

# Cato Policy Report

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## Resolving the Crisis in Higher Education

by Jack D. Douglas

The publication of *A Nation at Risk* in 1983 shocked most Americans into realizing that we face a crisis in public lower education that is contributing greatly to the erosion of our standard of living and of our international competitive position. An unfortunate consequence of that shock therapy was the diversion of attention from the crisis of public higher education, which now enrolls 75 percent of American college students.

Since we spend roughly twice as much on public lower education as we do on public higher education, now nearly \$200 billion a year, and since lower education affects all later learning, we should be more concerned with the "primary crisis." But we must recognize that our education crisis is systemic and that real solutions will be

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found only by restructuring the system from top to bottom. Even if we managed to transform our high school graduates into the world's best educated, while our colleges continued to produce ever less real learning, we would rapidly fall behind Japan and Europe.

The limited media attention given to higher education is focused on the widespread politicization of course material, the enforcement of "politically correct" dogmas that kill the very spirit of general education, the epidemic spread of student cheating, the raft of exposed cases of scientific fraud, the corrupt "milking" of research grants through bloated indirect costs, the proliferation of new "research" publications intended only to secure grants and tenure, the use of quotas that waive standards and fairness, the wholesale destruction of academic standards in many athletic programs, and the growing alienation and conflict on many campuses. All of those contribute to the decline of real learning in our col-

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Federal Reserve Governor Wayne Angell discusses the use of financial market indicators in making monetary policy at a luncheon address at Cato's ninth annual monetary conference.

leges, but they do not in themselves reveal how widespread the decline now is, nor are they the most important underlying causes of the general decline.

### What the Professors Know

The best evidence of the widespread decline in higher education is the growing alarm expressed by the most experienced professors of all political persuasions and most disciplines. Long before E. D. Hirsch, Jr., and others began to measure the declining cultural literacy of students, we professors knew from our classes at all levels that students' basic knowledge of history, literature, science, economics, politics, geography, current events, and much else was plummeting. Even worse, we knew that the decline in knowledge was accompanied by a decline in the basic skills of rational thought and expression. John Searle, a professor of philosophy at the University of California at Berkeley, the "star" of elite public universi-

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# Socialism's Last Hurrah? President's Message



individual rights.

The long overdue collapse of socialism (not to mention Marxism) as a viable ideological force in the world has profound implications for the future of our society. Socialism provided a philosophical anchor for many of the machinations of leftist-statists of various stripes. While formally an economic theory, it was used to justify envy, egalitarianism, redistributionism, centralized government control, and group rights over

Those who advocate such policies of course continue to promote them as best they can. And, at the level of contemporary politics, at least, they even continue to gain ground. Certainly the Bush administration has been more hospitable than threatening to their values. Yet the major theoretical underpinning for all their pet policies has been widely and thoroughly discredited. Eventually, lack of the intellectual nourishment that socialism had previously provided those concepts will take its toll.

The great ideological battle of the 20th century between Marx and Hayek, socialism and classical liberalism, has been settled. But the struggle was an intense one that generated enormous energy, much of which remains on the losing side. Not surprisingly, the advocates of statism and collectivism have intensified their tactical thrusts despite their strategic defeat.

Thus, we see the truly awesome efforts of leftist ideologues to turn the Green movement into a vehicle to destroy private property and bring American industry to its knees. (As an aside, one of the negative fallouts of the recent war has been the virtual resuscitation of the United Nations. Its environmental agenda—which is to say its economic agenda—for the United States will eventually challenge our national sovereignty.)

In academia we see the energy of students and professors that once would have been supporting various Marxist "liberation" movements around the world directed instead into fanatical flailing about over what is and what is not "politically correct." In a report on the subject, London's *Daily Telegraph* noted that "at the University of Connecticut the speech code provides that students may be expelled for using 'derogatory names, inappropriately directed laughter, inconsiderate jokes, and conspicuous exclusion of others from conversation.'"

American Enterprise Institute fellow Dinesh D'Souza's deservedly acclaimed book, *Illiberal Education: The Politics of Race and Sex on Campus*, documents the absurd lengths to which the thought control activists on campus will go to pursue their anti-individualist agenda. And as pointed out

in the last issue of this newsletter by the new president of the ACLU, Nadine Strossen, the Politically Correct movement not only chills free speech on public campuses but is itself disturbingly discriminatory against disfavored groups.

But what hope does a movement that identifies "rationality" as an improper, decadent Western value really have? Not much, I would venture. (The greatest threat from the Politically Correct movement is actually in our primary and secondary schools in many of which the only approved texts are fundamentally at odds with Western values and ethical individualism—yet another reason for choice in education, including private schools.)

Americans are traditionally a tolerant lot, and when others get agitated about something, we're likely to give them a hearing, regardless of how counterintuitive their ideas may seem. My sense is that our patience is starting to run out with both the Green and Politically Correct movements. The resounding defeat of all but a couple of the 200 or so environmental initiatives on the ballot last November and the popularity of D'Souza's book are just two indications.

Who knows—with the term limitation movement picking up steam, perhaps our tolerance of Congress is at long last coming to an end as well.

—Edward H. Crane

Rep. Neal Calls for Zero Inflation

# Scholars, Policymakers Propose Monetary Policy Rules At Cato's Ninth Annual Monetary Conference

Long-term monetary policy rules would be better than the existing discretionary monetary regime, according to many of the participants in the Cato Institute's ninth annual monetary conference, "Money, Macroeconomics, and Forecasting," directed by James A. Dorn, Cato's vice president for academic affairs.

In his opening address, Rep. Stephen L. Neal (D-N.C.), chairman of the House Subcommittee on Domestic Monetary Policy, reiterated his longstanding position that price stability should be the overriding objective of monetary policy. He contended that a congressional mandate to the Federal Reserve Board to achieve zero inflation would lower interest rates and promote investment once people expected stable prices.



Rep. Stephen Neal calls on Congress to impose a zero-inflation mandate on the Federal Reserve Board.

W. Lee Hoskins, president of the Federal Reserve Bank of Cleveland, agreed. In his opinion, the costs of reaching zero inflation would be low relative to the benefits, provided there was a credible prior commitment to price stability.

Jerry L. Jordan, senior vice president of First Interstate Bancorp, argued that attempts to fine tune the economy are bound to fail. In an environment of discretionary policymaking by the Federal Reserve Board, private forecasters have no choice but to try to guess what government is going to do. Greater reliance on market forces and a rules-based policy regime would increase stability and decrease reliance on macroeconomic forecasts.

Lawrence A. Kudlow of Bear, Stearns & Co. discussed the use of financial market prices as indicators of monetary policy—a topic discussed at length in the luncheon address by Federal Reserve Board governor Wayne D. Angell as well.

Bruce Kovner, chairman of Caxton Corporation, relied on his experience as one of the world's top traders to argue that the globalization of financial markets and the information revolution have helped to speed up the market's policy-feedback process, which acts as a constraint on the behavior of central bankers.

Evidence of the effectiveness of using short-term interest rates to forecast economic performance was presented



Leif Olsen talks with William A. Niskanen and George Selgin after a session of the monetary conference.

by supply-sider David Ranson, president of H. C. Wainwright & Co.

Roger Garrison of Auburn University linked the failure of macroeconomic forecasting to difficulty in anticipating the economy's capital structure. Paul Craig Roberts, former assistant secretary of the Treasury for economic policy, further illuminated the information problem inherent in macroeconomic forecasting. Drawing on his government experience, he argued that the planning-forecasting approach to policy is deeply flawed and that it would be better to adopt credible rules.

