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Yuppies and the Future of American Politics

by David Boaz

Since the mid-1960s some political observers have been eagerly awaiting the electoral realignment that should have occurred 32 to 36 years after the 1932 election, based on historical patterns. Instead, though our political system has gone through many changes, no such realignment has taken place, and even President Reagan's sweeping victory does not seem to have caused one—though his support among young voters may be the harbinger of realignment.

The 1960s began as the high point of the New Deal system. Politics was neatly divided into conservatives and liberals, with liberals promoting government intervention in the economy and expansion of civil liberties, and conservatives resisting both.

American society entered a period of turmoil, however, in the Sixties, and the political system was greatly affected. Several factors were involved: The largest number of people ever entered college, a product of both the baby boom and the affluence and optimism of the 1950s. The affluence and the expanded lifestyle choices it en-

tailed—along with, especially, the invention of the Pill—brought forth on campus a new interest in personal freedom while provoking, in other sectors of society, a reaction against "permissiveness." This large college generation collided with the most unpopular war in American experience in what one observer has called "a hellish blind date arranged by history." Campus turbulence, especially through the antiwar

"Many recent political phenomena don't fit the liberal-conservative model."

movement, shook the political system.

Toward the end of the Sixties economic problems arose as a result of Lyndon Johnson's pursuit of the Vietnam War and the War on Poverty. Inflation and unemployment began to rise together, casting doubt on the time-honored Phillips Curve of the Keynesians. The Seventies were ushered in as a time of economic stagflation and political quiescence.

In the late 1970s certain subterranean political trends began to emerge. On the one hand, political parties became more ideological, with the coalescing of liberal activists' control over the Democratic party and the ascendancy of the New Right in the GOP. The views of delegates to both party conventions diverged widely from those of the general public. But at the same time, strange things were happening that did not fit the increasing ideological rigidity of the party structure:

- In 1982 the voters of California approved several tax cut initiatives and overwhelmingly rejected gun control, yet they endorsed the nuclear freeze—a combination of posi-

tions supported by no politician and by neither party.

- On the other side of the country in New England, Massachusetts voters rejected attempts to weaken the Proposition 2½ tax cut, while their Vermont neighbors in more than 100 town meetings were backing the nuclear freeze.
- Rep. Bill Green (R-N.Y.) and Rep. Ike Skelton (D-Mo.) received identical 50-percent ratings on their 1982 congressional votes from the liberal Americans for Democratic Action. Yet, as political analyst Alan Baron points out, the two congressmen actually agreed on only five of nineteen issues, with Green voting liberal on social issues and conservative on economics, and Skelton voting just the opposite.
- In 1980 independent presidential candidate John Anderson attracted in some polls the support of as much as 25 percent of the electorate with his unusual combination of fiscal conservatism, social liberalism, and mildly dovish views on foreign policy.
- Currently, pollsters are finding that overwhelming majorities of their samples support the constitutional amendment to balance the federal budget and the nuclear freeze. Clearly a significant number of people support both positions at the same time.

What is the common thread that runs through these phenomena? It is that they don't fit the liberal-conservative model.

In a new book just published by the Cato Institute, William S. Maddox and Stuart A. Lilie offer a theoretical framework for understanding some of these unconventional results. Traditionally, they write in *Beyond Liberal and Conservative: Reassessing the Political Spectrum*, political scientists have categorized

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The Budget Can Be Cut

However President Reagan construes the mandate of his landslide reelection, the success of his second term will be determined largely by how he deals with the deficit. The Washington establishment has made it conventional wisdom that the deficit can be eliminated only by yet more tax increases. This establishment view is held by Republicans and Democrats, liberals and conservatives. But a hardy band of tax opponents—most recently including the president, a few supply-siders, and the American people—are holding out against the onslaught.

Since roughly the day after Reagan's inauguration, we have been subjected to a constant barrage of news stories about budget cuts, austerity, and the like. It is commonly accepted that the budget (at least the non-defense budget) has been cut so much already that there is no room for more. Besides, why scale down the budget when the deficit is "obviously" a result of President Reagan's "massive" tax cuts? Just raise taxes.

As usual, the conventional wisdom is wrong. Federal revenues as a percentage of GNP are slightly lower than when Reagan took office, but they are still higher than their average in the 1970s. The deficit is a result of uncontrolled spending, not tax cuts. Even the *Washington Post* recently editorialized that Reagan is "the all-time gold medal champion big spender"—though this burst of truth didn't stem the tide of headlines about austerity and budget slashes. Federal spending as a percentage of GNP was 22.9 percent in 1980; it reached 25.0 percent—the highest figure since World War II—in 1983, and is projected to fall only to 23.8 percent in 1984.

Military spending accounts for some of this increase, of course. It was 5.3 percent of GNP in 1980 and 6.5 percent in 1983. But non-defense spending was 18.0 percent or higher from 1981 to 1983 and was projected to fall only to 17.4 percent in 1984 as a result of the stronger economy—still higher than the Carter years.

Raising taxes to roll back the deficit is a futile task—congressional spenders will always find ways to spend the new revenue. Besides, tax increases would further restrict our right to spend our own money the way we choose and would choke off economic growth. The deficit can be reduced only by cutting federal spending.

For those who think that federal budget waste has been eliminated, here are a few places that were missed:

- Subsidies to business. It is virtually impossible to uncover all the business subsidies in the federal budget, but they certainly amount to some tens of billions of dollars. One 1982 estimate put the figure at \$47 billion. This includes such programs as energy development subsidies, the Export-Import Bank, the Farmers Home Administration, the Small Business Administration, the U.S. Travel and Tourism Administration, and federal housing programs. David Stockman once proudly pronounced that the Reagan administration would focus its budget cuts not on "weak clients" but on "weak claims." It's time to make good on that promise.
- Revenue sharing. Why should a government \$200 billion in debt send good money to states and cities, most of which have surpluses? This would save \$4.6 billion.
- Foreign aid. Most economic aid goes to prop up dictators of the right or left, subsidizing central planning and gold-plated projects and lining the pockets of corrupt officials. Third World countries need free markets, not handouts to their governments. Reduce or eliminate this \$12 billion program.
- Department of Education. Recognizing that test scores have generally dropped while federal spending on education rose, President Reagan promised in 1980 to abolish the DOE. Now, with his mandate, he's in position to keep that promise and save some \$16 billion.
- Farm subsidies. This program was up to \$21 billion in fiscal 1983. It's time to recognize that farmers are businessmen in a free-enterprise economy and should face and insure against the same risks that other businesses do. End the subsidies.

