pique, a certain spite, a certain resentment of the European allies whose situations prompt them to take issue with the United States in areas where the United States has a unique and differentiable interest. Those areas include Central America, perhaps the Persian Gulf, some of the oceans, and other quarters of the world.

I agree with Ambassador Burt that if NATO ever crumbles, it may be because of an unholy alliance between the American neoconservative right and the pacifist, anti-nuclear, anti-American European left. That will be the surface manifestation. But I don't think that is where the real problem lies. The real problem is a methodological problem, less tractable, which will work itself out over time despite the profound and dedicated efforts of the NATO loyalists.

Both the NATO loyalists, represented by our diplomatic establishment, and the NATO critics, in the forefront of whom are the neoconservatives, are approaching the issue in the wrong way. It should not be a question of voting



Earl Ravenal: "The underlying reality is that NATO is unraveling."

NATO up or down or expressing support for the kindred attractive political systems of Western Europe. It should not be a matter of the United States' displaying diplomatic professionalism by patching up minor disagreements with our allies. And the debate should have nothing to do with the current recriminations of the American right wing, who fail to appreciate that the Europeans' situation differs from ours and that divergent strategic preferences are therefore inevitable. Such considerations don't go to the heart of the problem.

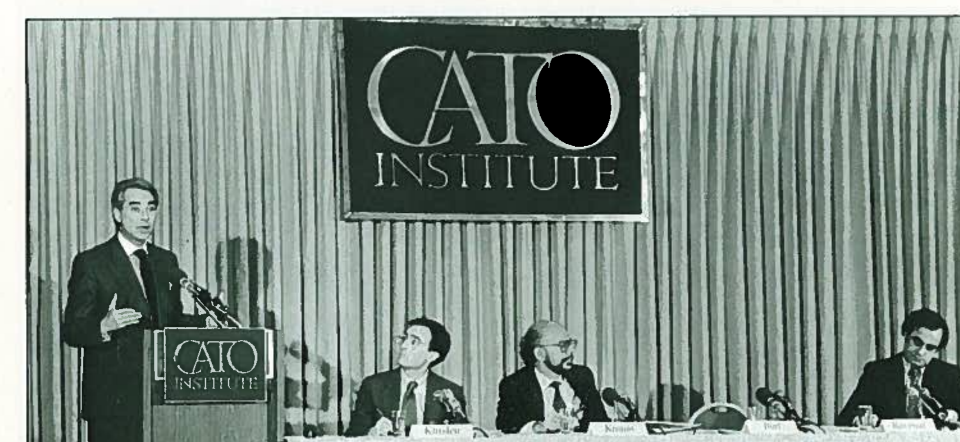
Nor does the issue over which my two colleagues disagree most sharply: whether the Europeans are carrying their share of the burden for the alliance. Ambassador Burt cited an impressive array of statistics about the Europeans'—particularly the Germans' —contribution to the alliance. But that is not the real issue.

Foreign policy issues must be considered from the perspective of an individual nation. In this case, the question can be reduced to whether the United States is getting its money's worth out of the alliance, not whether the Europeans are contributing a "fair share" by some measure. And because the parameters of the international system, as well as America's domestic situation and capabilities, have changed and continue to change, the answer is increasingly likely to be no. A related question is, are there any feasible strategic alternatives to NATO, and if so, what are their costs and consequences?

The neoconservative critics share a fault with the NATO loyalists in that they do not count the costs of the position they're taking. NATO loyalists seem to believe that NATO is vital to American security, indeed irreplaceable, and that therefore one should not entertain such unattractive considerations as the cost of the alliance to the United States. If no alternatives, then no regrets.

