

Cato Policy Report

May/June 1990

Volume XII Number 3

The 1990s: The Decade of the Individual

by John Naisbitt and Patricia Aburdene

We stand at the dawn of a new era. Before us is the most important decade in the history of civilization, a period of stunning technological innovation, unprecedented economic opportunity, surprising political reform, and great cultural rebirth.

The purpose of this book is to identify and describe the most important trends of the 1990s. These new megatrends are the gateways to the 21st century.

1. The Global Economic Boom of the 1990s

The doomsayers in our midst hate to hear that economic good times are just around the corner, so sure are they that the United States and the world are going to hell in a handbasket. Starting with the Club of Rome's *The Limits to Growth* (1972), doomsday books have

become a growth industry. Population watcher Paul Ehrlich surfaces every couple of years or so to warn of the end of the world, apparently unembarrassed that earlier predictions are now viewed as hysteria. President Jimmy Carter's "Report on the Year 2000" was proved wrong before the ink was dry. During seven years of uninterrupted economic growth in the United States, there were predictions of certain recession or depression every other month.

Their dismal record notwithstanding, the doomsayers still get a lot of help from the media. Bad news or the prediction of bad news is news.

In the late 1980s it became fashionable among a growing number of intellectuals to assert that the United States was in decline—as in the decline (and fall) of the Roman Empire.

Much is made of the fact that America's share of world industrial production has dropped from 50 percent in the 1950s to 25 percent today. Following World War II and the devastation of Europe and Japan, the United States was the only major nation with its in-

In This Issue

Crane on Eastern Europe	2
European Monetary System criticized at conference	3
Cato events	4
Cato calendar	5
Carl Hagen on Norway's welfare state	6
Bandow criticizes "the politics of plunder"	8
Cato launches <i>Regulation</i>	9
New Cato staffers	13
Cut payroll taxes	14
Individual service, not national service	14
New York destroys housing	15

John Naisbitt and Patricia Aburdene are the coauthors of the number-one best seller *Megatrends 2000* (William Morrow, 1990), from which this article was excerpted with permission.



Sir Alan Walters (center) talks with Cato president Edward H. Crane and Institute of Economic Affairs president Graham Mather at Cato's eighth annual monetary conference before delivering his first public address since his resignation from Prime Minister Margaret Thatcher's government.

dustrial base intact. The U.S. economy was without rival. Not only was it inevitable that the United States would lose some of that 50 percent share of world production, it was U.S. policy that this should happen.

If you take more appropriate years, such as 1913, just before World War I, 1938, just before World War II, and the mid-1960s, the U.S. share of world manufacturing output was almost exactly what it is today. And that is not counting nonmanufacturing output, in which the United States has had an increasingly large share of market.

In the late 1980s politicians, Wall Streeters, and most of the media became hysterical about the U.S. domestic and trade deficits. These twin monsters would surely bring the world's most powerful economy to its knees, perhaps even lower, if something was not done.

As for the "debt burden" being piled up, Milton Friedman, the Nobel Prize winner in economics, points out that the federal debt at the end of 1988 was

(Cont. on p. 10)

The Revolution in Eastern Europe Is Coming West

President's Message



Events in Eastern Europe during the past year are likely to have a more profound impact on the West than is generally recognized. Yes, there will be less military spending and a reduced threat of war. Yes, there will be more international trade and travel and a new low-cost source of economic growth. But more important than those developments are the political implications of the collapse of Soviet hegemony in the East.

Contrary to a theme commonly sounded by major U.S. media, the revolutions occurring in Eastern Europe are not primarily efforts to gain democracy, as important as that goal is. What the protesters in Poland, Romania, Czechoslovakia, Hungary, and elsewhere are after is freedom from government. Marxism has not been taken seriously in communist countries for two decades (although, as many commentators have noted, it is still a source of inspiration for much of America's academe), so it's not even precise to call the uprisings "anticommunist."

What we are witnessing in the East is a series of *anti-government* revolutions. Certainly East Europeans want to be able to vote—who, having lived in a totalitarian state, would not? But they also want to be free to travel, to speak out, to choose their jobs, to accrue wealth, to practice religion, and to engage in a myriad of other human pursuits without interference from the state. The people of Eastern Europe have suffered dearly at the hands of the utopian planners for whom the state was the means to all ends, if not an end in itself. They know statism, from up close and at its ugliest. They want to be free to choose not just more politicians but the course of their lives.

That is why there is such a strong classical liberal movement in Eastern Europe today. F. A. Hayek and Milton Friedman are two major inspirations for that movement. Czechoslovakia's new finance minister, Vaclav Klaus, is fond of starting statements with "As Hayek has demonstrated..." Or consider this from the new prime minister of Czechoslovakia, Marian Calfa: "We cannot afford to experiment with some kind of as-yet-untried economic system based on a combination of principles whose compatibility has never been proven. We have to accept the market economy."

In planning Cato's September conference in Moscow, we've come across a remarkable number of Russian intellectuals of a classical liberal or libertarian bent, several of whom will be on the program. Our friend Tom Palmer of the Institute for Humane Studies, who recently traveled throughout Eastern Europe, tells of encountering an "incredible" number of young classical liberals. Cato senior

fellow Roger Pilon, just back from a tour of Romania and Poland, reports similar findings.

All of which augurs well for those of us in the West who could do with a lot less government interference in our lives. The collapse of Marxism, the most internally consistent defense of statism, has totally reshaped the world's ideological landscape. Classical liberalism, the ideology based on the Jeffersonian admonition that governments govern best when they govern least, is not only internally consistent but compatible with the real world. It is a tremendous intellectual force that has been growing in energy—often fueled by think tanks such as Cato.

Now classical liberalism has burst onto the scene in the East with a vengeance. Its new opposition, the social democratic movement, has far less ideological purity than the old one, Marxism. The social democrats are just "pick and choose" statist, lame advocates of egalitarianism who baldly favor special interests. Unfortunately for them, they are being called upon to combat classical liberalism just as their model states, Sweden and Norway, are showing signs of collapsing under the weight of the welfare apparatus.

U.S. politics will not be unaffected by the contests between classical liberals and social democrats in other countries. For what the revolutionaries in the East are beginning to ask is, If total statism is horrendous—and we know firsthand that it is—why is it that partial statism is good?

That's a question Americans should start asking as well. Here are some others: The Bush administration may prefer the status quo, but don't we deserve a choice in education—a real choice, not a choice confined to government-run schools? Do we really want the government to be responsible for providing us with retirement income, or would we rather receive a higher income by investing in funds that we controlled? Does giving farmers billions of dollars in federal subsidies do anything other than raise prices and distort production? Should we continue to allow civil liberties to be trampled in a futile "war" against people who trade in certain white powders?

Hasn't it been demonstrated that federal deposit insurance, not deregulation, is the cause of the savings-and-loan crisis? Doesn't welfare create a permanent underclass of government dependents who lack initiative and self-respect?

Civilization is maturing, and it is doing so at precisely the rate at which the counterproductivity of discrete instances of coercive government intervention is recognized. The Founders had it right—the proper role of government is to secure an open, pluralistic society in which individuals are free to pursue life, liberty, and happiness. When governments transcend that limited role, the human condition inevitably declines.

—Edward H. Crane

Walters's First Speech Since Resigning

Let Market Manage Money, Say International Scholars At Cato's Eighth Annual Monetary Conference in London

Money is better managed by the market than by the state, according to many of the participants in the Cato Institute's eighth annual monetary conference, "Global Monetary Order: 1992 and Beyond," held in London. The conference was cosponsored by the Institute of Economic Affairs and directed by James A. Dorn, Cato's vice president for academic affairs.

In his first public address since his resignation from Prime Minister Margaret Thatcher's government, Sir Alan Walters criticized the European Monetary System. So did Patrick Minford of the University of Liverpool, who argued that "the halfway house of fixed-but-adjustable exchange rates" results



Yoshio Suzuki of Nomura Research Institute criticizes monetary policy coordination.

in monetary instability and requires "distortionary controls." Taking an opposing view was Samuel Brittan of the *Financial Times*.