Military programs should not be exempt from scrutiny at the White House. Parkinson's Law operates at the Pentagon as well as in other bureaucracies, and one manifestation is our proliferation of commitments around the world. We currently spend more than \$100 billion defending Western Europe and nearly that much for other parts of the world. It's time to take a hard look at those commitments and to begin cutting them back.

The federal budget is an overflowing porkbarrel. Virtually all Americans would be better off if it were substantially reduced. The opportunities are there; all that is lacking is the political will. A 49-state landslide should help to shore that up. ■

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

Yuppies (Cont. from p. 1)

people as either liberals or conservatives based on their views on two sets of issues: government intervention in the economy, and the expansion of civil liberties. But two sets of issues, each with two answers, yield four ideological categories. To the two traditional groups, therefore, Maddox and Lilie add two more: populists, who support economic intervention but oppose expansion of civil liberties; and libertarians, who oppose economic intervention and support expanded civil liberties. The four categories are illustrated in Figure 1.

Many people would argue that the two "new" groups are actually more ideologically consistent than the older two. The traditional definition makes liberals appear consistently "for" economic intervention and civil liberties and presents conservatives as consistently "against" both. But libertarians would argue that it is they who are consistently skeptical of government involvement in either economic or personal affairs while populists consistently—if wrongly—support a large role for government in both areas.

A look at the distribution of each group in the electorate will strengthen our understanding of recent political changes.

As Table 1 suggests, in any given year the number of respondents who can best be described as libertarian or populist is roughly equal to the number of liberals and conservatives. Yet the former categories have up to now been omitted from the analyses of both political scientists and political analysts. Recently some observers have come to recognize the deficiencies of the liberal-conservative dichotomy, and Maddox and Lilie are not the only analysts to look at the two sets of issues. In *The Almanac of American Politics 1982* Michael Barone and Grant Ujifusa offer a similar four-part matrix of political beliefs. "Strictly on the basis of intuition," they suggest that 30 percent of the population can best be described as liberal on economic issues and conservative on cultural issues (the Maddox-Lilie populists), and that 25 percent are economically conservative and culturally liberal (libertarians). Sociologist Te-

rry Nichols Clark of the National Opinion Research Center goes even further, writing that "most Americans today are fiscal conservatives but social liberals."

What does all this tell us about recent elections? Maddox and Lilie suggest that Reagan's 1980 victory was grounded in the support of conservatives but that he carried a large majority of libertarians, presumably on economic issues, and a significant minority of populists, presumably on social

probably a losing cause, divide their own ranks and alienate the very voters who could make them the majority party of the next three decades." Broder pointed out that when voters were asked whether divorce, cohabitation, homosexuality, and other such signs of the times were evidence of "moral decay" or "greater social tolerance," they chose the latter by a 3-to-2 margin. Voters aged 25 to 35 chose "tolerance" by 3 to 1. Among the baby

Figure 1 Issue Dimensions and Ideological Categories

Expansion of Personal Freedoms	Government Intervention in Economic Affairs	
	For	Against
For	Liberal	Libertarian
Against	Populist	Conservative

Table 1 Distribution of Ideological Types in the 1970s, by Percent

Ideological Category	1972	1976	1980
Liberal	17	16	24
Populist	30	24	26
Conservative	18	18	17
Libertarian	9	13	18
Inattentive/Divided	25	29	15

Source: William S. Maddox and Stuart A. Lilie, *Beyond Liberal and Conservative* (Washington, D.C.: Cato Institute, 1984), table 3.

issues. Carter carried the liberals, but his major problem was an inability to hold the populist vote. John Anderson attracted about 17 percent each of the liberals and libertarians and virtually no support from conservatives and populists.

Broadening our perspective a bit, there is much anecdotal evidence from October 1980 newspaper stories that young voters in particular finally chose Reagan on the basis of his economic program, despite their doubts about his views on social issues and his commitment to peace. After the 1980 election some observers warned the Reagan administration of this. David Broder wrote in the *Washington Post* that the Republicans had both an economic mandate and a social mandate. With the economic agenda, he argued, they "have a chance of success that can broaden their constituency," but if they press the social agenda "they will squander their energies in what is

boom the Moral Majority had no majority.

Apparently some White House advisers—probably the notorious pragmatists—were listening to such oracles. White House adviser David Gergen said at the time, "The social issues are the ones that are divisive. Those are the issues on which this coalition could fracture. The issues that unite people are economic in nature." Throughout his term President Reagan has affirmed his devotion to the social agenda of the New Right with ringing rhetoric, but he has never put the power of the White House behind any of the Moral Majority's proposals. His strategists have likely calculated that his rhetoric would soon be forgotten by most voters while victories on divisive social issues would be much more dangerous.

As the 1984 campaign opened, Lee Atwater of the Reagan-Bush committee said that Reagan would emphasize economic issues and on social issues

Yuppies (Cont. from p. 3)

would "maintain the fact, as he always has, that he is tolerant." During one summer weekend, while his New Right followers were forcing the Minnesota Republican convention to vote on no fewer than 87 resolutions opposing such bêtes noires as homosexuality, abortion, and the ERA and supporting the squeal rule and the death penalty, Reagan made a national radio speech affirming his support for "family values." The laws he proposed to protect such values? An increase in the tax deduction for children and crackdowns on child pornography, parents delinquent in child-support payments, and mass murderers. Not exactly a litany of New Right horrors designed to scare the baby boomers. Moreover, in a nationally televised press conference just before the Democratic National Convention, Reagan even turned down an opportunity to attack the Democrats for their support of gay rights, saying merely "I just have to say I am opposed to discrimination period."