A lack of attention to costs also seems to characterize the argument that my colleague Melvyn Krauss puts forward. As Professor Krauss would have it, not only the United States but our European allies would be a lot better off without NATO. One has to ask why that obvious and attractive thesis

(Cont. on p. 10)



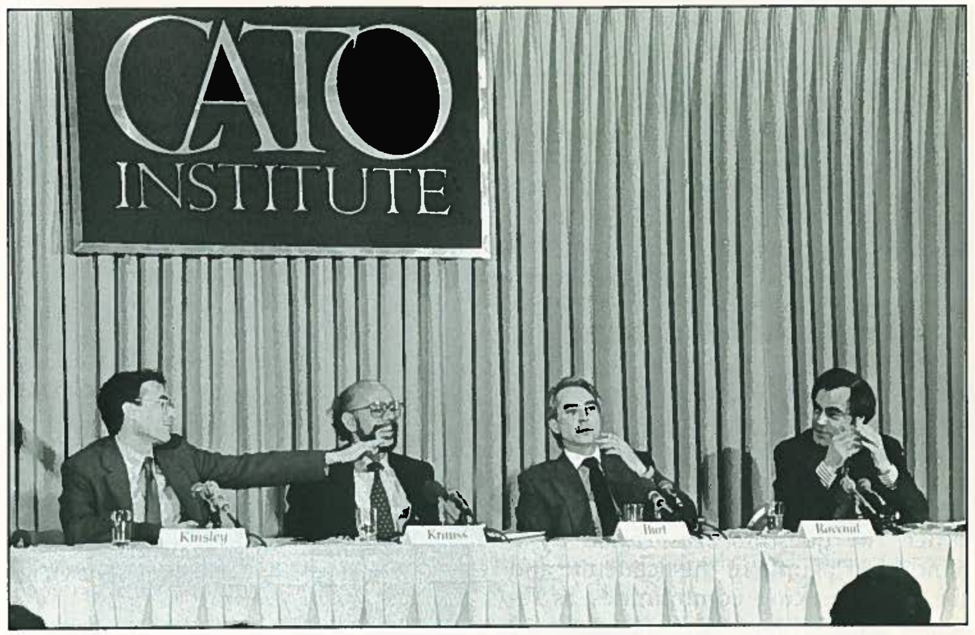
Ambassador Richard Burt speaks to NATO forum as Michael Kinsley, Melvyn Krauss, and Earl Ravenal listen.

NATO (Cont. from p. 9)

has not been noticed and acted upon in four decades. The answer is that decoupling from our NATO allies would involve costs and liabilities. Although I have long been advocating the dissolution of NATO, I would not presume to argue that abandoning the alliance would entail no costs and risks for the United States.

Those costs and risks have to be calibrated and recalibrated as time goes on and the international system changes. I can scarcely take issue with Professor Krauss when he uses my numbers to define the cost of NATO. They have changed slightly, but the cost of NATO is currently about $133 billion a year—42½ percent of our entire defense budget. A fair amount of that money could be saved through the United States' progressive withdrawal, perhaps over a decade for logistical and diplomatic reasons, from its NATO obligation—from its commitment to defend Western Europe.

The risks are more subtle. But even the United States' dispositions in the strategic area, the drift toward counterforce and toward a strategic defense initiative—toward trying to make American society invulnerable—proceed in large measure from our commitment to defend Europe. We must appear to be invulnerable, in our own eyes and those of our adversaries, so that an American president can credibly threaten to use nuclear weapons in the defense of our allies. For that reason, the United States



Michael Kinsley calls on the next speaker at Cato forum on U.S. withdrawal from NATO.

is drawn toward open-ended nuclear strategies as well as occasional confrontations that pose very sharp immediate risks. So it is in the dimension of costs and risks that our NATO commitment should be considered.