Although the speakers generally agreed on the need for a forecast-free monetary regime, their opinions on the appropriate rule differed. Cato chair-

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### Mayor Popov Visits Cato

## Forum Speakers Examine Russia, Georgia, Israel, Canada

### Cato Events

**February 6:** Moscow mayor Gavriil Popov was the guest at a Cato Institute round-table discussion on reform in the Soviet Union. Gorbachev now appears to have had his own agenda for change all along—an agenda unrelated to the liberation of his people or the improvement of the corrupt and counterproductive centrally planned economy—and any temporary setbacks from reform efforts are being blamed on Boris Yeltsin and other liberals, Popov told the several dozen journalists, judges, policymakers, and Cato scholars and staff members present.



Cathy Young, author of *Growing Up in Moscow*, helps E. J. Dionne, Jr., of the *Washington Post* question Moscow mayor Gavriil Popov at a Cato round table.

**February 20:** The supposed savings from last fall's budget agreement will not materialize because the recent hikes in federal taxes are slowing down the economy, William Dunkelberg argued at a Cato Policy Forum on "*Taxes and the Recession*." Indeed, he said, whenever federal spending reaches 20 percent of GNP, the result is recession. Commentators Bruce Bartlett of the Treasury Department and Cato Institute chairman William A. Niskanen agreed that rising federal taxes are the major impetus behind today's recession but raised questions about the methodology of Dunkelberg's work.

**February 21–22:** Several hundred economists, forecasters, businessmen, and policymakers attended Cato's ninth annual monetary conference, "*Money, Macroeconomics, and Forecasting*," at Washington's Capital Hilton Hotel. James A. Dorn, Cato's vice president for academic affairs, organized the event, which focused on whether policymakers should aim at better forecasting models within the current Federal Reserve System or work toward improved policy rules.

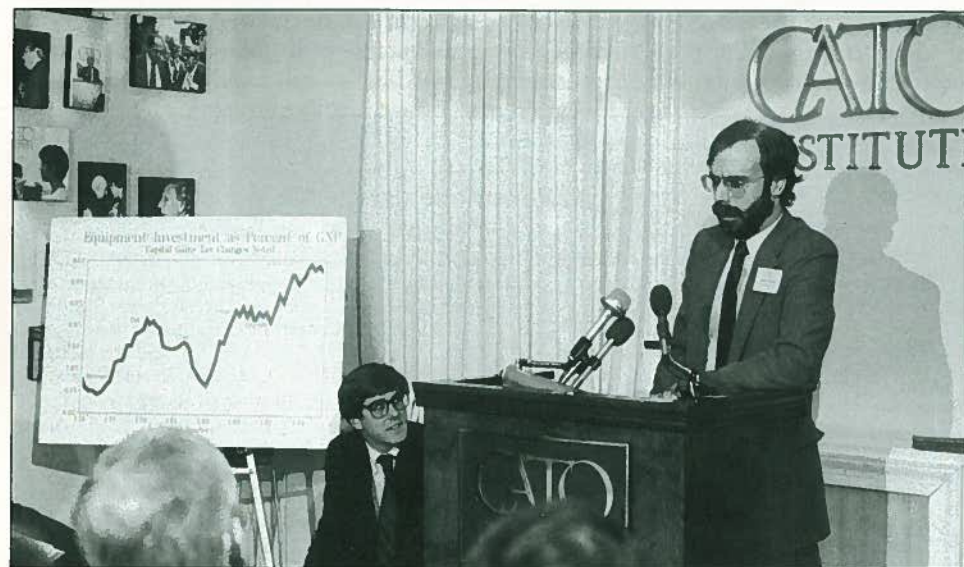
**February 25:** Akaki Asatiani, first deputy chairman of the Supreme Soviet

Republic of Georgia and chairman of the Union of Georgian Traditionalists, spoke on "*Georgian Independence, the All Union Treaty, and the Constitutional Future of the Soviet Republics*" at a Cato luncheon. Declaring that their people consider themselves independent of the USSR, Asatiani and two colleagues discussed their republic's planned boycott of the March 17 referendum on the All Union Treaty with government officials and Cato staff members.

**March 7:** Alvin Rabushka of the Hoover Institution discussed his second annual *Scorecard on the Israeli Economy*, published by the Institute for Advanced Strategic and Political Studies in Jerusalem, at a Policy Forum. Economic liberty in Israel, where public spending still consumes three-fifths of national income, fared dismally in 1990. Rabushka assigned the budget a grade of D-, money and capital markets a C-, price controls a D-, labor an F, and international trade a C-. Those were the same marks he'd given in 1989. Business activity dropped a grade because privatization has ground to a halt. Tax policy moved from a D to a C as the result of a modest lowering of the top marginal rate on taxable income in 1990—a reform the Israeli government retracted in early 1991, Rabushka lamented.

**March 21–22:** Cato chairman William A. Niskanen gathered more than 20 experts for two days of debate and discussion on "*Making Sense of Safety*" in an age when Americans demand ever-stricter regulations to ensure zero risk to themselves and the environment. Panelists at the second annual *Regulation* conference presented papers on risk assessment, public perceptions of risk, occupational safety, environmental tobacco smoke, and legal and insurance issues.

**March 25–28:** Some 400 people attended a conference, "*Computers, Freedom, and Privacy*," sponsored by Computer Professionals for Social Responsibility along with Cato and other groups, to hear four days of addresses and panel discussions on the availability of gov-



Stephen Moore, Cato's director of fiscal policy studies, listens skeptically as Joseph Minarik criticizes capital gains tax cuts in a Cato debate.

ernment data on private individuals; computer regulations and their enforcement; the impact of technology on individual liberties; and other practical, constitutional, and ethical issues that are of concern in our increasingly computerized society.

**March 26:** Cato's director of fiscal policy studies Stephen Moore hosted "*A Debate on Capital Gains Tax Cuts*" between Joseph Minarik of the House Budget Committee and Steve Entin of the Institute for Research on the Economics of Taxation. Recent discussions of the capital gains tax cut have distorted the choice between savings and consumption and created double—and even triple—taxation, while allowing the government to profit from inflation, Entin argued. Minarik countered that the tax cut would neither boost the economy nor encourage more people to invest rather than spend; he suggested that the current taxation system is, in fact, not so bad. C-SPAN broadcast the debate several times during the following week.

**March 28:** Auburn University professor Tibor Machan distinguished classical from radical individualism at a Cato forum, "*Two Kinds of Individualism*." Liberty is not simply a preference but a primary good, he argued. In a lively discussion following Machan's address, Cato chairman William A. Niskanen asked why a person should prefer liberty to golf. Liberty enables one to play golf, but golf does not ensure liberty, Machan explained.



Roger Pilon, director of Cato's Center for Constitutional Studies, listens as Jonathan Emord makes the case for a new interpretation of the First Amendment that would protect all forms of communication.



Cato senior fellow Doug Bandow (left) testifies before the House Armed Services Committee on the success of the volunteer military.

**April 4:** "*The Canadian Health Care System: Hazardous to Your Health?*" Mike J. Billett of Heartland Windsor; David Wonham, former president of the Essex County (Ontario) Medical Society; Ed Neuschler of the Health Insurance Association of America; and Judith Feder of the Center for Policy Studies outlined the shortcomings of the Canadian government-run health care system. C-SPAN recorded and aired this Cato forum.

**April 9:** Forty members of the Chief Executives Organization, Inc., met at the Cato Institute to learn about free-market environmentalism. Cato chairman William A. Niskanen discussed Cato's role in the public policy arena. Cato president Ed Crane observed that since the fall of socialism left many on the Left without a viable philosophy, they have turned to the Green movement, which masks central planning behind a radical environmental agenda. R. J. Smith, director of Cato's environmental studies, and Jerry Taylor, director of Cato's natural resource studies, documented the negative incentives of current policies of the Environmental Protection Agency and proposed private-sector alternatives for protecting the environment.