Meanwhile, on the Democratic side, Walter Mondale—described by one perceptive observer as "the distilled essence of the Democratic party"—ran into unexpected trouble trying to defeat Gary Hart. Hart achieved his initial successes by, in the view of frustrated politicians and journalists, simultaneously running to the right and left of Mondale. He was breaking the rules, but it seemed to be working. Young voters in particular seemed to respond to Hart's attacks on Mondale's old-style spend-and-elect politics, combined with his culturally liberal or laissez-faire views and strong aversion to military adventures overseas.

Journalists began to find Hart's support among a new group of voters—young urban professionals, or "yuppies." The *New York Times* characterized them as economically conservative and socially liberal, and as voicing a "thunderous no" to foreign intervention. A Harris Poll found them more in favor of defense cuts and deregulation and less supportive of protectionism and special help for smokestack industries than older voters. They were also more inclined to call themselves independents. Most outrageous, from the Mondale

camp's point of view, half of them told exit pollsters they wouldn't vote for Mondale over Reagan.

The yuppies closely match the demographic profile of Maddox and Lillie's libertarians: young, well-educated, and affluent. This year, with Hart out of the picture, they apparently voted for Reagan on the basis of economic issues, overlooking—or disbelieving—his commitment to social conservatism. Reagan did at least as well among younger voters as among their elders, reversing some two decades of young people's support for Democrats. Though Reagan got only 4 percent of Mondale's primary voters and only 6 percent of those who supported Jackson in the primaries, he gained the support of 34 percent of the Hart primary voters. Perhaps most tellingly, 62 percent of self-described "young urban professionals" voted for Reagan.

Despite their enthusiasm for his economic program (or at least his economic rhetoric), yuppies were still mistrustful of Reagan's social conservatism and lack of commitment to arms control. The president moved to counter this problem, however, with his above-mentioned caution on social issues and his "September surprise" on arms control.

The general dominance of economic issues over cultural issues was confirmed by an intensive 1976 study of Dearborn (Michigan) voters, which showed that partisanship correlated strongly with a voter's views on New Deal economics, but that neither partisanship nor economics at all correlated with a voter's liberalism or conservatism on issues of race, law and order, or lifestyle.

What does the future hold for the yuppies and America politics? Some 75 million Americans—43 percent of the electorate—make up the baby boom generation, so they are sure to play an important political role.

Consider today's 35-year-old voter, the typical yuppie: He was 13 during the Cuban missile crisis, when his classmates huddled in the hall during air-raid drills and learned of the imminent threat of nuclear war. He was 15 when the Gulf of Tonkin resolution got the United States deeply involved in the Vietnam War, 19 and trying to avoid the draft during the Tet offensive, 25

when President Nixon resigned in disgrace, and 31 when inflation hit 21 percent for a brief period under President Carter. Today the yuppies mistrust Mondale's interest-group liberalism. They have gone into business and have begun paying, and resenting, taxes. But they have hardly "turned to the right"; they retain the cultural liberalism and the antiwar attitudes of the Sixties.

In 1980 an Opinion Research Corporation poll found that 75 percent of voters under 40 would be likely to support a presidential candidate whose two major planks were a major reduction in taxes and a major reduction in American involvement in the internal affairs of other nations—a combination of positions not propounded by any recent candidate. Today younger voters say that Republicans are better at keeping inflation down by 59 to 29 percent, while they prefer the Democrats by 47 to 30 percent for keeping us out of war.

This "peace and free enterprise" constituency is currently without a real voice in politics. John Anderson and Gary Hart both tried to appeal to it, somewhat uncertainly, and had some success, but ultimately their programs were not clearly differentiated from those of their opponents. As the baby boomers increasingly realize that neither liberals nor conservatives adequately reflect their views, we may see some major shifts in the political landscape. Yuppies have shaped the economic market in everything from entertainment to cars to personal fitness to flextime on the job; they could have the same impact on the political marketplace (though for a variety of reasons the political market works far less well than the consumer market). A candidate who combined, say, Jack Kemp's views on economic issues with Gary Hart's positions on foreign policy and cultural issues could attract younger voters from both parties and shake up whatever party he or she chose to run in. That strategy would require a candidate with some entrepreneurial flair, since it involves reaching a new constituency with a message that hasn't yet been put forward. But such an appeal could change the course of American politics and policy, bringing about an electoral realignment that could last until the baby-boomers' dotage. ■

Scalia, Epstein Clash on Role of Judges

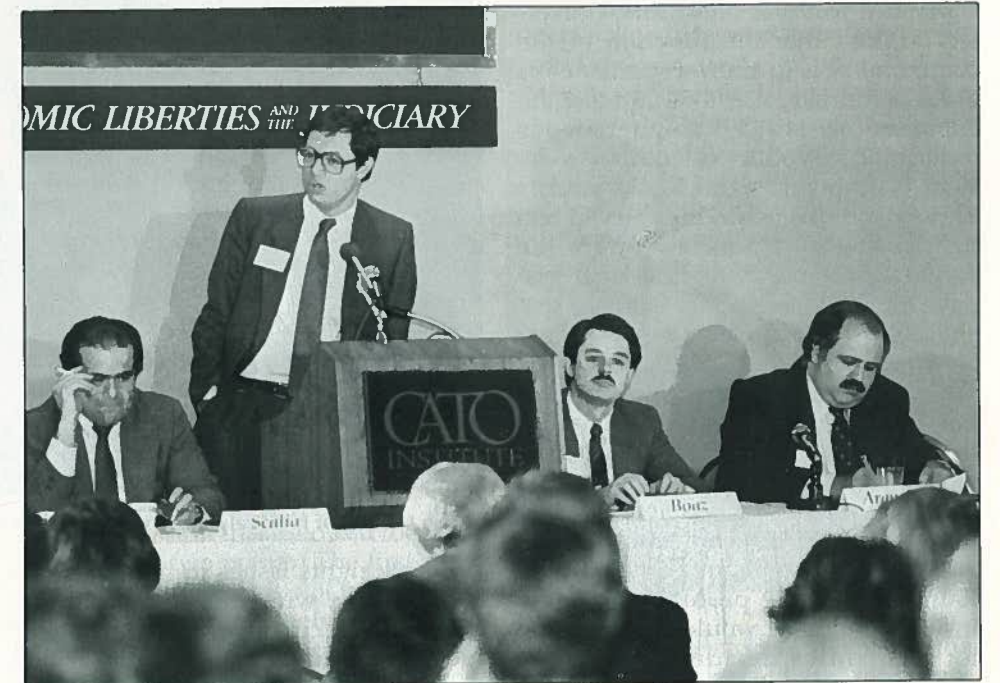
A clash over the role of the judiciary in protecting economic freedom highlighted the Cato Institute's October conference, "Economic Liberties and the Judiciary." U.S. Circuit Judge Antonin Scalia, reported to be on President Reagan's "short list" of possible Supreme Court appointees, argued against appeals for courts to be more active in protecting economic rights.