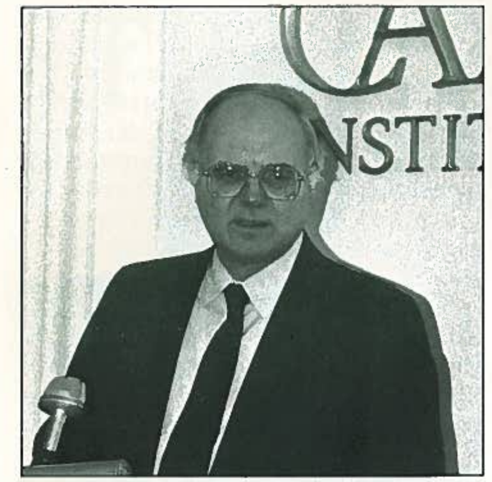
But the issue should not even be addressed from an entirely prescriptive standpoint. The underlying reality is that NATO is unraveling; it is in the process of dissolution, despite the labels, the diplomatic communiqués, and the repair operations that go on from time to time to keep the alliance intact. The name "NATO" will probably always be on the door, but one must ask, what is NATO? It is not the piece of paper that a group of nations signed 38 years ago. NATO virtually consists of the United States' unilateral pledge to use nuclear weapons if necessary to deter a Soviet attack on Western Europe and to join in a war there if called upon to do so. Unlike an ordinary alliance, in which resources are pooled and employed on an efficient basis by all the participants, NATO is based on our unilateral nuclear guarantee.

How sound is that guarantee, which is also called "extended deterrence"? America's basic deterrence against a Soviet attack on our own soil is in very good shape. But extended deterrence—America's undertaking to provide a nuclear umbrella over Europe—is faulty, leaky, and widely distrusted by our allies. Moscow may not distrust it enough to act accordingly, but it takes more credibility to keep allies than to deter enemies. Among the signs that NATO is already dissolving is the mistrust that takes the form of periodic mutual recriminations and other signs of transatlantic discord.

So in our rather bold consideration of whether the United States should withdraw from NATO, I think we should recast the question and ask ourselves whether the United States can continue to fulfill the role of nuclear guarantor of Europe, tradeable only against the ever-increasing expenses of conventional forces. It is to that question, rather than to the one that was originally posed, that I would reply no. ■

Cato vice president David Boaz listens as Jerry Berman, chief legislative counsel of the ACLU, discusses rights to privacy at a Cato Policy Forum.

Michael Novak's Critique of Liberation Theology Is Center of Debate at Cato Policy Forum



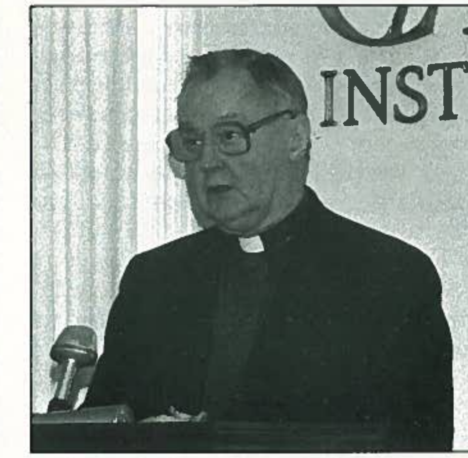
Michael Novak discusses his book *Will It Liberate?*

Michael Novak, a theologian and the director of social policy studies at the American Enterprise Institute, discussed his new book, *Will It Liberate? Questions About Liberation Theology* (Paulist Press, 1987), at a recent Cato Policy Forum.

Novak praised the goals of liberation theologians and explained that he had tried to represent their views fairly in his book. However, he said, he had concluded that "the liberal society, built around a capitalist society that promotes discovery and entrepreneurship among the poor at the base of society, will succeed more quickly, more thoroughly, and in a more liberating fashion, than the socialist societies conceived of by liberation theologians so far."

Novak urged theologians to study the economic arguments of Ludwig von Mises, F. A. Hayek, and Israel Kirzner in order to gain an appreciation of the liberating dynamism of the free market.

Commenting on Novak's talk, Monsignor George Higgins of Catholic University, a long-time leader of the Catholic left, noted that North American free-market advocates, including Novak, still tend to misunderstand and therefore dismiss the claims of Latin American intellectuals. He praised Novak's willingness to listen to the liberation theologians but said that more needed to be done to open a real dialogue.



Monsignor George Higgins says Novak doesn't really understand the arguments of liberation theology.