**April 10:** The electronic media's limited access to First Amendment protection



Syndicated columnist Warren Brookes talks with Aaron Wildavsky of the University of California at Cato's second annual *Regulation* conference, "*Making Sense of Safety*."

was the subject of a Cato Book Forum with the Pacific Research Institute's Jonathan Emord, author of *Freedom, Technology, and the First Amendment*. Pointing out that restrictions on the freedom of broadcasters ultimately restrict freedom of choice for all citizens, Emord discussed the various government rationales for regulating the electronic press—such as ensuring broadcast of diverse programs and ideas and preventing cable stations from becoming "natural monopolies." He offered a comprehensive theory of the First Amendment that would embrace all communications technologies. ■

## Policy Forum

The Cato Institute recently sponsored the second annual Regulation conference, "Making Sense of Safety." Six panels of experts addressed the measurement of risk; perceptions of risk; product, service, and occupational safety; safety issues affecting legal drugs; legal, insurance, and institutional issues; and setting safety standards. Following are excerpts from some of the papers delivered at the conference.

### Regulations That Kill

by Sam Kazman

Frequently, political factors result in safety regulations that are ineffective and overpriced—attributes that are no surprise in government programs. Occasionally, the results are inadvertently lethal, an outcome that is somewhat surprising. And sometimes we find something that is (or at least ought to be) downright shocking—a program that not only is lethal, but whose nature has been deliberately concealed by the administering agency.

The last two outcomes are what I call "death by regulation." Death by regulation is a sobering counterweight to the notion that, when it comes to public safety, less-than-ideal markets are a sufficient condition for government involvement.

The Food and Drug Administration's drug approval process is the foremost example of how a regulatory program can be fueled by the political asymmetry of risk. The FDA can make two types of errors in reviewing a new drug application: it can approve a drug that turns out to have unexpected adverse side effects, or it can delay or deny approval of a beneficial drug.

From a public health standpoint, those errors can be equally deadly, but from a political standpoint, they are

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## Making Sense of Safety

worlds apart. Incorrectly approving a drug can produce highly visible victims, highly emotional news stories, and heated congressional hearings. The paradigmatic example is thalidomide, a sedative that was introduced in numerous countries (but not the United States) before being linked to severe fetal deformities in 1961.

Incorrectly delaying approval of a drug, on the other hand, produces invisible victims and little more. The FDA's 10-year delay in approving beta-blockers (from 1967 to 1976), for example, was probably responsible for more than 10,000 deaths—a toll as huge as it is unappreciated.

Not surprisingly, the FDA's fundamental approach to drug approval is to reduce the likelihood of the first type of error while paying little attention to the second—in a word, overcaution. The result is "drug lag"—the unavailability of major new drugs in this country long after they have been approved elsewhere. Despite the extensive documentation of drug lag and the initiation of countless reforms over the last decade, there has been no general reduction in the average time required to approve a new drug.

The FDA's inherent overcaution is fostered in part by a similar bias in the congressional pressure that it faces. In the words of one former FDA commissioner:

In all of FDA's history, I am unable to find a single instance where a Congressional committee investigated the failure of FDA to approve a new drug. But, the times when hearings have been held to criticize our approval of new drugs have been so frequent that we aren't able to count them. . . . The message to FDA staff could not be clearer. Whenever a controversy over a new drug is resolved by its approval, the Agency and the individuals involved likely will be investigated. Whenever such a drug is disapproved, no inquiry will be made. The Congressional pressure for our negative action on new drug applications is, therefore, intense.

One sees the same asymmetry in media coverage of the agency. Every FDA announcement of approval of a major new drug raises an obvious question: if this drug is going to start saving lives tomorrow, how many people died yesterday waiting for the agency to act? That question is hardly ever asked, let alone answered.

Mandatory airline child seats is another issue that is fueled by the political asymmetry of risks—in this case, the fact that one death in a publicized airplane crash outweighs a hundred anonymous highway fatalities. Under current Federal Aviation Administra-



Sam Kazman: "If this new drug is going to start saving lives tomorrow, how many people died yesterday waiting for the FDA to act?"

tion regulations, children under the age of two need not have their own seats on airplanes; they may ride on their parents' laps. As a result, airlines allow those children to fly free.

In the wake of the United Airlines Sioux City crash in July 1989, however, a push for mandatory airline child seats has begun. In that accident, two lap-held children were torn from their parents' grasp at impact; one child died, as did 111 other passengers. A child seat restraint might have saved the child's life.

Mandatory child seats, however, would substantially raise the cost of flying for families with young children, since they would have to purchase tickets for children who previously rode free. Some of those families would con-

sequently shift at least some of their air travel to the highways, where fatality and injury risks are far higher. There is strong evidence that for all its cost (several hundred million dollars annually), such a rule would result in a net loss of life.

Politically, however, a child's death in a major airline crash is far different from a highway fatality. The former is national news, while the latter is a back-page story in a local paper. Within months of the Sioux City crash, the FAA faced both petitions and congressional proposals to require child seats on planes.

The FAA has made no final decision on the issue, but it has opposed the congressional bills on safety grounds. Lest anyone be distracted by the broader issue of overall transportation safety, the sponsor of the congressional bill, Rep. Jim Lightfoot (R-Iowa), brought the debate back to its roots with his dismissal of an FAA spokesman: "I would only say that if your assumptions are correct, and my baby is the one baby that dies, I don't give a damn about your assumptions."

The problems of safety regulation are in essence a subset of those of overregulation, and asymmetric safety risks are one particular form of a more general dilemma—that of diffuse public interests losing administrative battles to concentrated special interests. ■

### AIDS Drugs and the Cost of Regulation

by Joanna E. Siegel and Marc J. Roberts

The AIDS epidemic has raised a new challenge to drug regulation in the United States. Since the early 1960s, when drug regulation was amended after the thalidomide episode, the FDA has required evidence of safety and efficacy before approving drugs for sale to the public. That strict standard was intended to protect the public from risks

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the pharmaceutical industry, it was believed, had insufficient motivation to consider.

People with AIDS do not view FDA drug regulation as protection. Instead, they argue that a long and inflexible drug approval process actually endangers them by delaying their access to potential treatments for an immediately life-threatening illness. AIDS advocacy groups have demanded that new drugs be approved faster and that patients have access to drugs before approval.

On one level, the rationale for safety and efficacy standards for new-drug approval is naively simple: they protect the consumer and do no harm, since no one would want to take an unsafe or inefficacious drug.

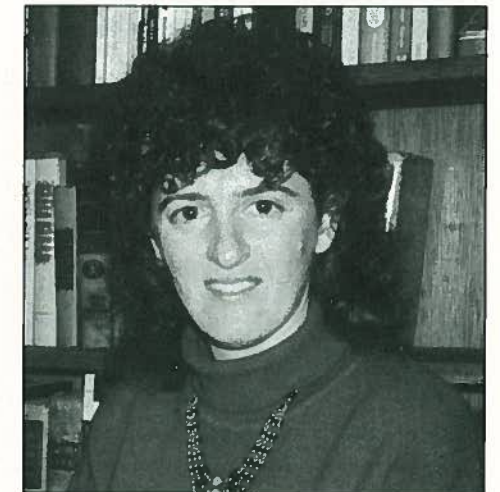
How well do those arguments justify current regulatory practices? The concepts of safety and efficacy have meaning only in the context of an ill individual. To assess a drug's effects, we must describe the individual's situation, and then ask how a given compound will alter that situation. Every individual's situation is uncertain, and individuals vary in the values they put on different outcomes. Some care more about avoiding pain; others care more about a longer life. We suggest that the appropriate test for drug approval is whether, on balance, a drug represents a "reasonable option" for a patient in specified circumstances.