"I am skeptical because I fear the effect on the continuing expansion by the courts in other areas," Scalia told the conference's opening session. "One of the serious imbalances in our system in recent years has been the judicial appropriation of democratic powers in other fields." Scalia said he doubted the courts could restrain themselves once they began "constitutionalizing" economic liberties.

Richard Epstein, professor of law at the University of Chicago and editor of the *Journal of Legal Studies*, took sharp issue with Scalia's remarks. Epstein said courts must try "to find a way to minimize the sum of the abuses which flow from legislative greed on the one hand and judicial incompetence on the other, there being no third alternative to this sorry state of affairs." Epstein told Scalia and other judges "to take more seriously, or at least more ener-



Judge Antonin Scalia argues that courts should not attempt to "constitutionalize" economic liberties.



Richard Epstein attacks "legislative greed and judicial incompetence" as Judge Antonin Scalia, David Boaz, and Peter Aranson listen.

Cato News

getically, the role the Constitution assigns you" in protecting economic freedom.

In the luncheon speech Bernard Siegan, director of law and economics studies at the University of San Diego and author of *Economic Liberties and the Constitution*, weighed in largely on Epstein's side of the argument, arguing that "economic due process . . . is entitled to no less respect or authority than any other constitutional guarantee of liberty." Siegan argued that the Fourteenth Amendment guarantees constitutional protection against violations of individual rights by the states and offered extensive evidence from the 1866 debates over the amendment that its purpose was clearly to protect economic as well as civil liberties.

Peter Aranson of Emory University's Law and Economics Center said that "the Supreme Court has long engaged a history of plain economic error. . . . The Supreme Court is notable not for what it does, but for what it does not

do" in protecting against "private interest bargains struck in the legislature."

In a conference session on antitrust, Federal Trade Commission chairman James C. Miller III said that government should not use antitrust laws "to stifle normal competitive impulses." Miller argued that "in contrast to older textbook models real world competition can provide lower prices, higher quality, and an ever-widening array of new products, services and price-quality options." Miller warned that firms may try "to use the coercive powers of government for their own advantage against their rivals."

Robert Tollison, director of the Center for Study of Public Choice and former director of the FTC's Bureau of Economics, argued that the traditional public-interest view of antitrust policy failed to explain its actual operation and argued for applying public-choice insights to the field. In commenting on Tollison's paper Kenneth Elzinga of the University of Virginia argued that ideas matter more and interests somewhat less than what Tollison had said, while D.T. Armentano of the University of Hartford criticized the actual operation

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Conference (Cont. from p. 5)

of the antitrust laws.

Mario J. Rizzo of New York University argued that the function of the common law is to allow a spontaneous order of individual actions and that the common law is itself a spontaneous order, not a product of conscious design. If economists and legal theorists understood this point, they would recognize that common law offers the prospect of a policy-neutral legal system; thus it is not correct to argue that any legal system must be based on specific policy goals.

Henry Manne, director of Emory's Law and Economics Center, argued that insider trading can sometimes provide incentives to entrepreneurs and makes the stock market more efficient by more quickly disseminating all available information about a given stock. Rather than legal prohibitions on all insider trading, it would seem wise to let companies decide individually whether they wish to allow it.

Wesley Liebeler of UCLA addressed



Mario J. Rizzo of NYU raises a point during discussion period.

property rights issues in judicial decision making, while Roger Pilon of the Federal Executive Institute urged judges to see their responsibility as the protection of life, liberty, and property as outlined by the Constitution.

More than 100 people attended the conference, which was aired nationally over the C-SPAN television network. Conference papers will be published in the Winter 1984/85 issue of the *Cato Journal*. ■

FEC Threatens Free Speech

The Federal Election Commission (FEC) is a threat to free speech, charges journalist Mary Meehan in a new *Cato* study.

Meehan, a longtime student of election laws, writes, "The commission has many faults, to be sure, but its major faults stem from the law itself. Until Congress summons the courage to admit this by repealing the law—and, incidentally, abolishing the commission—we will have severe restrictions on First Amendment rights, as well as discrimination against the underdogs of American politics."

Meehan says that the Federal Election Campaign Act (FECA) restricts freedom of speech both by preventing candidates from raising the money they need for communicating their message to the public and by restricting spending. The large contributions it prohibits are necessary "seed money," especially for non-mainstream candi-

dates. Former Sen. Eugene McCarthy testified, "If we had had the federal election law, I do not think we could have done anything close to what we did in 1968 in the challenge on the war."

The commission also has a "chilling—if not freezing—effect on the speech of grass-roots, issue-oriented groups." Meehan cites FEC actions against such diverse organizations as Massachusetts Citizens for Life and Women's Action for Nuclear Disarmament.

Other charges made by Meehan against the election law and the FEC include the following:

- By restricting the coordination of independent expenditures by issue-oriented groups with the candidates they favor, the law is restricting freedom of association.
- "A law reputedly designed to ensure honest politics has encouraged a great amount of fudging, conceal-

ment, and deceit." Meehan cites Walter Mondale's "independent" delegate committees during the primaries and the "soft money" received by both parties from corporations and unions.