Manuel H. Johnson, vice chairman of the Federal Reserve Board, stressed that price stability should be the key aim of monetary policy and that an increasingly integrated world economy may necessitate policy coordination among leading industrialized nations. However, he noted that the use of financial-market price information to set monetary policy has many advantages over the strict targeting of monetary aggregates.

Jerry L. Jordan, senior vice president of First Interstate Bancorp, called for the easing of reserve requirements and the removal of remaining restrictions on financial institutions' regional and product diversification. Jordan argued that the free flow of savings and capital, the appropriate pricing of risk, and the availability of a wide range of innovative financial services to consumers and businesses are crucial to an efficient, sound, and stable banking system.

Pedro Schwartz, director of Iberagentes, S.A., heralded the development of a single European financial market but said that within that market, competition among national currencies and flexible exchange rates would be preferable to either a central bank or the present EMS.

Allan H. Meltzer of Carnegie Mellon University maintained that as an integrated trading area, Europe "could gain

(Cont. on p. 15)



Pedro Schwartz discusses competitive currencies within Europe as Federal Reserve Board vice chairman Manuel H. Johnson and Cato chairman William A. Niskanen listen.

Published by the Cato Institute, *Cato Policy Report* is a bimonthly review. It is indexed in *PAIS Bulletin*.

Correspondence should be addressed to: *Cato Policy Report*, 224 Second Street S.E., Washington, D.C. 20003. *Cato Policy Report* is sent to all contributors to the Cato Institute. Single issues are \$2.00 a copy. ISSN: 0743-605X Copyright ©1990 by the Cato Institute

David Boaz Editor
David Lampo Managing Editor
Morris Barrett Assistant Editor

Cato Institute

William A. Niskanen Chairman
Edward H. Crane President and CEO
David Boaz Executive Vice President

James A. Dorn Vice President, Academic Affairs
Catherine S. Smith V.P., Development and Public Affairs
James Bovard Associate Policy Analyst
Ted Galen Carpenter Director, Foreign Policy Studies
Kristina Crane Director, Administration
Catherine England Director, Regulatory Studies
David Lampo Publications Director
Sandra H. McCluskey Director of Public Affairs

James M. Buchanan Distinguished Senior Fellow
F. A. Hayek Distinguished Senior Fellow
Doug Bandow Senior Fellow
Peter J. Ferrara Senior Fellow
Roger Pilon Senior Fellow
Earl C. Ravenal Senior Fellow

Siegan Criticizes Majoritarianism

Scholars Discuss Schools, Mail, Art, and the IRS

Cato Events

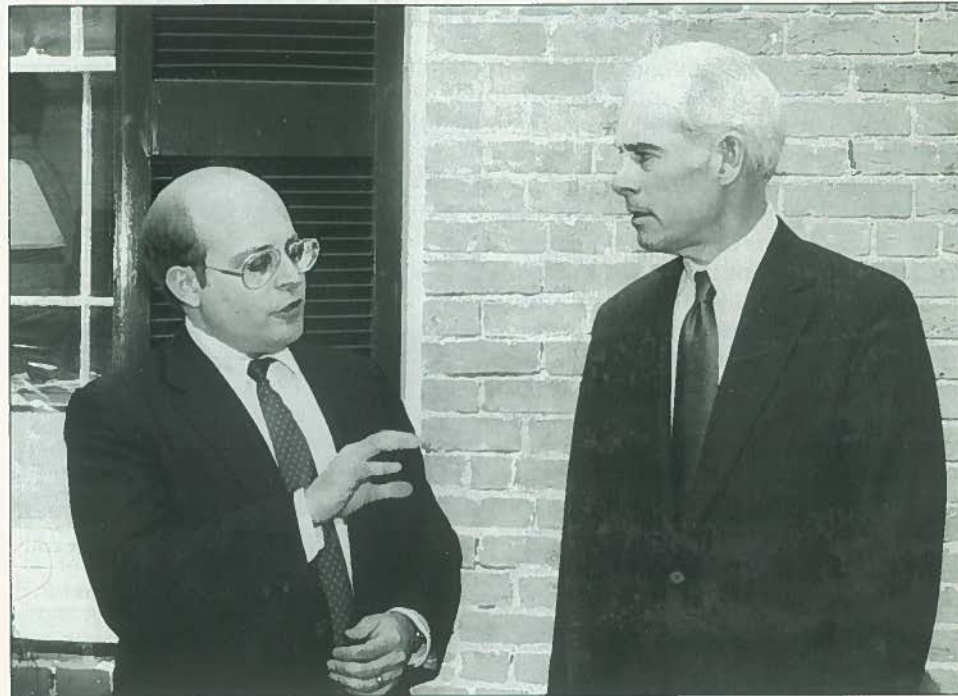
February 1: "Lessons on the Legislative Process." At a forum hosted by Cato's Center for Constitutional Studies, Rep. Tom Campbell (R-Calif.) discussed how the public choice model of legislative behavior has been confirmed by his experience as a first-term member of Congress. Drawing on examples ranging from the savings-and-loan bailout bill to proposals to close military bases and antitrust and environmental issues, Campbell argued that the legislative process prevents the common good from prevailing over special interests and makes eliminating an existing benefit harder than preventing a new benefit from being adopted.

February 2: Luncheon for East European interns. Joined by Cato staff members, visiting East European students discussed what insights they could obtain in Washington and take back to their respective countries. Cato executive vice president David Boaz encouraged them to consider the importance of free markets, constitutionalism, and individual rights. Cato president Edward H. Crane observed that the problem of too much government is shared by East Europeans and Americans alike.

February 13: Party for *Regulation* magazine. Several hundred policymakers, journalists, academics, and Cato supporters gathered at the U.S. Botanic Gardens to celebrate the publication of the Institute's inaugural issue of *Regulation* magazine.



Television cameras record James C. Miller III's call for competition in mail delivery.



Peter J. Ferrara discusses social security reform with Rep. John E. Porter.

February 14: "Israeli Economic Reform: A First Annual Report." Alvin Rabushka, the author of *Scorecard on the Israeli Economy: A Review of 1989* and a senior fellow at the Hoover Institution, charged that the Israeli government has made few economic improvements. The worldwide repudiation of socialism hasn't reached Israel, Rabushka reported. The one area in which Israel has made dramatic progress, he noted, is privatizing state-owned enterprises.

February 20: "The Power to Destroy." David Burnham, the author of *A Law unto Itself: Power, Politics, and the IRS*, warned that Congress, the press, and the courts must do a better job of monitoring the actions of the Internal Revenue Service. The IRS is five times as large as the FBI, Burnham noted, and it wants to expand. Every American president has used the IRS for political purposes, Burnham charged, and businesspeople routinely buy favors from the IRS—"tax reforms" that benefit them.

February 21: "Constitutional Protections against the Tyranny of the Majority." Bernard Siegan, Distinguished Professor of Law at the University of

San Diego, argued that legislative majorities may do only what is explicitly authorized by the Constitution. Led by Judge Robert Bork, many conservatives have maintained that majorities may do anything that is not proscribed by the Constitution through the enumeration of individual rights. That view, Siegan asserted, is inconsistent with the original design of the Constitution, the history and purpose of the Bill of Rights—especially as reflected in the unenumerated rights of the Ninth Amendment—and the history and purpose of the Fourteenth Amendment, all of which restrain majorities in the name of individual liberty.

February 28: Luncheon for *Regulation* magazine sponsored by Charles M. Seeger III of the Chicago Mercantile Exchange. Cato chairman William A. Niskanen discussed Cato's inaugural issue of *Regulation*, which focuses on the Clean Air Act.