Walter Block, senior economist at the Fraser Institute and director of the Centre for the Study of Economics and Religion, both in Canada, urged Novak to give more credence to the libertarian economic theories he had come to appreciate and chided him for his continuing support of welfare-state and regulatory programs. ■

Nonbank Banks Are Not the Problem, Study Says

Financial services regulation needs reform, but closing the "nonbank bank" loophole is not the right approach, says a new Cato Institute study.

Economist Catherine England, director of Cato's Financial Deregulation Project, writes, "What is threatening the stability of the financial services system is not limited-service banks but rather the inflexibility of a regulatory structure that was designed 50 years ago. The economic world is in a state of constant flux, and financial institutions must adapt or die. But banks are kept by law from responding to the changes in their environment. Will the banking industry be strangled by the dead hand of Depression-era legislators?"

The Bank Holding Company Act of 1956 defines a bank as an organization that accepts demand deposits and makes commercial loans. By performing either of those functions but not both, a financial institution can avoid the restrictions that apply to bank holding companies.

Cato senior policy analyst Catherine England speaks on banking regulation at Cato's conference on financial services.

England says that new competition in the financial services industry, including the establishment of nonbank banks, is the result of two major changes during the past decade: the economic upheaval and the telecommunications revolution. Regulatory restrictions prevented banks from supplying the services their customers needed during the inflation of the late 1970s, and telecommunications advances are eliminating political boundaries in the financial markets.

England's study, "Nonbank Banks Are Not the Problem," is part of the Cato Institute's Policy Analysis series and is available from the Institute for $2.00. ■

Carpenter, Bandow Discuss U.S. Aid For Third World Development

Ted Galen Carpenter, the Cato Institute's director of foreign policy studies, and Doug Bandow, a Cato senior fellow, recently conducted a seminar on economic development in the Third World. The attendees, all of whom are from Central American nations, attend Harding University under the Walton Scholarship Program.

Carpenter noted that U.S. policy toward the Third World in general and Central America in particular consists of three strategies. The first is political and military support for regimes deemed friendly to the United States and hostile to the Soviet Union. The second is developmental aid intended to improve economic conditions and reduce the potential for radical insurgencies. And the third is sporadic efforts to enhance trade with Third World nations, such as opening U.S. markets to some of their exports.

Carpenter contended that an excessive reliance on the first two strategies has produced disappointing results. He argued that a better approach would be to maximize trade relations by eliminating tariffs, quotas, and other barriers that keep Third World products out of lucrative U.S. markets.

Bandow observed that although the demand for foreign aid seems to be increasing—the United Nations' General Assembly, the World Bank, the Reagan administration, and Congress have all advanced expensive new aid proposals—there is little or no evidence that previous aid programs have promoted Third World development. Indeed, he argued, by strengthening authoritarian regimes and subsidizing counterproductive domestic policies, foreign aid has actually hindered economic progress in developing nations.

This forum was part of the Cato Institute's Project on Third World Development, which also includes the forthcoming issue of the *Cato Journal* on development economics and several Policy Analysis studies on development issues. One or more books will also be commissioned. ■

Consumers Save $90 Billion a Year Thanks to Trucking Deregulation

Trucking deregulation has dramatically increased the efficiency of U.S. industry, but further deregulation is needed, according to a new study from the Cato Institute.

Robert V. Delaney, senior vice president of planning at Leaseway Transportation, writes, "When trucking deregulation was being considered by Congress in 1980, the Congressional Budget Office forecast that by 1984 the legislation . . . would save consumers $5 billion to $8 billion a year. . . . The economic benefits produced by partial deregulation are exceeding the CBO's initial estimates by a factor of 10. Current calculations of the annual savings enjoyed by U.S. producers and distributors as a result of partial deregulation range from a conservative $56 billion to a high of $90 billion."

Much of the amount saved, Delaney explains, is due not to a decrease in direct transportation costs but to the dramatic reduction in inventory costs that reliable and efficient transportation has made possible. The inventory expenditures of U.S. producers and distributors in 1986 were more than $100 billion below the prederegulation level.

However, 43 states continue to regulate trucking, Delaney notes, thus preventing the operation of more efficient services. He estimates the annual savings that would result from ending those state regulations to be at least $28 billion.