- "The commission encourages campaigns to harass one another." Candidates file complaints against each other, pro-abortion and anti-abortion groups file complaints about each other, and the National Right to Work Committee and labor unions do the same. Most of the complaints involve petty violations of the election laws and are designed merely to intimidate opponents.
- It appears that the FEC is much tougher in its investigations of defeated candidates and ideological groups than it is in those of congressional incumbents.
- The commission's limits on

(Cont. on p. 12)

Simon, Wattenberg Call For Freer Immigration

Julian L. Simon offered a forceful argument for liberalized immigration laws at an October Cato Policy Forum. Simon, a professor of economics at the University of Maryland and author of *The Ultimate Resource* and *The Economics of Population Growth*, noted that the typical immigrant comes to the United States during his prime working years and that he is better educated or more highly skilled than is the norm in his native country.

Contrary to popular opinion, Simon pointed out, immigrants as a group pay



Julian Simon

more in taxes than they receive in government benefits. One of their biggest net contributions is in the form of social security taxes. Unlike the average native, immigrants typically have no parents or grandparents to be supported by social security; thus, their contributions help defray the costs of native retirees. Upon taking a job, therefore, each new immigrant increases the total payments of the current working population without adding to the current number of beneficiaries. Simon concluded that problems could arise if the natives of a particular country or culture threatened to "swamp" the native U.S. population. But given the existing cultural diversity of the United States, he noted, we can go much further in liberalizing immigration policy before there could be any reason for concern.

Commenting on Simon's talk was Ben J. Wattenberg, senior fellow of the American Enterprise Institute and author of several books, including the re-

cent *The Good News Is the Bad News Is Wrong*. Wattenberg largely agreed with Simon's conclusions and added a different argument for liberal immigration policies. The U.S. birth rate has dropped below replacement levels. If this trend continued for some time, U.S. population would actually shrink. In Wattenberg's view continued U.S. economic health depends in part on a large workforce, and, he argues, our world leadership position is contingent on maintaining a certain percentage of the world population as advocates of democratic capitalism. In the absence of internal population growth, the shortfall must be made up through immigration.

The discussion that followed focused primarily on two points. The first concerned the natural rights of individuals anywhere to move freely across national borders. But granting this "right," it was noted, potentially abrogates the "rights" of individuals within a community to protect the cultural makeup of their society. The relative merit of these two rights was the subject of heated debate. Wattenberg denied that there was a right to free immigration, though he defended the right of free emigration as an important safeguard for individuals and a useful

check on the bad impulses of governments, allowing people to "vote with their feet."



Ben Wattenberg

A second question centered on the best way to advocate liberalized immigration rules. William Niskanen of the President's Council of Economic Advisers noted that the average citizen may respond more positively to arguments about the economic advantages accruing to natives as a result of immigration than to more abstract arguments about the natural rights of individuals to move freely. ■



Cato Adjunct Scholar Jennifer Roback of Yale University, Ed Crane, and Milton and Rose Friedman talk at Mont Pelerin Society meeting.

Poverty and Welfare: Are We Losing Ground?

Every month the Cato Institute sponsors a Policy Forum at its Washington headquarters where distinguished analysts discuss their views with an audience drawn from government, the public policy community, and the media. A recent forum featured Charles Murray, a senior fellow of the Manhattan Institute and author of *Losing Ground: American Social Policy, 1950-1980* (Basic Books, 1984). Following is the edited text of Mr. Murray's remarks.

One of my main goals in writing *Losing Ground* was to find a common language in which conservatives and liberals who like to think about ideas can communicate about issues and social justice. As far as I'm concerned, liberals are just about the only political group with which libertarians can communicate these days about ideas. The political center, both of Democrats and Republicans—and I include the administration—is pretty much intellectually bankrupt.

Some of the issues that concern the situation of the poor and disadvantaged in this country are in many ways more muddled now than they were in 1964. There seems to be a general notion that if we get rid of welfare cheats and have enough economic growth, all the problems will take care of themselves. I just don't think that's true. Unless people who are interested in ideas and who come from both ends of the political spectrum can communicate with each other, we will continue to pay off the poor and the blacks as we have been doing for the last several years, hoping that they will stay sufficiently far in the background for us not to have to worry about them.

But it is all too easy for liberals and libertarians not to understand each other. If I, as a person with a strong libertarian streak, say that I think it isn't right that the government take part of my income to pay for food stamps, then there is really nothing for us to discuss. First of all, my liberal friend will assume that (whatever I may say) I am probably more concerned about the tax bite than I am about the issue of social justice. Even if I do convince him that food stamps are a moral issue to me, I



Charles Murray: "The tragedy of our welfare policy is the child who should be a surgeon or a business person—escaping from the ghetto permanently—who is not getting out of the system."

will not have posed a substantive issue to him. In his view the notion that food stamps are wrong, not just inefficient or expensive, is nonsense.

Let us ignore, then, for present purposes, the merits of transfers from the "haves" to the "have nots." Let us ignore food stamps and medicaid, and other things that represent transfers

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from those who pay more taxes on behalf of people who have less. Instead, let's consider the following proposition: A central feature of social policy for the last 20 years has consisted not of transfers from the haves to the have nots; rather, the lawmakers and courts have mandated transfers from poor to poor. The transfers are mandated by the better off, but the price must be paid by donors just as poor as the recipients.

Let's start by considering inner-city schools in which all the students are black. The 1960s saw enormous reforms in education motivated by the perception that injustices were being done to some students in these schools. The story I am about to tell addresses one of

these reforms.

Let us say that I observe two students, both poor, both disadvantaged. One is studying hard, and the other makes trouble and gets thrown out of class. The bad student is eventually expelled from school, becomes delinquent, and ends up in prison. Let us also say that the sequence of events can be traced to the fact that he was originally kicked out of class. As a sensitive, socially conscientious observer I argue, as was argued from the mid-1960s, that this is grossly unfair. Had that student been white he might have gotten thrown out of school, but parental and school pressures probably would have gotten him back in or straightened out. If things got bad enough and his parents had enough money, he would have been sent to military school or some other middle-class surrogate for reform school.