We use a reasonable option framework to evaluate many choices in medical care, such as decisions about surgical procedures that increase the likelihood of both immediate death and long life. It is of little practical use to talk of such an option as safe or unsafe. And it makes no sense to ask about its effectiveness except in the context of what will happen to the patient if no action is taken.

On an operational level, we would propose two principles. The FDA should move further in the direction of perfecting consumer choice by eliminating options that are clearly undesirable for most patients or for which there are other alternatives that would satisfy the few who would choose them. Second, the FDA should use selective approval and information strategies to both allow and restrict access to drugs that provide a reasonable option for a limited number of patients.

Our analysis thus far has neglected an important aspect of the FDA's dilemma: it typically does not know exactly how a compound will affect the complex probability distributions of outcomes. The relevant question is, therefore, how likely is it that a given drug will turn out to be a reasonable option in specified circumstances? The agency must decide whether to allow various uses of the drug while that uncertainty is being diminished by further study. Even with that added complexity, a reasonable option guide is useful: we believe decisions about which risks are justified should be made with reference to the other options available to patients.

We thus propose a twin reconsidera-



Joanna Siegel: "AIDS activists have forced us to think about the regulation of drugs in a new way."

tion of (1) the nature of the standard the FDA uses and (2) the amount of evidence it should require to show that any standard it uses has been met.

The implementation of a reasonable option criterion is perhaps most needed where risks are greatest, as is the case for the terminally ill. Patients with life-threatening illnesses will often prefer a "promise" of efficacy to almost certain death. In those cases, delay can impose extremely large costs on patients and be a disincentive to the development of innovative drugs that are badly needed. The relative costs of the current efficacy requirement in that situation are too high, and our alternative would require a lighter burden of proof. In the words of Samuel Broder, director of the National Cancer Institute, "The more risk

(Cont. on p. 8)

## AIDS (Cont. from p. 7)

that a patient faces from the natural consequences of the disease, the more one needs to be inclined to act."

AIDS activists have forced us to think about the regulation of drugs in a new way. For many years we have been content to live with a high level of errors of omission to minimize errors of commission. We have paid the price of a high standard of proof in exchange for a higher level of protection from drugs. AIDS has emphasized the cost of that form of caution. Altering the impact of regulation began to be considered urgent when heavy costs fell on a large group of identifiable and vocal victims.

The recent reforms introduced by the FDA have improved access in the case of AIDS and other life-threatening illness. Although those illnesses have been treated as exceptions, they are actually one end of a continuum. A more flexible drug approval process will improve equity and efficiency for a broader spectrum of patients.

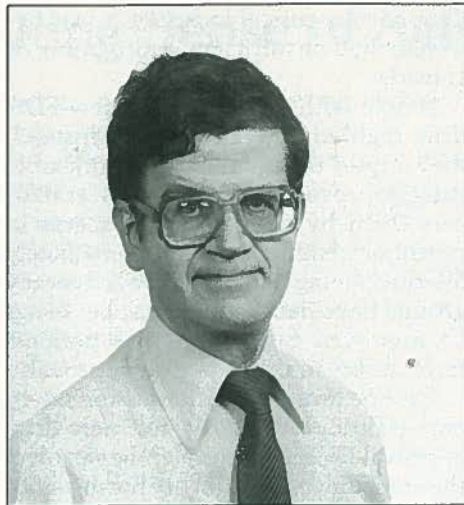
Moving our thinking to the reasonable option interpretation of safety and efficacy should allow consumers greater freedom in weighing the risks of drugs against the risks of illness when the risks of illness are great. In many circumstances, access to toxic drugs and drugs of uncertain efficacy may be warranted. Past regulatory developments have moved the locus of control too far from the patients who are at risk. ■

## Resolving the NIMBY Problem

by Herbert Inhaber

**N**IMBY—"Not in My Back Yard"—seems like an insoluble problem. Society demands, or seems to demand, places to put hazardous wastes, halfway houses for prisoners, radioactive detritus, and the like. But when the broad studies are completed and a specific area or community is selected, residents there usually say, "It's a fine idea

Herbert Inhaber is a principal at Ecology and Environment, Inc., Lancaster, New York.



Herbert Inhaber: Allocate hazardous waste sites the same way that airlines bump overbooked passengers.

to store wastes (or prisoners, or mentally retarded people) in a well-designed building. Just put it somewhere else."

The NIMBY problem only *seems* insoluble. In fact, its solution is found every day by what is called a "reverse Dutch auction."

Consider the case of airline overbooking. Airlines know that a percentage of the passengers on any given flight will not have shown up when the aircraft is ready to take off, so an airline may sell more seats than are available on a flight in expectation of the usual proportion of "no-shows."

Overbooking is based on statistical averages. On a given flight, the no-show percentage may be higher or lower than the average. For example, on one specific flight the no-shows may constitute only 5 percent. If the airline has sold 110 percent of the seats, its usual rule, then 105 percent of the seats have been allocated. What to do about the excess 5 percent?

At first reading, this may appear to have no relationship whatsoever to the problem of finding waste sites. But in both cases, some detriment—loss of time for "excess" airline passengers, possible health risks for neighbors of waste sites—is imposed on unwilling citizens. The detriment is different, but the principle is the same.

The airlines' reverse Dutch auction works well because each passenger *decides for himself* just how valuable his time is. Nobody else, no matter how well-meaning or supposedly scientific,

can do that for him. And no passenger is required to participate in the auction. If passengers want to, they can just sleep through it all, without anything adverse happening to them. Finally, those awake while the auction is being conducted need take no specific action to avoid being ejected. Someone interested solely in getting to his destination as soon as possible need only sit tight and do nothing.

How would the reverse Dutch auction work for LULUs (locally unwanted land uses)? There would be a three-stage process. In the first stage, the environmental and safety rules and criteria would be published, and interested communities would be asked to volunteer for the LULU. It is highly unlikely, but not impossible, that communities might volunteer at the first stage.

Assuming no volunteers appeared, the second stage would commence. The siting authority would offer money to any community that would take the LULU and raise the amount gradually until a volunteer appeared, much as the airlines find volunteers to leave booked seats.

Would a volunteer come forward? When the true social cost of the facility is reached, one will appear. Social cost is a subject of debate among economists and sociologists; the reverse Dutch auction is the only mechanism that generates its exact value.

For example, suppose that the bonus rose in increments of \$10 million, perhaps every month or so. When the bonus was \$20 million, community X might have 15 percent of its population in favor of their elected representatives' making a bid. When it rose to \$50 million, 40 percent might be pro-LULU. When it got to \$100 million, 80 percent might be in favor. But at the same time, other communities would be watching the bonus rise. If residents of community X wait too long, they may receive nothing. Community Y may have bid while the residents of X were dithering. That mechanism would be a great incentive for *all* communities to make up their minds without undue deliberation.

At the conclusion of the third stage of the reverse Dutch auction, all of the goals of the process are reached. A LULU that meets previously agreed-to environmental standards will be built. The community that accepts the facil-

ity will be satisfied with the bonus it receives. And the rest of us will not have the facility in *our* back yard. ■

## Is It Better to Love the Earth or the Truth?

by Aaron Wildavsky

**T**here are two things that are true of every study ever done on citizen perception of technological dangers. First, technical knowledge never matters, even among professional risk estimators. Second, the two most important determinants of perceptions of technological danger are trust in institutions and self-perception as liberal or conservative. That tells me that the environmental and safety movements and regulations have nothing whatsoever to do with damage to the environment and human life. They have everything to do with hostility toward American institutions, including capitalism, on the ground that those institutions are unconscionably inequalitarian.

In a study published in the Fall 1990 issue of *Daedalus*, a group of psychologists asked a few people hundreds of questions—including how they rate the risk of technology compared with the risks associated with such things as social deviance, economic decline, and war.