Delaney's study, "The Disunited States: A Country in Search of an Efficient Transportation Policy," is part of the Cato Institute's Policy Analysis series. ■

Privatize FAA, Poole Urges

Robert Poole at Cato forum.

Robert W. Poole, Jr., president of the Reason Foundation, called for privatizing the air traffic control system at a recent Cato Policy Forum.

Poole attributed the system's current shortcomings—takeoff and landing delays, personnel shortages, and dwindling safety margins—to "the inherent constraints of using a tax-funded government agency to provide ATC services." Budget cuts lead to inadequate funding. Congress and executive agencies interfere with Federal Aviation Administration management. The absence of market pricing of airport and airway use results in overuse and delays.

All of those problems, Poole said, could be solved through privatization. He proposed that control of the FAA's ATC facilities, equipment, and personnel be divested to a nonprofit, user-owned Airways Corporation. The corporation's stock would be held by airlines, private pilots, air traffic controllers, and other users. The ownership of control towers and landing slots would be given to airports, which would be free to charge market prices in order to prevent overloads at peak times.

The other speaker at the forum, John Sheehan of the Aircraft Owners and Pilots Association, agreed that the current system had problems but questioned whether privatizing it would result in an improvement. ■

Annual Monetary Conference

Banking Regulation Challenged at Conference

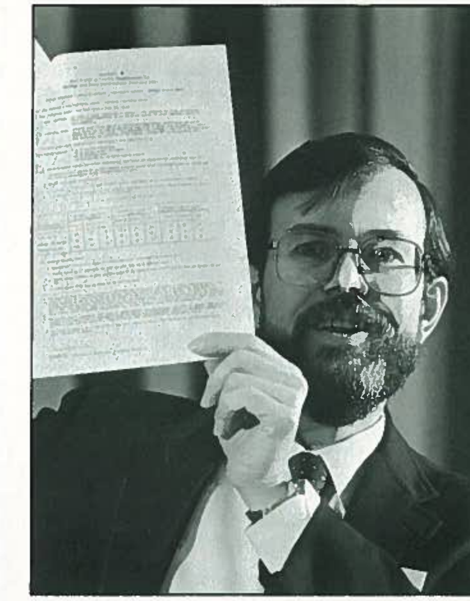
The Cato Institute's fifth annual monetary conference, an important part of Cato's ongoing Financial Deregulation Project, focused on the banking and financial services industry. The papers presented at the conference challenged the 160 attendees to reevaluate the assumptions on which support for the current regulation of the industry is based.

During the first session speakers questioned the validity of the lessons policymakers have drawn from the nation's historical experience with banking. George Kaufman of Loyola University pointed out that before 1929 runs on solvent, healthy banks were rare. Although runs quickly drained the resources of insolvent banks, Kaufman argued, much of the money was redeposited in banks the public deemed more stable.

Anna J. Schwartz speaks at Cato's annual monetary conference.

Financial consultant Bert Ely maintained that most of the bank failures during the 1920s and the early 1930s can be explained by an insufficiently diversified portfolio or a dwindling customer base due to farmers' increasing mobility, or both. Neither excessive competition for deposits nor losses resulting from securities transactions should be regarded as a primary reason for the banking collapse, Ely argued. William Shughart of George Mason University applied a public choice perspective to the passage of the Glass-Steagall Act in 1933. By recounting the preceding lobbying efforts and the gains that the legislation bestowed on both securities firms and banks, Shughart discredited the widely held view that the 1933 Congress set aside political considerations and acted solely in the public interest.

During the second session speakers turned to the problems currently plaguing the financial services industry and its regulators. Gerald O'Driscoll, Jr., of the Dallas Federal Reserve Bank described the weaknesses in the deposit insurance system. James Barth of George Washington University explained how the thrift regulators contributed to the S&L crisis. And Gillian Garcia of the General Accounting Office shocked many of the conference participants by revealing the state of the FSLIC's finances.



James Barth displays figures showing the declining solvency of the FSLIC.