Further, we know that the behavior of the teacher toward these students is unfair and biased because the teacher is a white suburbanite. He or she doesn't sympathize with or understand black culture. To remedy the unfairness in the interest of greater social justice, I have policies enacted that severely limit the discretion of the teacher to expel the bad student from class. (I am referring

to the very strict rules imposed in the wake of *Gault v. Arizona* in 1967 which not only restricted what teachers and school administrators could do, but made them quite vulnerable to lawsuits and other professional danger if they transgressed their limits.) The result, not unnaturally, is that the bad student continues to misbehave in the classroom. Other students who perceive his greater latitude join him. In general, a lot less teaching goes on and the standards of performance that the teacher can try to enforce diminish.

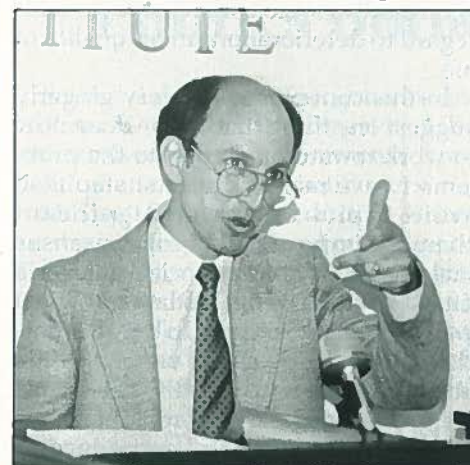
I also observe other unfortunate situations in the schools. The worst students are disheartened by failure: telling them "you have failed" makes them give up. Tests, it is said, discriminate in favor of people with certain intellectual skills because those tests are culturally biased. Therefore, to remedy the injustice, I forbid the use of standardized tests. I forbid failure, or at least the acknowledgment of failure, on behalf of the unsuccessful student.

Some benefits are obtained by these measures. More kids stay in school and get a diploma, for what it's worth. But someone—and it is not the child of the white and affluent—has paid a price. The price has been exacted from the poor, black student who tried to study hard. One poor and disadvantaged student was compelled to give up part of the good called education so that another student could stay in the classroom. The parents of the good student, who are likely to be responsible to some extent for the fact that their child wanted to study hard, have been required to give up part of their ambitions for that child. But they did not have the option of putting their youngster in a private school. In our concern over the deterioration of education in suburban schools, we overlook the enormous extent to which the more affluent middle-class whites, unlike poor blacks in the inner city, have been able to compensate for deficiencies in public education.

Let me take another example—criminal justice. Beginning in the mid-1960s there was a widespread revulsion against punishment and incarceration which had dramatic effects on the treatment of offenders on all levels of the criminal justice system. The case of juvenile delinquents is typical. In Cook

County (Chicago) in 1966 there were 1,200 youngsters who were institutionalized. By 1976 that number had dropped to 400—a drop of two-thirds during a period that saw juvenile crime in Chicago mushroom. As of the mid-1970s the average number of arrests for a youngster committed for the first time to an institution was 13.6. Now, imagine what you would have thought in high school had someone told you that you had to get arrested an average of 13 times before being sent to reform school.

The purpose for the shift to deinstitutionalization was, again, greater social justice. Those kids were committing crimes in part because society had played a dirty trick on them. Also, it was decided on the basis of no empirical evidence worth mentioning that re-



Peter Gottschalk of the Brookings Institution and the Institute for Research on Poverty commented on Murray's findings.

form schools only made kids worse; they were schools for crime. Therefore, on behalf of the disadvantaged youngsters, we quit putting them in institutions.

The people who promoted such policies very seldom lived in the neighborhoods where the delinquents were committing their crimes. Policymakers again exacted a transfer from poor to poor. This time it was a transfer of the good called safety from the elderly woman who had to get back to her apartment from the mailbox to the youngster who was being freed from the injustice of punishment.

Let us consider a third example. One of the major goals of the poverty warriors was to strip welfare of its stigma. The emissaries that were dispatched to

the inner city by the intelligentsia bore the message that it was the system's, not the recipient's, fault that assistance was needed. There was no reason to feel guilty. Frances Fox Piven and Richard A. Cloward cite evidence in their interesting and worthwhile book, *Regulating the Poor*, that the poverty warriors met with some success.

James Patterson, a Brown historian who recently wrote a history of the struggle against poverty, has a wonderful passage summarizing the elite wisdom about getting rid of the welfare stigma and its effects. Asking why the number of AFDC recipients in the late 1960s virtually exploded, he answers, "The source of this explosion, most obvious to contemporaries, was changing attitudes of poor people themselves. Despite the hostility of the middle classes to increases in welfare, poor Americans refused at last to be cowed from applying for aid. Despite the continuing stigma attached to living on welfare [by the middle classes], they stood firm in their determination to stay on the rolls as long as they were in need. Welfare was not a privilege, it was a right. Compared to the past when poor people, harassed and stigmatized by public authorities, were slow to claim their rights, this was a fundamental change."

This is all very well, but put yourself in the position of a father in the inner city who works at a menial and low-paying job. He has done so, doggedly, for most of his life and is proud to have supported himself and raised a family without help. Many of our parents, grandparents, and great-grandparents felt exactly the same way. Historically, the community in which this man grew up had had an elaborate status structure. All poor people were not alike—in fact, there were drastic differences among them. A basic status distinction was made between poor people who pulled their weight and managed to raise their families, and those who did not. A person might be out of a job sometimes; that was expected. But one who was chronically unemployed—who couldn't hold a job at all, who neglected spouse and family—was consigned to a different circle of status. He was a bum, a no-good. People who supported themselves were "better" than people who did not.

Poverty (Cont. from p. 9)

Then came the eminent representatives from beyond the local community and from the government who pinned the blame on the system, and after a while the traditional moral distinctions eroded. In many ways it no longer made sense to hang on to a poor, low-paying job; and to that extent the status associated with it diminished. Status accrues to things that are functional for a community, and loss of status accrues to things that are dysfunctional. Income maintenance transfers make dependence less dysfunctional for the local community, and hence reduce the stigma of welfare among those people who receive it.