Radical egalitarians, people who believe in equality of condition as the guiding norm of society, are bombed out of their minds with fear of technology; they think it does very little good and immense harm. They are unconcerned about social deviance. People of a hierarchical disposition say technology is good if the experts say it is, but social deviance will kill you every time. If people don't follow the rules, society collapses. And competitive individualists say risk is opportunity, and if deviants aren't bothering me, I won't bother them. Clearly, fear of technology is rooted in the radical egalitarian ideology, not in any real understanding of true risks.

Some dangers are real. If you are near toxic materials for many hours a

Aaron Wildavsky is a professor of political science at the University of California at Berkeley.



Aaron Wildavsky: Inaccurate risk assessment threatens economic growth and democracy.

day over many years, your health may be endangered. But the environmental movement is not based on concern about occupational exposure. It has scared the hell out of a majority of our citizens by talking about the ordinary things in life—the land, the water, the air, our basements, our attics. The alarm is based on animal studies—mostly of rodents, small animals fed huge doses of potentially harmful substances and bred to be especially susceptible to those substances so as to cut the costs of the studies.

And then there are the statistical manipulations. Why is the FDA less worried than the Environmental Protection Agency? When you go from mice to men, you have to correct for our comparatively larger size. The EPA does it by skin surface ratios, the FDA by weight ratios. It doesn't matter which scale is right; frankly, I don't think we know. The choice of scale affects the results by a factor that can range from one to three. But that's small potatoes in the environmental game.

To go from rodents to people you have to make at least two other extrapolations: one for the huge doses administered to the laboratory animals, the other for the differences between species. We know, for example, that things that are apparently carcinogenic in mice are not harmful to rats or hamsters. Which of those rodents does humankind most closely resemble? Those two extrapolations require statistical models, and a huge number of such models

are available.

The difference among models is significant. The results obtained from various models can differ by factors of from 5 to 50,000. The choice of model determines the results far more than does any research you may have done.

To choose among models, you must know something about the underlying mechanisms of the phenomenon you are studying. To put it bluntly, you must do science, not witchcraft. Since the EPA has no basis for choosing among statistical models, it uses so-called default models. Default models are what you use when you don't know what you're doing. So animal studies are a fraud from beginning to end.

If you believe, as I do, that our standard of living is directly related to our health—and that every time we waste money we lower our standard of living by a corresponding amount—you realize that Superfund is hazardous to our health. To justify large expenditures, you have to show some positive effects. But that is very difficult for Superfund to do.

Why do I think this is a serious matter? The amount of misinformation about risk is immense. In many cases the dangers are exaggerated many thousandfold. But why worry? After all, it's a rich country.

The greatest developments of the last two centuries are three: science, or competition among ideas; economic growth, or competition for resources; and democracy, or competition for office. So why aren't scientists in this democratic nation speaking out on issues that affect economic growth? Toxicologists, for instance, know that the popular perception of risk is wrong. But they don't speak out. Science is falling into disrepute because others are not silent; they are urging us to turn back the clock a century or more, to reverse the Industrial Revolution and halt technological progress.

If they are successful, they will, at the very least, slow economic growth, which will lead to *more* pollution and disease. At worst, given the strong historical link between science as competition of ideas and democracy, they may weaken democratic rule. To me, that is the most serious threat. I see the environmental movement as destructive of the things I hold most dear. ■

Tribe Calls for 27th Amendment

## Cato Cosponsors Seminar on Threats to Computer Privacy

By the year 2000 almost all collection and distribution of information will be done electronically. Although they promise more efficient communication, technological advances are encroaching on our privacy and individual liberty—principles that are the foundations of American freedom.

To begin exploring how business and government should handle confidential information about the personal and professional lives of American citizens, the Computer Professionals for Social Responsibility, the Cato Institute, and a number of other cosponsors held a conference, "Computers, Freedom, and Privacy," March 25–28, in Silicon Valley.

Some 400 people from computer-related and political organizations gathered near San Francisco for lectures and tutorials on topics ranging from electronic mail and direct marketing information to government data

on private individuals and the enforcement of computer regulations—and the impact of such issues on civil liberties. Among the several dozen speakers were civil libertarians, attorneys, scholars, policymakers, journalists, and law enforcement officials as well as professionals from the computer industry.

In the keynote address, Laurence H. Tribe, Tyler Professor of Constitutional Law at Harvard Law School, called for a Twenty-Seventh Amendment to protect "the freedoms of speech, press, petition, and assembly . . . without regard to the technological method or medium through which information content is generated, stored, altered, transmitted, or controlled."

Cato Sponsor John Gilmore, a computer industry pioneer, discussed the protection of privacy and other ethical issues central to a computer-literate, free society at the final day's session on

ethics and education. Mitch Kapor, president of the Electronic Frontier Foundation, said that while computer hackers who break into computer systems and cause harm to others should be held accountable for their actions, innocent people are too often caught up in expensive court battles by overzealous law enforcement officials.

According to a *New York Times* report on the conference, "While some [speakers] called for a constitutional amendment to guarantee privacy from electronic surveillance, others believed the problem could be kept in check by the mechanisms of the marketplace."

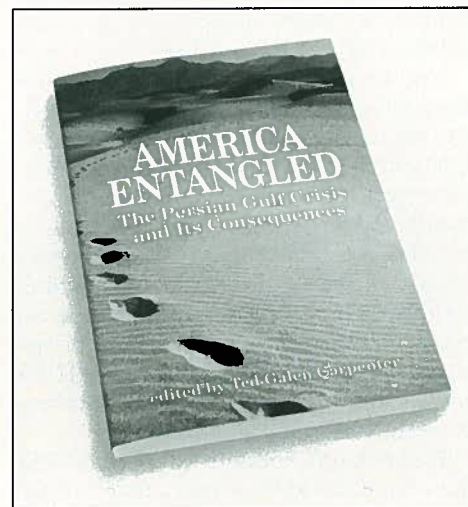
Other speakers included Eli Noam, professor of business at Columbia University; David Burnham, author of *Rise of the Computer State*; and Jerry Berman, director of the Information Technology Project at the American Civil Liberties Union. ■

## Will America Be Entangled Forever? New Book Looks At the Persian Gulf War and Its Consequences

As euphoria over the Persian Gulf War fades, it's time for the president, policymakers, and the public to ask whether the defeat of Iraq will really be a long-term victory for U.S. policy in the Middle East. *America Entangled: The Persian Gulf Crisis and Its Consequences*, a new book from the Cato Institute, looks at American security interests and foreign policy in the wake of the Persian Gulf conflict.

*America Entangled* gathers the papers presented by some of the nation's top defense, foreign policy, and economics experts at the Institute's Persian Gulf conference on January 8, 1991—a day-long event to analyze long-term consequences of the course of intervention and entanglement President Bush had charted in the waters of international politics.

Christopher Layne, senior fellow in foreign policy studies at the Cato Institute, sharply criticized Bush's notion of a new world order: "Those who have called the Persian Gulf crisis the first worldwide crisis of the post-cold-war



era are wrong. U.S. foreign policy is still very much driven by cold-war thinking—the same vision of 'world-order' politics that has shaped policy since World War II."

Gene R. La Rocque, retired rear admiral of the U.S. Navy and director of the Center for Defense Information, argued that a protracted U.S. presence in

the Middle East would be impossible: "It will be politically unacceptable for the gulf states to host large U.S. military forces in the long term. NATO cannot be recreated in the gulf."

Gerald F. Seib, the White House correspondent for the *Wall Street Journal*, warned against the dangers of a dismembered or crippled Iraq. That outcome could produce regional instability just as dangerous in its own way as the threat posed by Saddam Hussein.

Other contributors to *America Entangled* are Peter Riddell, U.S. editor of the *Financial Times*; Michael E. Canes, vice president of the American Petroleum Institute; Richard K. Thomas, chief economic correspondent for *Newsweek*; Robert E. Hunter, vice president of the Center for Strategic and International Studies; and William A. Niskanen, Doug Bandow, Sheldon L. Richman, and Rosemary Fiscarelli of the Cato Institute.