March 6: "The Future of the Postal Service: Continued Rate Increases or Competition?" James C. Miller III, chairman of Citizens for a Sound Economy and former director of the Office

of Management and Budget, advocated repealing the private express statutes, which give the Postal Service a monopoly over the delivery of first- and third-class mail. Miller's speech was covered by NBC, CNN, Biznet, and Gillette News Service. Miller is a contributor to *Free the Mail: Ending the Postal Monopoly*, which Cato published on the date of the rate-hike request.

March 7: "Education: Are We Spending Too Little—or Too Much?" John Hood, the author of a recent Cato study, argued that although the conventional wisdom is that educational reform requires more spending, it actually requires structural changes, such as allowing parents to choose their children's schools and reforming the teacher certification process. M. Edith Rasell of the Economic Policy Institute countered that as a percentage of the gross national product, the U.S. expenditure on education from kindergarten through grade 12 is less than that of most other industrialized countries.

March 14: "An Alternative to the Social Security Surplus Myth: Real Savings." Rep. John Porter (R-Ill.) discussed his proposal to create mandatory individual retirement accounts for all Americans, using funds from the social security reserves. Crediting Cato senior fellow Peter J. Ferrara with the idea, Porter argued that Americans could save twice as much for their retirement if their money was invested in private-sector IRAs. He contended that the private savings created would stimulate the economy and decrease Americans' reliance on foreign capital.

March 20: "Do Governments Cause Homelessness?" William Tucker, an award-winning journalist and the author of *The Excluded Americans: Homelessness and Housing Policies*, recently published by Cato, argued that rent control and exclusionary zoning are the primary causes of homelessness in America. Contrary to the conventional wisdom, federal housing assistance increased considerably during the 1980s, Tucker pointed out. Housing is one of the most regulated industries in America, he asserted; if the free market were allowed to function, there would be no problem of housing availability.

March 22: "The Drafting of New Constitutions in Hungary, Poland, and the Soviet Union." Gabor Hamza, director of the Department of Roman Law at Eotvos Lorand University in Budapest and a visiting professor at the Cardozo School of Law in New York, discussed both the history of constitutionalism in Eastern Europe and the constitutional changes under discussion there now. Because fundamental clauses concerning "the leading role of the party" have been eliminated from a number of East European constitutions, it is an open question whether those documents have been suspended. In all the countries of Eastern Europe, however, issues involving the separation of powers, judicial review, confederation and independence, and human rights are colored by the problem of legitimacy, which is especially acute where the Communist party still dominates the political process and the institutions of civil society.

March 27: "Would More Immigration Be Good for America?" At a forum for congressional staffers held in the Rayburn House Office Building, Julian L. Simon, an adjunct scholar at the Cato Institute and the author of *The Economic Consequences of Immigration*, argued

that every new immigrant strengthens the U.S. economy. He advocated increasing immigration by at least 1 million a year. Commenters were Rep. William Lipinski (D-Ill.), who has introduced a bill that would expand immigration, and Rep. Lamar Smith (R-Tex.), who argued that immigrants tend to be low-skilled, undereducated, and a drain on social services.

March 28: "Art and the Public's Money." William D. Grampp, a visiting professor of social sciences at the University of Chicago and the author of *Pricing the Priceless*, asserted that the history of government subsidization of the arts undermines the case for such subsidies. The arts community could and should support itself, he concluded.

March 29: "Is Gorbachev a Democratic Revolutionary?" Cato adjunct scholar Stanley Kober contended that Mikhail Gorbachev aims to transform the Soviet Union into a democracy that respects competitive enterprise and the sovereignty of the individual. John Lenczowski of the Council for Inter-American Security argued that there had been more decentralization and *glasnost* during the Khrushchev era. ■

CATO INSTITUTE CALENDAR

Western Trading Blocs: Threat or Opportunity for Asia/Pacific?

Cosponsored with Centre for International Economics

Grand Hyatt Hotel • Washington • June 20, 1990

Speakers will include Andy Stoeckel, Gary Saxonhouse, and Gary Hufbauer.

The U.S.—South Korean Alliance: Time for a Change

Capital Hilton Hotel • Washington • June 21, 1990

Speakers will include Sen. Timothy Wirth, Selig Harrison, Doug Bandow, Edward Olsen, Stephen Goose, A. James Gregor, William Taylor, Kim Changsu, and Dae-Sook Suh.

Twelfth Annual Summer Seminar in Political Economy

Dartmouth College • Hanover, N.H. • June 30—July 7, 1990

Dominican College • San Rafael, Calif. • July 14—21, 1990

Speakers will include Charles Murray, Ralph Raico, George Smith, David Kelley, Paul Weaver, Mario J. Rizzo, Fred L. Smith, Jr., Earl Ravenal, and Edward H. Crane.

Transition to Freedom: The New Soviet Challenge

Cosponsored with Academy of People's Economy, Academy of Sciences of the USSR, Central Economic-Mathematical Institute, and Moscow State University

Moscow • September 10—14, 1990

Speakers will include Leonid Abalkin, Nicolai Shmelov, Fyodor Burlatsky, Abel Aganbegyan, George Gilder, Roger Pilon, Paul Craig Roberts, Peter Bauer, Charles Murray, Earl Ravenal, Ted Galen Carpenter, and James M. Buchanan.

Is the Scandinavian Welfare State a Model for Eastern Europe?

Policy Forum

The Cato Institute regularly sponsors a Policy Forum at its Washington headquarters, where distinguished scholars and policymakers present their views to an audience drawn from government, the media, and the public policy community. A recent forum featured Carl I. Hagen, the leader of Norway's Progress party.

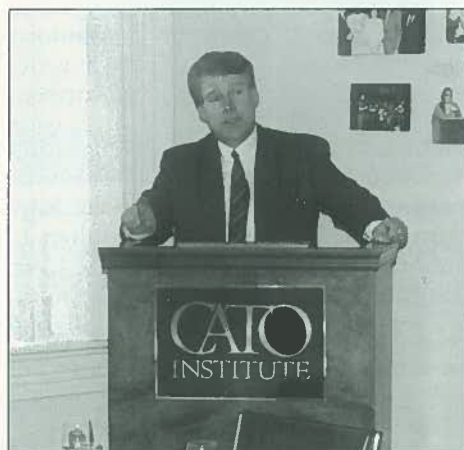
Carl I. Hagen: As communism is dismantled in Eastern Europe, social democrats all over the world are urging the new regimes in the region to adopt a Scandinavian welfare-state model, not a pure free-market system. Having spent most of my life in such a "utopia"—"the most perfect of all systems," Norwegian social democrats love to call it—I want to warn the East Europeans not to heed that siren song.

The most obvious failings of the welfare state are that it is too expensive and has not produced the results it was intended to produce. But a closer look reveals that the welfare state has begun to destroy the work ethic and a sense of personal responsibility, on which every society depends in the long run. It has already distorted people's understanding of some basic concepts, the most important of which is the connection between production and consumption—between performance and rewards.

The attitude embodied in the Marxist dictum "From each according to his abilities, to each according to his needs"—which is nothing other than that one has a right to other people's property or production but not one's own—still dominates the philosophical and political scene in Scandinavia. The definition of so-called welfare rights—that is, of what people are "entitled to," regardless of their efforts—has been expanded constantly. Years ago most Scandinavians believed that what the state should provide was enough food, shelter, and clothing to allow people to get by. Later it was a larger flat and a

television set, and this year it is a color TV, a videocassette recorder, and a vacation abroad. What will it be next year?

The intellectual basis of that development is the determinism of the left. If the individual is not responsible for raising his own standard of living, it is unfair for one person to have more than another. If society, upbringing, or class determines one's station in life and wealth can be attributed to luck or exploitation, there is no reason that the tax system should not be used to soak the rich and extend "compassion" to



Carl I. Hagen: "The Scandinavian welfare state has little to offer either East or West."

not only the poor but also the middle class. Such thinking is common among the intellectuals in Scandinavia but less so among the voters at large.