During the final session speakers considered the future of the industry. Robert Litan of the Brookings Institution argued that investment and commercial banking should be reunited. Richard Levich of New York University cited evidence from the European money markets to dispel the fear that eliminating the Glass-Steagall barriers would result in conflicts of interest and tie-in sales. Thomas Huertas of Citibank went even further, arguing that there is no valid reason to prohibit the combination of banking and commerce in the same holding company. Finally, Cato senior policy analyst Catherine England, director of the Financial Deregulation Project, contended that depositors would find ways to protect their interests in the absence of government regulation and deposit insurance.

Most of the conference papers will be published in a book next fall and in the *Cato Journal* next winter. ■

Tim Clark, editor of *Government Executive* magazine, talks with Cato chairman William A. Niskanen after a Cato Policy Forum.

Replace Draft Registration With Volunteers

Peacetime draft registration should be replaced by recruitment of a 150,000-man Reserve Volunteer Force subject to immediate call-up in a national emergency, says a new Cato Institute study.

Cato senior fellow Doug Bandow, who worked with the Military Manpower Task Force as a White House aide in 1981 and 1982, writes, "The creation of a Reserve Volunteer Force would enable the military to respond more effectively in an emergency."

Peacetime registration does not serve any vital security need, Bandow says, because the system has major flaws: The Pentagon's estimates of manpower requirements are questionable. If a mobilization occurred, volunteers and reservists would fill the military's training camps, leaving no room for draftees. And the data in draft registration lists rapidly become outdated.

The Reserve Volunteer Force would have four essential elements: (1) Each volunteer would sign up for a set term, during which he could be inducted in the event of a national emergency. (2) Each volunteer would receive a modest financial stipend. (3) The military could screen the volunteers to permit an earlier call-up of those with needed skills. (4) Selective Service would be returned to "deep standby" status and would retain only enough employees to administer the RVF.

The RVF would save about $5 million a year. It would give the military more flexibility and a more reliable source of emergency manpower. Most important, it would be voluntary and thus "consistent with America's ideals of freedom."

This last point, Bandow notes, should appeal to President Reagan, who said in 1980, "Draft registration destroys the very values that our society is committed to defending."

Bandow's paper, "Draft Registration: It's Time to Repeal Carter's Final Legacy," is part of the Cato Institute's Policy Analysis series and is available from the Institute for $2.00. ■

Growth (Cont. from p. 1)

other countries to follow suit. Costa Rica, the Dominican Republic, Ecuador, and Venezuela recently took steps toward establishing such programs. The Philippines used its debt conversion program, which is less than a year old, to lend a novel twist to its commercial debt negotiations. In a proposal accepted by its creditor banks, the government offered to make some of its interest payments in the form of notes that could be exchanged for local currency designated for investment in the Philippines.

> "Debt conversions make the prospect of private investment in free zones even more attractive."

Although the volume of debt conversions is increasing, it is limited by flawed investment climates—whose characteristics include adverse tax, tariff, and regulatory policies, a poorly maintained infrastructure, and inadequate basic services. Removing such policy constraints could greatly assist developing countries in retiring their external debt obligations.

In recent years a second vehicle for generating investment has emerged: the establishment of free zones. Introducing liberalized policies in targeted areas of developing countries creates exceptionally favorable tax, tariff, and regulatory conditions for private enterprise and thereby exposes those countries to world market forces. Over the past decade dozens of free zones (and free ports) ranging from 10 acres to hundreds of square miles have been established. Those zones have enabled Newly Industrializing Countries to increase their employment and their export earnings and served as prototypes for nationwide market-oriented reforms.

Free zones offer a way to overcome many of the policy constraints that inhibit debt conversions. Debt conversions, in turn, can make the economics of free-zone development far more attractive.

A Strategy for the Developing Nations

The strategy described below would enable developing nations to remove policy constraints to economic revitalization while alleviating their debt burdens.