*America Entangled: The Persian Gulf Crisis and Its Consequences* is available in paperback for \$8.95. ■

Second Annual Regulation Conference

## Speakers Urge More Rational Assessments of Risk

Human contact is obsolete and men visit one another only in the form of holograms, Isaac Asimov writes in his tale of a society so scientifically advanced that men live for thousands of years, dreading even the slightest risk to their well-being because they have so much to lose to death or disease. It's time to reevaluate our ideas about safety before society leans any further toward such an extreme view of risk, agreed most of the panelists at the recent Cato Institute conference, "Making Sense of Safety."

More than 20 experts spoke at the second annual *Regulation* conference—hosted by the magazine's editor, Cato chairman William A. Niskanen—on risk assessment, public perceptions of risk, occupational safety, environmental tobacco smoke, and legal and insurance issues.

Aaron Wildavsky's entertaining and eye-opening luncheon address, "Is It Better to Love the Earth or the Truth?" was one of the highlights of the two-day event. Wildavsky, a professor of political science at the University of California at Berkeley, accused today's activists who parade under the environmental banner of spreading misleading and false information about the dangers of chemicals and modern technology. He warned against the threat to individual liberties such as doomsayers' ideas pose when they are legitimized in the form of government regulations.

In his paper, "Estimating Risks and Ignoring Killers," Michael Gough of the

Office of Technology Assessment of the U.S. Congress argued that because policymakers have failed to put environmental carcinogens in proper perspective, Congress has allocated hundreds of millions of dollars to prevent an insignificant number of hypothetical cancer deaths and ignored actual killers such as AIDS and drug-related homicides.

W. Kip Viscusi of Duke University addressed the role of the government and the courts in fostering accurate risk perceptions. Noting that government intervention in the form of safety regulations is frequently based on the assumption that individuals are irrational, he asserted that government intervention would be more constructive if based on evidence of legitimate market failures.

Thomas J. Kniesner of Indiana University argued that the Occupational Safety and Health Act of 1970 has failed to improve safety conditions in the workplace and should be replaced with workers' compensation insurance as a reliable and cost-effective method of encouraging safety on the job.

### Conference (Cont. from p. 3)

man William A. Niskanen considered a final demand rule superior to either a price rule or a monetary aggregate rule. He argued that if monetary policy were aimed at establishing a stable path for domestic final sales, it would not be affected by supply shocks and would accommodate unexpected changes in money demand.

Leland B. Yeager of Auburn University emphasized the objective of price-level stability, which he suggested could be achieved by private monetary institutions. George A. Selgin of the University of Georgia agreed that free-market money would be superior to government-managed money, but he preferred stabilizing nominal income to stabilizing the price level.

Donald N. McCloskey of the University of Iowa reviewed the history of forecasting. Forecasting is part of an ancient search for certainty in an un-

Joseph P. Newhouse of Harvard University advocated a fundamental revision of the medical insurance system—shifting the focus of legal liability from the individual physician to the hospital or health care organization that provided treatment, expanding liability to include all medically caused injuries instead of just those caused by negligence, and compensating nonpecuniary damages in accordance with a schedule of benefits paid for permanently disabling injuries.

Margaret Maxey of the University of Texas addressed risk assessment and perceptions from an ethical standpoint. Unfortunately, works such as Rachel Carson's *Silent Spring* have formed the ethical framework of the past three decades by insisting that nature now exists in a precarious balance and that only synthetic substances cause cancer—myths that are at the root of the call for zero risk to people and to the natural world. We must stop associating the word "risk" with harm or danger, Maxey argued, and instead consider a risk an opportunity to succeed or benefit. ■

certain world, he said, likening modern forecasting to the art of magic. He warned that the magic of social prediction and control must be watched because it is illiberal and inaccurate—not by accident but by design.

Other speakers included Victor Zarnowitz of the University of Chicago, Allen Sinai of the Boston Company, Eduard Bomhoff of Erasmus University, Alan C. Stockman of the University of Rochester, Michael D. Bordo of Rutgers University, Robert J. Gordon of Northwestern University, Robert L. Hetzel of the Federal Reserve Bank of Richmond, Paul W. Boltz of T. Rowe Price, Kevin D. Hoover of the University of California at Davis, and David I. Meiselman of Virginia Polytechnic Institute.

The conference was supported by grants from the George Edward Durrell Foundation and Ellis L. Phillips. Most of the conference papers will be published in the Winter 1992 *Cato Journal*. ■



Margaret Maxey, Judge Douglas Ginsburg, and William Niskanen listen to Judge Stephen Breyer's concluding address at Cato's conference on risk and safety.

**Education** (Cont. from p. 1)

ties, recently noted with alarm, "One of the most depressing things about educated people today is that so few of them, even among professional intellectuals, are able to follow the steps of a simple logical argument."

Few academics were surprised in 1985 when the Association of American Colleges stated flatly that "evidence of decline and devaluation is everywhere." Few significant disagreements were published when the Carnegie Foundation for the Advancement of Teaching reported in 1989 that 67 percent of their nationwide sample of professors agreed that "there has been a widespread lowering of standards in American higher education"; only 18 percent disagreed.

Liberal academics, such as Harvard's president, Derek Bok, scoffed at the explosion of conservative publications decrying the decay of standards, especially Allan Bloom's best seller *The Closing of the American Mind*. But none of those was as devastating or as sweeping as the recent indictment of the "elite" universities by Page Smith, one of our great liberal historians and the founding provost of the University of California at Santa Cruz. The very title of his scholarly book gives pause—*Killing the Spirit: Higher Education in America*. His evidence from inside the University of California and the other elite universities is stunning to outsiders.

David Glidden, a philosophy professor at the University of California at Riverside, summed up the growing faculty conviction that "the education of undergraduates at the University of California is failing. . . . Half the freshman class is deficient in English or in math. Once they make it through that first year of English composition, many UC students rarely write again, preferring multiple-choice exams to papers. There are all too many courses to oblige them with limited demands and little homework. Students graduating from the university are divided between a talented elite and those who never learned to study, read or think with the kind of care necessary for the challenges of the coming century."

The most severe declines in the relative abilities of American students have been in the economically vital fields of

engineering, technology, mathematics, and the natural sciences. The quality of American applicants to graduate programs in those fields has declined for about 20 years, according to the Council of Graduate Schools. More than half of the advanced degrees awarded by American universities in those fields now go to foreigners. Some professors in the natural sciences have almost despaired of American college students. Neville Kallenbach, chair of the chemistry department at New York University, recently told the *New York Times*, "We face the serious problem of becoming a know-nothing country." Only one of the 15 first-year graduate students in his department is an American.

The "buck passers," especially the administrators anxious to protect their

**"State colleges and universities are now gigantic government bureaucracies—megaversities—operated without the benefit of direct market forces."**

institutions' public images and tax bases, insist that any problems in higher education are attributable to the fact that entering freshmen are less adequately prepared each year. Albert Shanker, president of the American Federation of Teachers, believes that the buck must stop somewhere.

Right now we make believe that 50 percent of our kids qualify for college. Then we make believe that spending four years getting what should have been their high school education gives them a college education. We've been able to fool ourselves in the past, but world competition won't let us do so much longer.

But inadequate preparation is not the primary cause of the problems in our

colleges. The most important immediate cause of the decline of college learning is the decline in the amount of work students do. American high school students always did work much less, and fewer days per year, than comparable Japanese and European students, but they narrowed the accrued learning gap greatly by working harder in college. (Japanese students and many in Europe have long done much less work in college than in secondary school.) But in recent years American college students have worked less and less, thus learned less and less, and fallen ever further behind the Japanese and the hardest working Europeans.