The reversal of values has gone much further than I can prove statistically. I suggest you go to an inner-city neighborhood and ask the young people standing on the corner what they think of their contemporaries or, for that matter, of older members of the community who work steadily at some low-paying job. I suggest you ask school teachers what they hear and observe of youngsters' attitudes toward people who reject opportunities to put together a "package" of welfare benefits, occasional work, and the underground economy. Ask who the local heroes are. You will then get some sense for how much the world has flipped upside down for young people living in the most disadvantaged communities. The black inner city is only the most dramatic example of a phenomenon that can be observed in any community of people who are disadvantaged, homogenized, and isolated. Most of the data on black versus white is, I would contend, a proxy measure of distinctions of poor versus not-poor.

I would like to make a distinction between what I'm actually saying and what I'm sometimes understood to say. Here I am not talking primarily about the need to change the system for the sake of the younger generation. Rather, I am asking you simply to think about that hypothetical middle-aged man who is acting in a way that every one of us considers not only admirable, but in some respects heroic. We have exacted an enormous price from that man. In return, he may be getting some of the welfare money we have appropriated. I



Charles Murray talks with Sar Levitan of the National Council on Employment Policy at reception following his talk.

hope that that money makes a positive difference in his quality of life, for there is certainly a lot to compensate for with regard to deteriorations in his quality of life.

In this context, let me very gingerly suggest one thing that can be done now to work toward a solution to the problems I have raised. The first step is to avoid topics on which significant change is impossible. I think consensus making on reforms of social policy is a little bit like arms negotiations. What we really want to do is to get rid of all the ICBMs, but since we can't talk about that, we try to modify the throw-weight. In our case, it may be that I would like to scrap the entire income maintenance system. But that's not going to happen. It is, after all, a system that went into a paroxysm of anxiety a couple of years ago, a bipartisan agony—to achieve what? A six-month delay in the cost-of-living increase in social security. Serious reform of income maintenance is not in the cards.

To make headway, therefore, we should focus on noneconomic transfers like education and crime in which the transfer is almost exclusively from one poor person to another—a transfer that we who are not poor have exacted from those who are poor. If we keep the discussion on this level, we might be able to reach a consensus about some injustices we have been perpetrating in the name of compassion, and perhaps make some progress.

The tragedy of welfare policy is played out especially in the lives of kids in their teens and early twenties. I'm

not talking only about black inner-city kids, but kids from small towns in places like Iowa. At that time in one's life, one tends to think in terms of very short time frames. It's precisely at that age when the incentives we put into the system in the mid-1960s have their most potent effects. If I were able to make only one of my proposed changes in the welfare system, I would make it just about impossible for a youngster aged 15 to 25 to get any kind of welfare assistance. By changing the rules of the game—and tampering with incentives—we are just passing our problems on to the next generation.

Finally, allow me to convey my image of the great tragedy we are observing. The tragedy of our current policy is not so much the youngster on the street corner not working when he could be holding down a job on the loading dock. The real tragedy is the child who should be a physicist, a surgeon, or a business person—escaping from the ghetto permanently, not rising up to the next quintile of income and then dropping back to welfare. People who are getting out of the system are not getting out as much as they should be. They stopped getting out. All the innovations of the huge, expensive programs of the mid-sixties and early seventies failed. Inexplicably, these programs failed to touch a population of youngsters who shouldn't be just getting by, but should be skyrocketing up. We saw this happen. I would like to lift the almost impermeable cap we seem to have put on these children and their communities. ■

Reduce Work Incentive

Laffer Raps High Tax Rates on Poor

The urban poor have increasingly less incentive to work, according to a recent study by economist Arthur Laffer for the Cato Institute.

Laffer, who recently resigned his position as Charles B. Thornton Professor of business economics at the University of Southern California, writes, "The inner-city unemployed have little incentive to obtain a job, in that any legitimate source of revenue would be accompanied by a reduction in welfare benefits and additional taxes."

Using a Los Angeles family of four as his case study, Laffer calculated that if the family's gross wages increased from \$700 to \$1200 per month, it would lose \$547 in entitlements to AFDC benefits, food stamps, housing subsidies, and medical benefits. "At the same time the family's tax liabilities increase by a total of \$161. . . . The net result is to impose an effective tax rate of 142 percent on monthly gross wages of between \$700 and \$1200, and an even more incredible 278 percent on gross wages of between \$1,000 and \$1,100 per month."

Laffer points out that an individual who is offered a promotion from \$1,000 per month to \$1,200 must accept not only more responsibility but a \$217 per month reduction in spendable income.

The Reagan administration's enterprise zone proposal is not a sufficient response to this problem, in Laffer's view. He argues that the administration-supported bill discriminates against employers already located in the zone, discriminates against low-wage working people by making it more profitable to hire the unemployed, favors capital-intensive over labor-intensive industry, and is far too complex to be helpful to small entrepreneurs. He proposes a more sweeping enterprise zone proposal to ensure "that the fruits of economic recovery can be harvested in the barrios and ghettos." He would cap the corporate income tax at no more than 10 percent in the zones, eliminate the minimum wage for teenagers in the zones, eliminate payroll taxes on the first \$10,000 earned, and require an economic impact statement for all new and existing regulations applying to people in enter-

prise zones.

Laffer points to a number of problems with the current welfare system: Costs of transfer payments have more than doubled in real terms since 1968, with Aid to Families with Dependent Children having tripled. Yet the median income of both black and white families in central cities fell in the years between 1969 and 1981.

"Disruption of the family unit is yet another aspect of the web of welfare disincentives that is a predictable outcome of our welfare benefit system," he

writes. "By keeping himself or herself separate from the rest of the family through lack of marriage or other legal connection, the employed adult allows the other parent to be eligible for the full array of entitlement programs. Thus eligibility requirements may make family desertion a parental duty, not an act of cowardice or irresponsibility."