Many Scandinavians believe that wealth should be a function of ability and hard work yet also believe that it is right for the government to claim the responsibility of providing welfare programs for the poor. I would like to see the state's role confined to providing a minimum safety net for the really weak. Moreover, that safety net should not be so generous that it takes away their motivation to get off welfare and improve their lives.

During the election campaign last fall I questioned the fairness of the government's supporting single parents. Why, I asked, should the state guarantee that an individual's choices have no

adverse consequences? Why should it reward irresponsibility? Never have I received so much abuse! Many people thought that I had turned into some sort of "moral majority" crusader. They missed the point. I do not want to interfere with anyone's personal life, nor do I consider single parenthood intrinsically immoral. However, I believe that people should take responsibility for their actions.

In his remarkable book *Losing Ground*, Charles Murray concludes that the American welfare system has made it more lucrative to be a nonworking single parent than to be a married worker and thus has been instrumental in breaking up families. The Norwegian welfare system is having the same effects. I advocate a strong family structure because I believe that the individual is not strong enough to protect himself from the state. Such protection requires a lot of voluntary associations, both inside and outside the market. The family is such an association.

Scandinavians' attitudes toward social benefits have changed considerably over the past few decades. The architects of the welfare state wanted to remove the social stigma of being on welfare, which is one of the reasons that it has been transformed from a safety net for the truly needy to a universal system. Now that everyone is viewed as a welfare-state client, being on welfare is not considered shameful. Perhaps it should be, not because we should be unfeeling but because it is other people's money that the state is giving away. More important, in the long run welfare is not in the interest of the recipients. They become trapped and lack incentives to escape—as most of them could, and thereby improve their lives.

The government's decision to provide financial security to all citizens, not only the poorest and the weakest, has made the Scandinavian welfare state far more expensive and obscured its effects. Although redistributing wealth to the poor is the main objective of the tax system, one of the results is what public choice economist

Gordon Tullock called "welfare for the well-to-do." It may be that the net short-term effect of the government's welfare programs is to benefit the middle class, not the poor, the disabled, or the elderly, but the net long-term effect is to make everyone a loser.

Besides making it easier to rely on other people's efforts, the tax system has made it harder and less attractive to be self-sufficient. Taxes now account for more than 50 percent of Norway's gross national product (excluding oil revenue). The most damaging aspect of the Norwegian tax system is a high marginal tax on middle incomes. The top rate, 59.3 percent, is applicable to incomes above 205,000 kroner (about \$32,000). Likewise, many Swedish families cannot live decently on their after-tax incomes. The tax system has been pushing middle-class Scandinavians into the welfare queues.

So what have we achieved by imposing high taxes on ordinary levels of income and providing extensive social benefits? What have we achieved by ridiculing such traditional values as self-sufficiency, thrift, and hard work and brainwashing people into believing that they are entitled to welfare? The answer, of course, is less employment, less production, and more welfare recipients.

A particularly disturbing result of the welfare state is the destruction of the individual's personal, direct, and voluntary responsibility for the less fortunate. When people get sick or grow old, their children are paid by the state to take care of them. Indeed, most sick or elderly people prefer having the state take care of them to "burdening" their families. The "compassionate" welfare state is in fact destroying compassion by socializing it. People are beginning to refrain from helping the less fortunate unless they are paid to do so.

Although direct welfare payments are perhaps the most damaging aspect of the welfare state, the largest amounts of money are spent on entitlements, such as health care and pensions. Some people think that Norway spends too little on health care; it spends less than 7 percent of GNP, compared with a U.S. expenditure of more than 11 percent. The problem is that almost all of the money is spent on health-care providers in the public sector. As a result,

there are long waiting lists not only for those who need minor operations and treatments but also for those who have life-threatening illnesses.

Moreover, although the health-care expenditure has grown tremendously during the past few years (as in most other Western countries), a large percentage of the money has been used to improve the working conditions of the employees, not to secure more and better treatment for the patients. That situation, of course, is typical of a public-sector enterprise without competition—the customer is of little importance.

The Progress party wants to shake up the health-care establishment by adopting a voucher system that resembles America's Medicare prospective



Edward H. Crane welcomes Carl I. Hagen to a Cato luncheon.

payment system and letting hospitals, public and private alike, compete for customers. Government financing would still be available for most health services. That might not seem like a radical free-market idea in the United States, but believe me, it is in Norway! I'm sure you are familiar with the problems posed by Norway's pension system. Like America's social security, it is a pay-as-you-go system. The composition of the Norwegian population is changing rapidly, so there will be far more pensioners and fewer workers to support them. On top of that, considerable supplementary-benefit obligations are being built up, but no money is being set aside.

The only real solution is to adopt a fully funded system, but that would be politically impossible in the short run—

today's workers would have to pay for both their own pensions and those of today's pensioners. The Progress party has therefore proposed to phase in a system under which a minimum pension for all workers would be financed by the state, but any extra benefits would be provided by private (and hence fully funded) pension funds.

We made that proposal during the election campaign last fall, and we probably lost several percentage points as a result. Bravery is a dangerous thing in politics, and many of the voters didn't appreciate our telling them the truth about the coming social security crisis. Looking back, I have mixed feelings. It is never nice to lose votes, but the issue had to be confronted. Lately various experts and the popular media have been saying that a system involving private pension funds should take over some of the government's responsibilities, which is basically what we were saying last fall.

If the Scandinavian welfare state is a failure, why hasn't it been dismantled? Let me first say that Norwegian voters are beginning to demand an alternative, as evidenced by the growth of the Progress party's mandate over the past three years—from 3–4 percent of the vote to 12–15 percent—and the decline of both the Labor party and the Conservative party. One of the reasons the Norwegian welfare state has survived is that the establishment has backed it so strongly. An overwhelming majority of the intellectuals in Norway are socialists; many of them are outright Marxists.

Norway doesn't have a strong free-market intellectual tradition like that of the United States. The conservatives in Norway have always been very "wet," to use a British term, and had always been on the defensive, accepting and adopting most of the socialists' basic positions. However, last year Norway's chief social democratic think tank published a report concluding that the left was on the defensive and that dissatisfaction with the welfare state was spreading.

Another reason the Norwegian welfare state has survived is the windfall tax revenue from North Sea oil and gas, which constitutes 10 percent of Norway's revenues. It has enabled the government to pay for a growing wel-

Eastern Europe (Cont. from p. 7)

fare system without increasing taxes. If Norwegians had been forced to pay for all the social benefits out of their own pockets, they probably would have become disenchanted with the welfare state much earlier.

I must also stress that the welfare state is a kind of time bomb. As the population ages and Norwegians demand still more services, the health-care and pension systems will undergo some real crises. Moreover, the consequences of destroying the individual's incentives to be self-sufficient have yet to be fully felt. I believe that the failings of the welfare state will become even more apparent over the next few years and that there will be opportunities for real reform. We might soon see the turn of the tide.

An important lesson, especially for the new regimes in Eastern Europe, is that a strong productive sector is needed to support a large welfare state. Consider the case of Sweden. Prewelfare Sweden was one of the world's richest societies. At first the Swedish government managed to keep the economy

going while expanding the welfare state. But in the 1970s and the 1980s Sweden experienced some of the lowest economic growth rates in the Western world—not because its industries were inefficient but because they were not strong enough to bear the heavy burden of financing the welfare state. Norwegians would have been even worse off without the oil revenue.

My advice to East Europeans is therefore to keep welfare benefits to a minimum and provide a safety net for only the truly needy. After you have built productive economies, you can consider redistributing wealth. It would still be a bad idea, but at least it wouldn't bankrupt your societies.

My advice to Westerners is to take a closer look at the Scandinavian model. We Scandinavians are growing disillusioned with the welfare state and ceasing to believe that it can deliver what was promised. The moral hazard of the system—its encouragement of unproductive and antisocial behavior—is becoming evident to us. The Scandinavian welfare state has little to offer either East or West. Neither should adopt a model that we have begun to reject. ■

Quayle's JTPA Wastes Billions

The Job Training Partnership Act is "squandering billions of dollars, subverting youths' understanding of the work ethic, and providing contractors with a license to steal," according to a new study from the Cato Institute.