The 1990 report of the Carnegie Foundation, *Campus Life*, revealed that 77 percent of full-time students in our four-year colleges reported studying less than 17 hours a week outside of class. The time devoted to studying was dramatically less than it had been a mere three years earlier. That finding is especially revealing in view of the growing percentage of students who are extending their courses of undergraduate study over five or more years. Today's students are, on average, just as intelligent as earlier ones, but they work much less, so they learn much less.

Why do they work much less? In good part because they get higher grades for less work. At elite universities such as the University of California, the average grade has drifted from a "gentlemanly C" to a "lordly B," yet there are far more complaints about grades today. There are also far more "Mickey Mouse" courses, "rap-session" courses, "Mau-mauing the bourgeoisie" courses, courses with no papers or essay questions, take-home exams that can be done by teams of conspirators, counselors to help do papers, "laidback" counselors who give "caring" rather than set an example of hard work, and more financial help to free students from the discipline of jobs. Those are the payoffs of the pseudoreforms, especially student evaluations, which many warned in the 1970s were eroding academic standards.

There is also the much resented negative role model of professors who hide from students and do little teaching for lots of money. In the state universities in California and many other states, teaching loads for professors are now

about one-fifth to one-third less than they were 15 years ago. In *Killing the Spirit* Smith notes that "one reason higher education is so outrageously expensive is that, the less teaching professors have done, the higher their salaries have risen. It is not unusual for a professor whose salary is in the \$70,000–\$80,000 range to teach only two or three courses a year." Each of those courses often requires only three class hours a week, and there are long vacations at Christmas and in the spring. Professors can frequently choose to teach their few courses over two quarters, leaving six months or more free to make more money consulting and doing research. The "invisible professors" are the most highly paid of all.

In addition, professors and administrators almost never try to determine what their students *retain* after "regurgitating" at exam time, and they do almost nothing to stop the general erosion of learning they know is occurring. As Bok concludes in *Higher Learning*: "In fact, no one knows a great deal about how much students learn in colleges and universities, and it is very difficult to find out. . . . Colleges work hard to provide new facilities, activities, and services but devote remarkably little time to deliberate efforts aimed at improving student learning." Any system without valid feedback on its outcomes and corrections of its failures spirals out of control. It is astounding how many students do not remember what the readings for last quarter's courses were supposed to have been.

**The Rise of the Megaversity**

Finally, and most important, there is the all-encompassing factor of bureaucratic stagnation that affects all levels of our system of education. State colleges and universities are now gigantic government bureaucracies—megaversities. Many individual campuses have over 20,000 full-time students, many thousands of part-time students, many thousands of extension students, and thousands of faculty and staff. Those huge campuses are megalopolitan subsidiaries of gigantic state university systems, which in turn are parts of colossal general plans for state education, which in turn are subsumed under the amorphous gargantuan central plans of education of the federal government.

The whole system operates without the benefit of direct market forces to motivate workers and constrain costs. Lifetime tenure at early ages and "old boy" and "old girl" networking at promotion time make union featherbedding and business oligopolies look robustly efficient. In many states, such as California, those bulwarks against competition are multiplied by the fact that in personnel matters the colossus works in deep secrecy behind walls of "legal exclusions" to prevent public or regulatory oversight. Like all large bureaucracies, especially monopolies operating with no significant outside regulation, the megaversities erode motivation and productivity even more severely than the Pentagon does because they do not face the ultimate

**"Lifetime tenure at early ages and networking at promotion time make union featherbedding and business oligopolies look robustly efficient."**

military market test of "do or die."

Committees proliferate and deliberate endlessly. Redundancy mushrooms. Everything except committee make-work, cocktail-partying, and jet-setting slows down and stagnates. Administrators, professors, and students all learn to ride the gravy train. It is no wonder that, as Smith says, even "the vast majority of the so-called research turned out in the modern university is essentially worthless. . . . It is busywork on a vast, almost incomprehensible scale." Almost 30,000 new academic journals have been founded since 1979 to publish hundreds of thousands of articles, most of which are rarely consulted by anyone.

Many variations of the old "bureaucratic reforms" have been used to try to overcome stagnation in academe. Some of them have beneficial effects in the

short run, but the bureaucracies all soon "decay to trend" and the drift into stagnation resumes. There is only one general reform that works—openness, decentralization, and debureaucratization. We already know, both from the entire history of economic experience and from the growing evidence in lower education, that there is one and only one simple prerequisite for general reform—freedom of choice for investors.

**A Choice Plan for Colleges**

The remarkably simple solution to the present crisis in higher education is to allow parents to deduct a portion of college expenses from their taxes and to grant each eligible college student a voucher for use in any qualified institution. The total costs can be restricted to the current direct costs of higher education in any state. It will take time for creative young educators to start up new colleges, but we know from our general experience with privatization that once they do, we can expect the soaring efficiency of the new colleges to lead to much lower costs per unit of learning.

In lower education, tax deductions for private school costs are already in effect in Minnesota, and vouchers and home education programs are working very well in various parts of the nation. The results have been so good, especially in contrast to the continuing erosion of public school results, that even many liberal education experts, notably John Chubb and Terry Moe of the Brookings Institution, now support parental choice among public schools.

Tax deductions and vouchers will work even better at the college level than they do in lower education. Adult students, parents, and counselors are far more able to determine quality education at the college level. The students will be far more motivated to do so by their career aspirations. And competency (results-based) testing of college students, while more specialized and complex than testing of younger students, is more valid. Some states, notably Tennessee and Florida, have been using such tests for several years, and some small private schools, Alverno College, for example, have developed excellent methods for assessing and motivating student learning. Those tests are very similar to methods used by

### Education (Cont. from p. 13)

highly competitive businesses to assess and encourage employee productivity. Nationwide teacher competency testing, which is already widely used in lower education, is directly comparable to college student competency testing. The schools being paid in tax deductions and vouchers can be held to required minimum standards of competency simply by auditing their average test scores, thereby eliminating the in-grown accreditation boards, which at present hamstring efforts at creative education.

General education could be supported by requiring that some minimal amount, perhaps one-third, of the tax

**"The vast majority of the so-called research turned out in the modern university . . . is busywork on a vast, almost incomprehensible scale."**

moneys be spent on it. The rest could be used for more specialized learning. Employers, who are already rapidly increasing their involvement in and expenditures on specialized higher education, would have great incentives to do even more, including providing matching education funds for employees. They would also be able to use the many specialized student competency test results to hire people with the real learning they need, rather than rely on the present college "credentialism," which certifies nothing much beyond attendance and payment of tuition.

The new era of free choice in education will not be utopia. But over a number of years it will produce an explosion of creative and productive communities of learning that will be far better for students and professors—and for the future of our nation. ■

## New Cato's Letters Call for Moral Drug Policy, Liberated Broadcasters

Read and debated in taverns and over supper tables around the American colonies, the original *Cato's Letters*, written by Englishmen John Trenchard and Thomas Gordon in the early 18th century, helped lay the foundations for the American Revolution. The Cato Institute, which took its name from those original pamphlets, continues the tradition of promoting discourse on a wide range of political economy and public policy issues with its own series of *Cato's Letters*.

In "Toward a Moral Drug Policy," the first of two recent *Cato's Letters*, Richard J. Dennis writes that Americans have forgotten that "the purpose of law is to prevent mayhem between men" while "the purpose of morality and religion is to persuade men to change their behavior voluntarily."

Dennis—a commodities trader, chairman of the advisory board of the Drug Policy Foundation, and a member of Cato's Board of Directors—argues that the war on drugs threatens "irreparable harm to our fundamental rights and constitutional protections." He calls on the law enforcement, judicial, medical, and clerical communities—the veterans of the war who know all too well the failures of prohibiting drugs—to initiate the call for a new, moral drug policy.