Targeting Policy Reforms

Efforts to remove tax, tariff, and regulatory constraints on a nationwide scale often encounter intense opposition. The zeal with which groups mobilize to defend favorable policies is proportional to the perceived magnitude of the threats. Fragile governments balk at eliminating economic interventions in the face of certain opposition from the beneficiaries of those interventions. When market-oriented reforms are adopted, they tend to have been diluted into ineffectiveness.

Rather than implement shallow reforms over a wide region, some nations choose to remove barriers to business expansion comprehensively within a targeted area. Free zones reduce tax burdens, permit the duty-free movement of goods, and deregulate foreign-exchange controls and restrictive labor codes. In recent years free zones have also begun serving as proving grounds for alternatives to public-sector monopolies on the infrastructure and basic services. Privately financed airports, roads, and telecommunications services are found in free ports and free trade zones all over the world. As the success of alternative policies in limited areas becomes evident, there is often an increase in political pressures to extend such policies nationwide.

Financing and Developing Free Zones through Debt Conversions

Countries are increasingly finding that the private sector does better than the public sector in establishing free-zone development projects. Governmental bodies have had difficulty in attracting capital and in providing businesslike services to free-zone occupants. In contrast, private free-zone developers have mobilized hundreds of millions of dollars for projects such as Freeport in the Bahamas, the Shenzhen Special Economic Zone in China, four new Turkish free zones, and the "border zone" facilities in Mexico. Free-zone projects have drawn private developers because the benefits of liberalized policies cause land values to rise and because a zone's deregulated environment typically allows the repatriation of hard-currency profits.

Debt conversions make the prospect of private investment in free zones even more attractive. From investors' standpoint, the appeal of debt conversions as a means of financing other kinds of projects is often limited, for two reasons: (1) central banks as a rule only want to swap local assets for external debts at a discount relative to the debt's nominal value; and (2) it is difficult to repatriate hard-currency earnings from the enterprise at market rates. Free-zone projects overcome both obstacles. Land values rise rapidly after the designation of a free zone, more than offsetting a moderate discount rate in the conversion. Moreover, once a free zone becomes successful at attracting export industries, its developer can collect rents in hard currency and repatriate them freely.

Free-zone projects are well suited for debt conversions from debtor nations' perspective as well as private investors'. The zones are intrinsically export-oriented and labor-intensive—key characteristics sought by Chile, Brazil, Mexico, the Philippines, and other nations that have used debt conversions extensively. Furthermore, unlike pure debt-to-equity conversions, which generate portfolio investment but little or no direct investment, debt conversions applied to free-zone development entail new capital flows in the form of direct investment by zone users. Finally, debt conversions for zone development can be undertaken on a basis that results in no increase in the amount of domestic currency in circulation. Rather than offer local currency in exchange for relief from external debt, governments can provide zone developers with ownership or leasehold interests in publicly owned land. In recognition of those benefits, the governments of Jamaica and the Dominican Republic, adherents of free-zone policies, are currently exploring means by which their debt conversion programs could be targeted toward free-zone development. Costa Rica has recently approved a debt conversion for a private free zone near San José.

> "Combining free-zone development and debt conversions could play a key role in catalyzing new economic growth in the developing nations."

Building Constituencies with a Stake in the Success of Free-Market Policies

The political response to economically liberalized zones may hinge on the degree to which they are perceived to benefit not only foreign investors but local institutions. It is therefore important to explore ways in which free zones can be linked to institutions and enterprises in the surrounding community. One such approach may be to include national training and technical institutions as joint-venture partners in free-zone development projects. Foreign companies operating in the zones might benefit from such linkages through improved access to a skilled labor force and through greater security against politically motivated attacks on the zones.

Conclusion

Combining free-zone development and debt conversions cannot fully resolve the economic and financial problems of developing nations. The policy is ultimately constrained by limits on domestic credit creation or on the availability of real assets for which external debt obligations may be exchanged. It is only feasible in countries whose external debt is largely composed of nonconcessional commercial private credit. Yet such a strategy could play a key role in catalyzing new economic growth in the developing nations, particularly the highly indebted ones. Those nations, now under pressure to adopt market-oriented reforms, could introduce wide-ranging policy changes within limited zones. The accelerated debt conversions that resulted could generate much-needed near-term investments, jobs, and foreign-exchange export earnings.