Cato associate policy analyst James Bovard argues that since 1982, when the legislation that then-senator Dan Quayle had introduced to replace the discredited Comprehensive Employment and Training Act was enacted, JTPA has become "another federal job training program . . . spiraling out of control" and "a blatant corporate welfare program through which businesses are lavishly paid to follow their self-interest."

Although JTPA was created to help the disadvantaged acquire training and find jobs, "the Labor Department's inspector general found that 60 percent of the businesses surveyed would have hired the JTPA clients that they had

trained even without [JTPA training] subsidies."

Moreover, Bovard charges, program administrators all over the nation "have been using JTPA money to bribe manufacturers to lay off workers and move."

Bovard also argues that JTPA's youth employment programs "are squandering almost \$1 billion a year and instilling poor work habits in a generation of young people."

Because there is little hope that the federal government "will somehow acquire the ability to design and manage cost-effective, beneficial training programs," Bovard asserts, "the rational solution is to abolish JTPA" and rely on the private sector, which spends over \$200 billion a year on training.

"JTPA: Another Federal Training Fraud" is no. 131 in the Cato Institute's Policy Analysis series and is available for \$2.00. ■

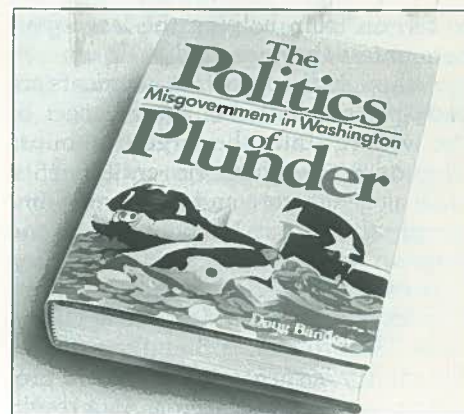
Cato Book Rips Misgovernment In Washington

In *The Politics of Plunder: Misgovernment in Washington*, a collection of 191 columns and essays, Cato senior fellow Doug Bandow maintains that there is no more important question than whether "the statist and collectivist waves have truly ebbed."

Although the United States has never suffered from the kind of totalitarian rule that has characterized the communist world, "America's increased reliance on politics as the solution to every problem and alleged problem has turned envy into policy, stripped individuals and communities of their traditional social responsibilities, destroyed economic opportunities for the disadvantaged, promoted unjust foreign intervention, and undermined private moral and spiritual values."

As a result, the political process itself has become corrupt; Bandow speaks of an "interest group heaven" in which virtually everyone attempts to enrich himself at the expense of others. He goes on to examine the operations of the federal government, which he calls a "sugar daddy" and a "malicious meddler." He cites agricultural policy as a particularly odious example of federal intervention but adds that "federal interference in the fields of energy, environment, international trade, and economic affairs has proved equally disastrous."

Although the judiciary was intended to serve as a bulwark of liberty, Bandow



argues, in recent decades it has joined forces with those seeking to expand the government's power. Moreover, Bandow, who is a lawyer, notes, "the legal game, like the political game, is also rigged, a monopoly controlled by the providers that stifles competition, hikes costs, and abrogates freedom of choice."

In the social arena, Bandow observes, the words "I'm from the government, and I'm here to help you" take on a special meaning. The rhetoric of social justice has been used as a rationale for policies that create unemployment, reduce access to health care, undermine education, and restrict individual rights.

Unfortunately, Bandow finds, America deserves no higher marks for its actions overseas. "U.S. foreign policy represents domestic policymaking writ large: bipartisan corruption, deleterious intervention, and endless subsidies." Billions of dollars in "foreign aid" have done more to hinder Third World development than to promote it.

"The age of politics is drawing to a close," but only because "statism has failed . . . in so many ways," Bandow maintains. And although the intellectual foundation of collectivism has collapsed, the ruling elites of the United States and the rest of the world "are not yet prepared to yield power voluntarily."

Whereas "the first nine decades of this century have been devoted to the rise and fall of collectivist ideologies, the final one is likely to involve the fight to bring political systems around the globe into conformity with the new, freer intellectual paradigm," Bandow concludes.

Martin Anderson, who was President Reagan's top assistant for domestic policy, called Bandow's book "a brilliant, wide-ranging collection of essays on liberty."

Bandow is the author or editor of several other books, including *Beyond Good Intentions: A Biblical View of Politics* and *U.S. Aid to the Developing World: A Free Market Agenda*. A nationally syndicated columnist for Copley News Service, he served as a special assistant to President Reagan and as the editor of *Inquiry* magazine.

A clothbound edition of *The Politics of Plunder*, published by Transaction Books, is available from Cato for \$34.95. ■

Cato Unveils Regulation at Botanic Gardens Reception



Regulation magazine editors Leigh Tripoli and Catherine England welcome White House counsel C. Boyden Gray to a reception launching Cato's publication of *Regulation*.



Interstate Commerce Commission counsel Jule R. Herbert, Jr., talks with Rep. Willis Gradison at the *Regulation* reception.



Anne E. Brunsdale, chairman of the International Trade Commission, discusses *Regulation* with Marvin Kusters of the American Enterprise Institute.



Cato chairman William A. Niskanen, editor of *Regulation*, welcomes guests.

The 1990s (Cont. from p. 1)

a smaller percentage of national income than in any year from the end of World War II to 1960 and that 1945–60 was a great boom period for the United States.

Perversely, the hysteria over the budget deficit has served a good purpose: it has scared lawmakers out of spending more. The history of raising taxes in the United States is that for every new \$1 raised, \$1.50 is spent by Congress. America's democracy is not the sort where tax hikes really cut deficits.

Although anguish about the "enormous" U.S. trade deficit abounds, if all the numbers are tallied the United States has no deficit with Japan or the rest of the world.

The world is moving from trade among countries to a single economy. The new global economy cannot be understood if it is thought to be merely more and more trade among 160 countries.

In the global economy, economic considerations almost always transcend political considerations. Presidents, prime ministers, and parliaments are less and less important.

For a global economy—one marketplace—to work, we must eventually have completely free trade among nations, just as we do within the nation-states themselves. No one knows what the imbalance of trade is between Frankfurt and Düsseldorf, between Tokyo and Osaka, between Denver and Dallas; nor will we—in time—between the United States and Japan.

The big, powerful, overarching megatrend is toward worldwide free trade, underneath which we witness the much weaker countertrends of protectionism.

The movement toward global free trade is being driven by an alliance between telecommunications and economics that permits you to deal with a business associate in a Tokyo office from a mountain perch in Colorado as if you were across a table, sharing conversation and documents. Telecommunications—and computers—will continue to drive change, just as manufacturing did during the industrial period.

The global boom of the 1990s will be free of the limits on growth we have known in the past. There will be an abundance of natural resources through-

out the 1990s, from agricultural products and raw materials to oil. Everything that comes out of the ground will be in oversupply for the balance of this century, and probably much longer. Since the mid-1980s there has been more than enough food to feed the world's population; hunger persists because of political and distribution problems. Furthermore, we are poised on the edge of another green revolution, through biotechnology.

What the *Financial Times* of London calls a "tax reform revolution"—the growing worldwide competition to lower taxes—will also help expand the global economy of the 1990s.

In the global economic boom of the 1990s, human resources will be the competitive edge for both companies

"The world is undergoing a profound shift from economies run by governments to economies run by markets."

and countries. In this regard, no country is better positioned than the United States. The United States has the richest mix of ethnic groups, racial groups, and global experience that the world has ever known, and it is the richness of this mix that yields America's incredible creativity and innovation.