In "The Slow Poisoning of the First



Richard Dennis

Bill Monroe

Amendment," Bill Monroe questions the constitutionality of subjecting the broadcast media to stringent regulatory policies while allowing the print media across-the-board First Amendment protection.

Monroe, the former executive producer and moderator of NBC's "Meet the Press" and editor of the *Washington Journalism Review*, writes that America has "more than enough newspapers, newsletters, magazines, television stations, and radio stations to keep each other honest—if the Constitution and the courts can keep the government's hands off them." We must look to the Supreme Court to extend freedom of speech protection to the electronic media, for the broadcasters and politicians will not, he concludes.

"Toward a Moral Drug Policy" and "The Slow Poisoning of the First Amendment" are *Cato's Letters* nos. 6 and 7, available from the Cato Institute for \$2.00 each. ■

## CATO INSTITUTE CALENDAR

### Global Environmental Crises: Science or Politics?

Washington, D.C. • June 5–6, 1991

Speakers will include Patrick Michaels, Hugh Elsaesser, S. Fred Singer, Donald Stedman, Edward Krug, Fred L. Smith, Jr., and Richard Stroup.

### New Perspectives on the '90s

Chicago • June 13, 1991

Speakers include Wayne Angell, Wendy L. Gramm, David Boaz, and R. J. Smith.

### Summer Seminar in Political Economy

Dartmouth College • June 30–July 6, 1991

Speakers will include Edward H. Crane, David Kelley, Sheldon Richman, Leonard Liggio, Richard Ebeling, and Nadine Strossen.

## Banking Regulation Needs Reform, Authors Say in New Cato Book

The woes of the U.S. banking industry, following hard on the heels of the savings-and-loan fiasco, are attracting nationwide attention. Rising numbers of bank failures, concern about the financial health and viability of the Federal Deposit Insurance Corporation's Bank Insurance Fund, increased credit quality problems and loan write-offs, and a reduced presence in the world financial markets have contributed to increased interest in a major overhaul of U.S. banking law. Growing numbers of observers are convinced that the existing regulatory system is out of step with present market realities. Many of the topics currently being debated on Capitol Hill were addressed at a Cato Institute conference in November 1988, and the updated papers from that conference are the foundation of a new

book from the Cato Institute.

In *Governing Banking's Future: Markets vs. Regulation*, private- and public-sector students of the financial markets consider the consequences of allowing domestic and international markets a greater part in determining the role of banks.

The papers in this volume, edited by Catherine England, Cato's director of regulatory studies, address such topics as whether banks, with their federally protected deposits, can be insulated from their nonbank parents and other affiliates by a holding-company structure and whether allowing a broader range of companies to own or be affiliated with banks would introduce additional, unacceptable risks into the payment system.

The authors also look at the impetus behind recent efforts to establish internationally coordinated standards of regulation and discuss both how viable and how desirable it would be to subject banks in different countries to similar standards.

Contributors to *Governing Banking's Future* are H. Robert Heller, P. Michael Laub, Edward J. Kane, Michael C. Keeley, James L. Pierce, Walker F. Todd, John H. Kareken, Gerald P. O'Driscoll, Jr., Robert T. Clair, Gerard F. Milano, Angela Redish, Mark J. Flannery, and Wayne D. Angell.

*Governing Banking's Future*, published by Kluwer Academic Publishers, is available in paperback for \$13.95. ■



Catherine England

### Best-selling studies from the Cato Institute's Policy Analysis Series

- 141. "Term Limitation: An Idea Whose Time Has Come" by John Fund. 29 pp., 1990
- 126. "Education: Is America Spending Too Much?" by John Hood. 16 pp., 1990
- 121. "Thinking about Drug Legalization" by James Ostrowski. 64 pp., 1989
- 109. "Trust the People: The Case against Gun Control" by David B. Kopel. 52 pp., 1988
- 102. "The Slow Death of the U.S. Postal Service" by James Bovard. 21 pp., 1988
- 18. "Competition, Regulation, and the Market Process" by Israel Kirzner. 12 pp., 1982

Policy Analysis studies are available for \$4.00 each or \$2.00 each for five or more copies. A complete listing is available. Order from Cato Institute, 224 Second Street, S.E., Washington, D.C. 20003.



Jerry Taylor has joined the Cato Institute as director of natural resource studies. He previously served as legislative director for the American Legislative Exchange Council, with responsibility for energy, environment, natural resources, and agricultural policy.



Sheldon L. Richman has joined Cato as a senior editor. A long-time journalist, he worked for the Associated Press, the *Wilmington News-Journal*, and *Inquiry* magazine. He was most recently director of publications at the Institute for Humane Studies.



John S. Buckley, an attorney and former member of the Virginia legislature, has joined Cato as director of development.



# "To be governed..."

## Gorby to voters: You never had it so good

Over the years, it's become one of America's favorite political bromides: Americans are the best housed in the world.

Well, it ain't necessarily so.

A recent study by the accounting firm of Arthur Andersen & Co. reported that... the most inexpensive housing for middle-income families, for example, can be found in Brazil and the Soviet Union.

— *Washington Post*, Feb. 23, 1991

## He liquidated all them Iraqis, heh, heh, heh

"If we did [have a place for Gen. Norman Schwarzkopf after his retirement], it would most likely be in the division of liquidation," says Alan Whitney, spokesman for the Federal Deposit Insurance Corp. "Between the FDIC and the Resolution Trust Corp., we have the largest portfolio of assets for liquidation that the world has ever seen, and Gen. Schwarzkopf has certainly proved capable of operating on the world stage."

— *Wall Street Journal*, Mar. 1, 1991

## Just like every other entrepreneur

[Garry Sowerby and Tim Cahill] were trying to cover the 15,000 miles between [Tierra del Fuego and Prud-

hoe Bay] "in twenty-six days. More or less."...

They were out to break the Guinness Book of World Records benchmark for north-south road travel, and to pick up a few bucks along the way [from the car manufacturer and a book publisher]...

They got through the places they feared most, Colombia and Nicaragua, with little more than a few menacing stares; they drove at night without interruption by bandits; they never even had serious mechanical trouble. Instead it turned out that "regulations would be our biggest problem on the drive"; from Argentina to Mexico they encountered an endless succession of policemen and bureaucrats, most of whom could be persuaded to pass them along only after elaborate negotiations and the liberal application of baksheesh.

— Jonathan Yardley in the *Washington Post*, Mar. 13, 1991

## The opiate of the masses

Among the questions asked were: How do you feel about legalizing marijuana? To which [Rep. Bernard] Sanders responded negatively... He also suggested that regular use of the drug tends to make people more apathetic and less outspoken politically and otherwise.

— (St. Johnsbury, Vt.) *Caledonian-Record*, Feb. 14, 1991

## The sister group, Students Enlisting in Desert Storm, is still struggling

At Harvard, students Adam Taxin and Harry Wilson signed up seven hundred members for their Students United for Desert Storm in the first week of its existence.

— *National Review*, Mar. 18, 1991

## We're not in solidarity with those Nicaraguan people

Phyllis Engelbert... had come to Washington in 1989 to work... for the National Network in Solidarity with the Nicaraguan People. But when the Nicaraguan people elected anti-Sandinista candidate Violetta Chamorro last year, the network's money dried up.

— *Washington Post Magazine*, Feb. 10, 1991

## A concise statement of the century's stupidest political theory

Many Connecticut legislators were astonished last month when [Gov. Lowell P.] Weicker proposed a personal income tax...

"I'll tell you one thing that pleases me right off the bat," said Weicker. "Everybody is [annoyed]. Not one side or the other, but everybody. Now doesn't that tell you this plan is fair?"

— *Washington Post*, Mar. 3, 1991

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