Equally important, a developing nation's commitment to far-reaching policy changes could bolster the confidence of lending institutions in renewing its commercial loans at the same time as the debt conversions were relieving the nation of the need to make hard-currency interest and amortization payments. As the targeted areas began to prosper and the balance of payments began to improve, the pressures to adopt comparable policies nationwide could be expected to grow. ■

Lindley Clark of the *Wall Street Journal*, Cato chairman William A. Niskanen, and Susan Woodward of the Council of Economic Advisers talk at lunch during monetary conference.

"To be governed..."

Vicarious rebellion is safer

Milos Forman's film "One Flew Over the Cuckoo's Nest" is closing in Stockholm after a world-record run of 573 straight weeks. . . .

[Inger] Johansson [information chief of the Sandrews distribution company] speculated that audiences in Sweden, which has an extensive bureaucracy that is sometimes accused of overregulating its citizens' lives, can identify with someone who defies rules at the mental institution depicted in the film.

—*San Francisco Chronicle*, Feb. 26, 1987

Dividing the loot

Northern Virginia lawmakers . . . return home this weekend [from the 1987 legislative session] having made significant gains for the region. . . .

Northern Virginia was also aided by its most senior member, Del. Dorothy S. McDiarmid . . . , chairman of the House Appropriations Committee. . . .

Said Del. Vincent Callahan (R-Fairfax): "I thought it was an outstanding session. We got everything we wanted."

—*Washington Post*, Mar. 1, 1987

Carrying on a great Chicago tradition

The Windy City's corruption-stained political history added a new page Wednesday when a councilman was escorted from a federal jail by four U.S. marshals to attend the regular meeting of Chicago's governing body. . . .

[Wallace] Davis, under indictment for extortion, fraud and racketeering in a government investigation of municipal corruption, was jailed last week after his former City Hall secretary accused the councilman of pistol-whipping her. . . .

"There's nothing wrong with work release," Mayor Harold Washington said of Davis' unusual break from prison. "He has an important job," said the mayor, who counts on Davis' support in the usually contentious 50-member City Council.

—*Los Angeles Times*, Mar. 12, 1987

How to get good press

When a liberal Democrat sits in the White House, Republicans and conservative Democrats on Ways and Means unite to block him. But when a Republican says, as Reagan has done this year, that the federal government must take an activist role in meeting unfair trade practices, in training displaced workers, in offering welfare recipients help into their first jobs and in cushioning the costs of long-term illnesses, then Republicans and conservative Democrats cannot be pure obstructionists.

—David Broder in the *Washington Post*, Mar. 22, 1987

Socialism's successes

In an opinion poll taken last year, a group of Belgrade citizens were asked how it would react if the League of Communists' Presidium (Politburo) were replaced by a committee of Japanese to run the economy. More than 80 percent of those asked thought it a good idea.

—*South* magazine, Feb. 1987

The Reagan Revolution (cont.)

Deborah Steelman, associate director of the Office of Management and Budget, recently decided that the government needs "a single word for 'slowing the rate of growth.'" This is important, she explained, because OMB often gets blamed for cutting programs, when, in fact, it's just slowing the growth of spending. . . .

The entries poured in: "decelerate," . . . "temper," . . . and "Reaganize." The last entry, its proponent explained, is a transitive verb meaning "to slow the rate of growth in a program, esp. a federal program."

—*Wall Street Journal*, Jan. 29, 1987

A disquieting thought

Reagan [was right] in endorsing the Superconducting Super Collider. Now the future of elementary particle physics is in the hands of Congress.

—George Will in the *Washington Post*, Feb. 15, 1987

CATO POLICY REPORT
224 Second Street, SE
Washington, D.C. 20003

ADDRESS CORRECTION REQUESTED

Nonprofit Organization
U.S. Postage Paid
Washington, D.C.
Permit No. 3571

CATO INSTITUTE