2. A Renaissance in the Arts

In the final years before the millennium there will be a fundamental and revolutionary shift in leisure-time and spending priorities. During the 1990s the arts will gradually replace sports as society's primary leisure activity. This extraordinary megatrend is already visible in an explosion in the visual and performing arts.

Even cuts in federal arts funding, painful by most accounts, have had a paradoxically strengthening effect—pressing corporations into service and forcing arts organizations to become more sophisticated about marketing

and generating new revenue sources. The result: a stronger arts community, freer to set its own agenda, more independent of government and even foundation funding.

3. The Emergence of Free-Market Socialism

When we look back from the year 2010 or 2020, it will be plain that socialism, facing almost certain death, was radically transformed on the doorstep of the 21st century.

Though it at first seems to be a contradiction in terms, an oxymoron, free-market socialism is the transitional phase for socialist countries as they enter the 21st century. The world is undergoing a profound shift from economies run by governments to economies run by markets.

A leading reform theorist at Poland's State School of Planning has gone so far as to say, "The dream of an economic system better than capitalism is dead. There is no third way, no model between Stalinism and capitalism that works well. The only reasons to stop short of returning to capitalism are pragmatic—and political."

Eastern Europe is heading in three directions: political pluralism, free-market economics, and, in the longer term, integration with Western Europe.

In Stockholm on June 22, 1989, the Socialist International, at its 100th anniversary meeting, embraced the market economy and rejected nationalization of industry. Voting for this major revision of its basic principles were representatives of 80 left-wing and social democratic parties from around the world.

4. Global Lifestyles and Cultural Nationalism

Today—thanks to a thriving world economy, global telecommunications, and expanding travel—exchange among Europe, North America, and the Pacific Rim is happening at an unparalleled pace. The media deliver the same images throughout the global village. Every day 3 million people fly from one place on the planet to another.

In the urban centers of the developing world, signs of the international youth culture are almost everywhere. So enthusiastically are we swapping food, music, and fashion that a new

universal lifestyle reigns in Osaka, Madrid, and Seattle. In the nonthreatening arena of cuisine, we are attending an international bazaar of unprecedented abundance.

But there are unmistakable signs of a powerful countertrend: a backlash against uniformity, a desire to assert the uniqueness of one's culture and language, a repudiation of foreign influence.

The most important factor accelerating the development of a single global lifestyle is the proliferation of the English language. Language is a great agent of homogenization; it is the frequency on which culture is transmitted. If English is gaining a lock on global language, the cultures of English-speaking countries will dominate.

English is the world's most taught language. English is the language of the information age; more than 80 percent of the information stored in the more than 100 million computers around the world is in English. English is the language of international business. English serves as a common tongue in countries where people speak many different languages.

"The emerging global culture is not all T-shirts and fast foods, thank God," writes Walter Truett Anderson, the author of *Rethinking Liberalism*. "It is also a widening acceptance of principles of human rights. Such principles are becoming global norms, fragile ones to be sure, often honored in rhetoric and brutalized in practice, but nonetheless understandable statements of what peoples all over the world can demand for themselves and can expect to be demanded of them by others."

5. The Privatization of the Welfare State

Few leaders in history may be said to have changed their country's basic direction. Margaret Thatcher is one. She reversed the movement toward socialism in the United Kingdom. She alone believed that, as Peter Jenkins puts it, what had seemed the march of history could be halted or reversed.

Between 1980 and 1988 more than 40 percent of Britain's state sector was transformed into private enterprises. For this reason alone Britain must be considered the primary model in the global shift from the welfare state to

privatization.

At a Labor party conference a resolution to nationalize everything that had been, or would be, privatized by the Tories was defeated by nearly 2 to 1. During the flotation of British Telecom stock, the trade union movement urged British Telecom workers not to buy shares. But 96 percent did.

Globally, the key to transforming socialism and the welfare state is the same approach that succeeded in Britain: privatization of state enterprises and private stock ownership.

Some 100 other countries—from Chile to Turkey and from Brazil to Bangladesh—have also begun the process of rolling back the frontiers of state. From Italy to Tanzania, governments are selling enterprises to private owners. Some

"Welfare statism is being reconceptualized everywhere. The basic shift is from central government to individual empowerment."

do it for policy reasons; others, just to raise money.

After gaining independence from European colonial powers, African countries usually nationalized companies or created unwieldy state-owned companies. Today those trends are being reversed. Nationalization is no longer fashionable; the new buzzword is "privatization." In the 1980s an estimated 5 percent of Africa's state-owned companies were privatized. As experience in privatization grows and success stories spread, more African countries will embrace experiments in reversing nationalization.

In the United States there is increasing talk of privatizing the Postal Service and the social security system, or at least opening the doors to private-sector alternatives. A leading advocate of a private social security system is Peter Ferrara, who was a member of

the White House Office of Policy Development during President Reagan's first term and now writes on social security issues for the Cato Institute. IRAs, life insurance, disability insurance, health insurance, and other vehicles perform the same function as social security benefits. "Why can't workers be allowed to choose among these private-sector alternatives?" asks Ferrara.

Led by Thatcher, positioning herself in the path of a confluence of shifting values, 20th-century welfare statism is being reconceptualized everywhere. The basic shift is from central government to individual empowerment—

- from public housing to home ownership,
- from a national health service to private options,
- from government regulation to market mechanisms,
- from welfare to workfare,
- from collectivism to individualism,
- from government monopolies to competitive enterprises,
- from state industries to privatized companies and employee ownership,
- from government social security plans to private insurance and investment,
- from tax burdens to tax reductions.

The process of working out what will replace the welfare state—working out what the postwelfare state will look like—will surely continue for the decade left in this century.

6. The Rise of the Pacific Rim

The Pacific Rim is emerging like a dynamic young America, but on a much grander scale. It is undergoing the fastest economic expansion in history, growing at five times the growth rate during the Industrial Revolution. The new millennium will see the world's production roughly divided into four quarters: the Pacific Rim, Europe, the United States, and the rest of the world.

America's West Coast states constitute a major part of the Pacific Rim region, are well positioned to capitalize on the Century of the Pacific, and will play a pivotal role in its development. Asian immigration into California generates new vitality and creates important links across the Pacific. "It is fashionable to describe Los Angeles International Airport as the Ellis Island of the 1980s," writes Tom Brown in the

The 1990s (Cont. from p. 11)

Seattle Times. "At least 84 languages are spoken by children in L.A. public schools."

7. The 1990s: The Decade of Women in Leadership

The 1990s will be the most challenging decade the business community has ever confronted. To the chagrin of the doomsayers, however, it will be American business that meets these challenges—with new leadership that will revitalize business and inspire global competitors, much as Japanese management did in the 1970s. To a great extent that leadership will come from women.

For the last two decades U.S. women have taken two-thirds of the millions of new jobs created in the information era, and they will continue to do so well into the millennium. Women are starting new businesses twice as fast as men. In Canada one-third of the small businesses are owned by women.

To be a leader in business today, it is no longer an advantage to have been socialized as a male. Although we do not fully realize it yet, men and women are on an equal playing field in corporate America. Women may even hold a slight advantage, since they need not "unlearn" old authoritarian behavior to run their departments or companies.

The dominant principle of organization has shifted from management in order to control an enterprise to leadership in order to bring out the best in people and quickly respond to change. Outside the military management model, men and women are equally capable of inspiring commitment and bringing out the best in people. A corporation is a voluntary organization. Military management can command authority; business leadership must win loyalty, achieve commitment, and earn respect.

Women and the information society—which celebrates brain over brawn—are a partnership made in heaven. Wherever the information revolution has spread, women have flocked into the workforce.

In the first decades of the third millennium we and our children will look back at the latter half of the 20th century and remark on how quaint were

the days when women were excluded from the top echelons of business and political leadership, much as we today recall when women could not vote. How naive were the men and women of the 1980s, we will say, those people who believed in something called a "glass ceiling" and thought it would forever exclude women from the top.

8. The Age of Biology

We are shifting from the models and metaphors of physics to the models and metaphors of biology. Physics furnished the metaphors and models for the mechanistic industrial age. Physics as metaphor suggests energy-intensive, linear, macro, mechanistic, deterministic, outer-directed. Today, however, we are in the process of creating a society

"The great unifying theme at the conclusion of the 20th century is the triumph of the individual, which signals the demise of the collective."

that is an elaborate array of information feedback systems, the very structure of the biological organism. Biology as metaphor suggests information-intensive, micro, inner-directed, adaptive, holistic. The age of information will also be the age of biology.

9. The Religious Revival of the Third Millennium

At the dawn of the third millennium there are unmistakable signs of a multidominational religious revival. Religious belief is intensifying worldwide under the gravitational pull of the year 2000.

Science and technology do not tell us what life means. We learn that through literature, the arts, and spirituality.

Mainline churches fare well in stable eras but decline in times of great

change. One reason large mainline churches have lost so many members since the mid-1960s is that small, independent churches can adapt their services to the needs of churchgoers—can remain closer to the "consumer."

The dawn of this new epoch in history, this return to faith, is a sign that we are prepared to embrace both sides of human nature. If the zeal of both religious fundamentalism and the New Age movement is at times extreme, perhaps they can be interpreted as part of a larger overall process that is very positive—the refusal to define life only in terms of science and technology.

10. The Triumph of the Individual

The great unifying theme at the conclusion of the 20th century is the triumph of the individual. The 1990s are characterized by a new respect for the individual as the foundation of society and the basic unit of change. "Mass" movements is a misnomer. The first principle of the New Age movement is the doctrine of individual responsibility.

This new era of the individual is happening simultaneously with the new era of globalization. As we globalize, individuals, paradoxically, become more important, more powerful. This change is reflected in the media. In this, the age of global television—2 to 3 billion people watched the Olympic Games in Seoul—individuals, through audio- and videocassette technology, can customize their own entertainment and cultural nourishment. Both enhance the individual's power.

The triumph of the individual signals the demise of the collective. Even communists are convinced that only the individual creates wealth. President Mikhail Gorbachev has said that what was required for the Soviet Union was a new "individual-based socialism." Unions concede that people must be rewarded for their individual efforts.

Within all collective structures—organized religions, unions, the Communist party, big business, political parties, cities, governments—there is the possibility of hiding from one's individual responsibility. At the level of the individual, that possibility does not exist.

Yet it does not mean that the individual is condemned to face the world

alone. Stripped down to the individual, one can build community, the free association of individuals. In community, there is no place to hide either. Everyone knows who is contributing, who is not. Individuals seek community; avoiders of responsibility too often hide in the collective.

The labor union philosophy of treating everyone exactly the same is completely out of sync with today's sentiment that individual differences, especially those reflecting contributions to enterprise, must be noted and rewarded.

Technology did not work out the way George Orwell and Aldous Huxley feared. Global television and videocassettes instead have curbed the power of dictators. There are fewer dictators on the planet today because dictators can no longer control information. With individuals' power extended by the computer, citizens can keep tabs on governments a lot more efficiently than governments can keep tabs on people.

Linked by telephones, fax machines, Federal Express, and computers, a new breed of information worker is reorganizing the landscape of America. A new electronic heartland is spreading throughout developed countries around the globe. Rural areas are as technologically linked to urban centers as are other cities. This megatrend of the next millennium is laying the groundwork for the decline of cities.

The Industrial Revolution created the great cities of Europe, America, and Japan. Workers lived next to their work, aggregating into larger and larger cities. Automobiles changed that somewhat, suburbanizing much of America and Europe. Now individual-empowering electronics will change it even more, dispersing us away from cities toward rural areas. For the first time in history the link between a person's place of work and his or her home is being broken. More and more individuals are deciding to live in small cities, towns, and rural areas.

Recognition of the individual is the thread connecting every trend described in this book. The new golden era where humankind earns its daily bread through the creativity of the individual instead of as a beast of burden already exists in the developed world, which is now entering the global economic boom of

the 1990s. In a high-wage information economy, people are paid for what is unique to them—their intelligence and creativity, not their collective brawn.

The new responsibility of society is to reward the initiative of the individual. The primacy of individual power will only slowly be acknowledged.

Throughout history power has been associated with institutions—with physical and military power. Kings, governments, and God were powerful.

Today there is a new possibility: the individual can influence reality by identifying the directions in which society is headed. ■

Cato Announces Hirings, Promotions

Cato president Edward H. Crane recently announced several personnel changes.

Melanie Tammen, formerly a policy analyst at the Heritage Foundation and the Competitive Enterprise Institute, joined Cato as director of its Project on Global Economic Liberty. She is coordinating Cato's expanding efforts to foster property rights and free markets in Eastern Europe, Latin America, and Africa.

Rosemary Fiscarelli was promoted to foreign policy analyst.

Julie Stewart was promoted to public affairs director and now has primary responsibility for media relations. She replaced Sandra H. McCluskey, who left Cato after five years to start a catering business.

"The addition of Melanie Tammen and the promotion of Rosemary Fiscarelli demonstrate Cato's commitment to advocating a foreign policy based on the principles of individual freedom



Melanie Tammen



Rosemary Fiscarelli



Sandra H. McCluskey



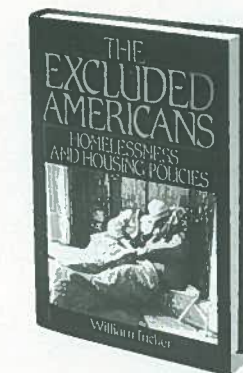
Julie Stewart

and nonintervention," Crane said. "Julie Stewart's new duties reflect the Institute's expanded output and the increased demands on its public affairs department." ■

How the housing market works. And why it doesn't.

"A juicy volume listing dozens of rich New Yorkers who still maintain pinch-penny [rent-controlled] apartments."

—New York Daily News



"Gives the reader several books for the same price: on homelessness, the dynamics of housing markets, and rent control."

—Detroit News

256 pp./\$17.95 cloth
224 Second Street S.E., Washington, D.C. 20003

CATO
INSTITUTE

Cut Payroll Tax, Mitchell Urges

The reduction in payroll taxes proposed by Sen. Daniel Patrick Moynihan (D-N.Y.) "would inevitably result in a stronger economy and creation of more jobs," according to a new study from the Cato Institute.

Washington economist Daniel J. Mitchell argues that "rapidly rising payroll taxes are a burden on the productive sector" of the U.S. economy and that "the payroll tax is a direct tax on jobs." He also warns that social security should not be taken off-budget; "if the deficit is to be measured accurately, total federal government spending, including social security outlays, should be subtracted from total federal government revenue, including social security revenues."

Social security taxes were raised seven times during the tax-cutting 1980s, Mitchell points out. "This year payroll tax collections are projected to total \$385.4 billion, nearly four times the level of just 13 years ago."

Contrary to popular belief, the Social Security Trust Fund is not a cash reserve; it is "effectively nothing more than a collection of IOUs." The social security system is required to purchase U.S. government debt from the Treas-

ury if there is an annual surplus.

"A 2.2 percent reduction in the payroll tax rate would lead to the creation of more than 1 million additional jobs," would cause the gross national product to increase "by about \$35 billion more than it would otherwise," and would add "more than one-half of 1 percent to the economy's growth next year." Although reducing payroll taxes would produce larger deficits in the short run, much of the revenue loss would probably be offset by the economic growth. The effect on interest rates "is not likely to be significant."

The Gramm-Rudman-Hollings Deficit Reduction Act has been a success and should be retained, Mitchell argues, but "a significant tax cut would almost certainly necessitate some alteration of the law's deficit targets." The so-called social security surplus is not a false indication that the deficit has decreased; "the fact that social security revenues exceed social security outlays really *does* mean that the deficit is smaller."

"Cut the Social Security Payroll Tax" is no. 129 in the Cato Institute's Policy Analysis series and is available for \$2.00. ■



William Tucker, author of *The Excluded Americans: Homelessness and Housing Policies*, signs a copy of his book after speaking at a Cato forum at the National Press Club.

National Service Would Undermine Private Efforts

Notwithstanding the widespread support for introducing some form of national service, what the United States really needs is "more individual service, not a program of government service," according to a new study from the Cato Institute.

Cato senior fellow Doug Bandow contends that if elective, government-sponsored national service would probably "duplicate private efforts, stifle existing organizations, and waste money"; if mandatory, it would "subvert the compassionate impulses that animate true volunteerism and violate the principles of what is supposed to be a free society." Moreover, a national service plan could cost as much as \$50 billion and would be likely to draw the most capable young people away from the military.

Government interference could undermine the many private philanthropic activities that are already under way, Bandow warns. Anyone who doubts that harm may come "from Uncle Sam's heavy 'helping hand' need only review the experience of the Meals on Wheels program"—a federal takeover "supplanted much of the private charitable activity that had given rise to the program in the first place."

According to Bandow, "the reliance on volunteerism by proponents of national service is largely a matter of tactics rather than of principle. Many of them would prefer a mandatory program."

Bandow concludes that "the very nature of the American system is the shoal upon which the national service armada inevitably runs aground. . . . Enthusiasm for mandatory universal service reflects a conception of the individual's relation to the state that conflicts with the principles on which the Republic was founded."

"National Service: The Enduring Panacea" is no. 130 in the Cato Institute's Policy Analysis series. It is available for \$2.00. ■

Conference (Cont. from p. 3)

from having a common currency supplied according to a stable and credible rule." He criticized the Delors Committee for failing to specify such a rule. According to Meltzer, a common currency would reduce the costs of information and transactions and create opportunities to increase Europeans' standards of living.

W. Lee Hoskins, president of the Federal Reserve Bank of Cleveland, argued against macroeconomic policy coordination. In his view, "the free flow of resources will foster a convergence of policy preferences within Europe as governments compete for those resources by providing stable economic and political environments. Governments that fail to provide such environments will lose resources as markets 'vote' on policies."

Yoshio Suzuki, vice chairman of Nomura Research Institute, contended that monetary policy coordination among the Group of Seven leading industrialized countries had reduced the stability of domestic macroeconomies worldwide. To avoid financial market crashes,



Journalists question Federal Reserve Board vice chairman Manuel H. Johnson at Cato's eighth annual monetary conference.

Suzuki argued, the G-7 countries should maintain autonomous monetary policies.

Other conference speakers included Peter Bernholz of the University of Basel, Michele Fratianni of Indiana University, Kevin Dowd of the University of Nottingham, Anna J. Schwartz of the National Bureau of Economic Re-

search, Antonio Martino of the University of Rome, Gerald P. O'Driscoll, Jr., of the Federal Reserve Bank of Dallas, and Lawrence H. White and George A. Selgin of the University of Georgia.

Most of the papers delivered at the conference will be published in the Fall 1990 issue of the *Cato Journal*. ■

New York Laws Destroy Housing, Cause Homelessness

Despite having spent billions of dollars on housing, New York "has more homeless people, more tenants in subsidized quarters, and more dilapidated and abandoned housing than any other city in the country," according to a new study from the Cato Institute.

Cassandra Chrones Moore, former executive director of the Interagency Council on the Homeless, charges that "New York, with its welter of building codes, rent regulations, and taxation policies, has put major roadblocks in the way of maintaining or building low-cost housing."

Rent control and rent stabilization benefit many New Yorkers who could afford to pay market rents, Moore argues. Forty-two percent of New York's rent-regulated apartments are occupied by households with incomes above \$20,000.

Moore estimates that New York's building codes and other regulations

escalate the cost of housing by more than 35 percent. "Single-room-occupancy hotels, one of the cheapest forms of housing, have been particularly hard hit," she notes.

The city has spurned market-oriented solutions such as vouchers even though providing vouchers costs 50 percent less than providing public housing, according to Moore.

Although New York's landlords are often portrayed as well-to-do and exploitative, 60 percent of them own only one building, and a majority have incomes between \$10,000 and \$40,000.

New York is no anomaly, Moore observes. "The story repeats itself in other major cities with rent control; Washington, D.C., is the most egregious example."

Moore recommends that the federal government "refuse to subsidize programs in cities with rent regulations. . . . Technology is available that can be used

to supply low-cost housing without recourse to federal subsidies." Building codes should be reformed to reduce construction costs.

"Housing Policy in New York: Myth and Reality" is no. 132 in the Cato Institute's Policy Analysis series. It is available for \$2.00. ■



Civil rights activist James Meredith talks with Bernard Siegan after a Cato Policy Forum.

"To be governed..."

It's good practice for budget time

A General Accounting Office audit of the [House bank, a free check-writing and check-cashing service for members of the House of Representatives] reported that on an average day, the bank was holding 30 checks on members' accounts for insufficient funds. In the 12 days sampled in the audit, the GAO found, "[bad] checks had been written by more than 90 members of the House."

— *Washington Post*, Feb. 21, 1990

More government means less competition

The United States suggested that Japan increase public spending on parks, roads and other public works that would encourage greater leisure.

— *Washington Post*, Feb. 24, 1990

One, two, three, four, what are we fighting for?

Leaders of the Republican Party . . . are not . . . instructing the American people on the larger issue that is being raised. That issue is nothing less than a conservative conception of a welfare state that promotes individual choice, as against a liberal conception that promotes bureaucratic authority.

— Irving Kristol in the *Wall Street Journal*, Feb. 20, 1990

As we go marching

If he wanted to, President Bush could seize the day and marshal the American people into a mighty army marching for change.

History teaches us that it can be done.

— Rep. Richard Gephardt in the *Washington Post*, Mar. 7, 1990

Pot czar calls kettle black

The hearing was marked by an angry clash between [drug czar William J.] Bennett and [Sen. Edward] Kennedy, who criticized the drug chief for failing to advocate the prohibition of semi-automatic pistols. . . .

In response to Mr. Kennedy's repeated questions, Mr. Bennett replied, "The world is awash in guns, Senator. This is just a cheap symbolic victory you're interested in. It has nothing to do with the real world."

— *New York Times*, Feb. 3, 1990

That pesky Constitution

William J. Bennett . . . wishes the military could shoot down small planes carrying narcotics into the U.S. He'd like to execute drug kingpins and once observed that "beheading" them wasn't a bad idea. . . . "It's a funny war when the 'enemy' is entitled to due process of law and a fair trial. By the way, I'm in favor of due process. But that kind of slows things down."

— *Fortune*, Mar. 12, 1990

Your tax dollars at ease

The Defense Department has wasted tens of billions of dollars filling its warehouses with stockpiles of items ranging from submarine spare parts to hospital gowns—things the military doesn't need and, in some cases, doesn't even know it has purchased, according to new government investigations.

The armed forces now have about \$34 billion worth of equipment in excess of military requirements, the General Accounting Office (GAO) found.

— *Washington Post*, Mar. 7, 1990

That's one explanation

A company controlled by Italian investors struck a \$1 billion deal yesterday to purchase MGM/UA. . . .

Unlike the Sony-Columbia deal, which touched off a storm of controversy about Japanese investment in American business, [Pathe Communications'] offer for financially ailing MGM seemed to spark little negative reaction yesterday.

"The dynamics of this are different," said Pat Choate, an author and economist at TRW Inc. . . . who has been critical of Japan's trade relationship with the United States. "You won't find the same outrage because Americans can invest easily in Europe and export easily [to Europe,] and they can't in Japan."

— *Washington Post*, Mar. 8, 1990

CATO POLICY REPORT
24 Second Street, S.E.
Washington, D.C. 20003

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

ADDRESS CORRECTION REQUESTED

CATO
INSTITUTE