Laffer's study, "The Tightening Grip of the Poverty Trap," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■

Politics Book 'A Milestone'

Beyond Liberal and Conservative by William S. Maddox and Stuart A. Lillie has received glowing comments from political analysts and practitioners.

Michael Barone, an editorial writer for the *Washington Post* and co-author of *The Almanac of American Politics*, says, "Maddox and Lillie have done pioneer work on redefining and renaming the points on the political spectrum. The old labels are stale and refer to issues of the past. Their new categories are fresh and speak to the issues of the present and perhaps the future."

Lee Atwater, deputy director of the Reagan-Bush campaign, says, "We may never look at American politics in the same way after this book. *Beyond Liberal and Conservative* is a milestone in political analysis."

In the book Maddox and Lillie argue that the terms liberal and conservative have become inadequate for describing the political views of Americans. They suggest that there are at least two additional groups: populists, who can be viewed as economically liberal and socially conservative; and libertarians, who are economically conservative and socially liberal.

Alan Baron, publisher of *The Baron Report*, says the book "pinpoints the critical trends and new realities of American politics. It is invaluable for both political analysts and practical politicians." ■

The book has also been widely hailed by scholars. Political scientist Dan Nimmo of the University of Tennessee calls it "a refreshing departure from the conventional wisdom" and "a welcome advance that seems to speak to current issues."

Terry Nichols Clark of the National Opinion Research Center and the University of Chicago's sociology department says, "This is a new map to our political territory. Maddox and Lillie, in a rich analysis of recent political trends, show how very much the terrain has changed. . . . required reading for political campaign strategists across the country."

Randall Rothenberg, author of *The Neoliberals: Creating the New American Politics*, writes, "Our political landscape is littered with shortsighted punditry informed by outdated analyses. Professors Maddox and Lillie have done us all a service by correcting many of our assumptions about the overused terms 'liberal' and 'conservative.' American politicians, indeed the American electorate, are more complex creatures than all that, and *Beyond Liberal and Conservative* shows us how and why. The book's insight is refreshing."

Beyond Liberal and Conservative is available from the Cato Institute for \$18.00. A paperback edition suitable for classroom use will be published in early 1985. ■



Ed Crane talks with international participants at Cato's Summer Seminar in Political Economy. From left to right are Carlos Ball of Venezuela, Joseph Anyaeche of Nigeria, Christiane Altzpodien of West Germany, and Pedro Galvez Padilla of Guatemala.

Mondale Plan Was All Taxes

Presidential candidate Walter Mondale's deficit reduction plan involved \$75 billion in tax increases and only \$7 billion in net spending reductions after "illusory savings" and "unspecified pledges" were taken out, according to a Cato Institute study released in October.

David R. Burton, a tax economist at the U.S. Chamber of Commerce, wrote, "The Mondale plan is based on discredited economic theory backed by unsubstantiated predictions. To the extent that the plan has substance (mostly on the tax side), it would aggravate, rather than solve, our economic difficulties."

Burton wrote that the impact of the plan would clearly have been a rise in marginal tax rates and in the total tax burden for most Americans. While the rate increases would have been highest for upper-income families, the bulk of the government's revenue would have come from middle-income taxpayers.

Mondale's promised spending reductions were largely illusory, Burton argued. He proposed to save \$12 billion in health care costs through a price control scheme, which would lead either to reduced quality or to market prices being reflected in other ways. He promised to save \$4 billion in agricultural programs through "prudent management," while eliminating \$5 billion in unspecified "waste, fraud, and abuse."

The former vice president also projected \$17 billion in spending reductions due to economic growth, yet "his proposal does not reduce either the government's spending or its tax drag on the economy. To the contrary, it increases the tax rates that economic actors must face and would, therefore, likely reduce economic activity and economic growth rates."

Burton's study, "The Mondale Tax and Budget Plan," is part of the Cato Institute's Policy Analysis series and is available for \$2.00 from the Institute. ■

FEC (Cont. from p. 6)

fundraising and spending, and its regulatory burdens, are more severe for minor parties than for established parties. "Alternative visions and philosophies are, for all practical purposes, restricted to opinion journals and symbolic campaigns. They are allowed to exist as long as they are ineffective."

- The election laws have professionalized politics by requiring campaigns to hire platoons of lawyers and accountants in order to comply with complex regulations, by authorizing huge subsidies to presidential campaigns, and by driving away volunteers through audits and enforcement actions.
- Meehan suggests that disclosure of large contributions is the only thing that election laws should require, and that such disclosure would probably be demanded by voters even if it were not required by law.

Meehan concludes by quoting Ralph K. Winter, Jr., one of the lawyers who challenged the FECA in a Supreme Court case and now a federal judge: "The greatest campaign reform law ever enacted was the First Amendment."

Meehan's paper, "The Federal Election Commission: A Case for Abolition," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■



At an international conference held in England, David Boaz discusses Cato's social security privatization plan with Dr. Rhodes Boyson, minister for health and social security in Margaret Thatcher's cabinet.

Cato News Notes

Ed Crane, David Boaz, and Jim Dorn represented Cato at the 1984 meeting of the Mont Pelerin Society, the international classical liberal organization. Cato adjunct scholar James M. Buchanan, general director of the Center for Study of Public Choice, was elected president of the society. Speakers included F. A. Hayek, Milton Friedman, Paul Johnson (author of *Modern Times*), and Chiaki Nishiyama (of Rikkyo University, Japan).

★ ★ ★ ★ ★

Cato senior policy analyst Catherine England spoke to an international audience in Washington at a "Women in Politics" seminar sponsored by the Institute for International Education. England discussed free-market issues and stressed the need for women to recognize the interrelationship of women's rights, individual liberty, and economic freedom.

★ ★ ★ ★ ★

David Boaz spoke at the University of Virginia on "New Generations and New Directions in American Politics." He argued that the rise of the "yuppies" in the 1984 primaries is a harbinger of major changes in the traditional liberal-conservative dichotomy in politics. Boaz spoke to a Lewis and Clark College Washington Semester program on "Civil Liberties and Economic Freedom" and to an American University group on "The Separation of Economy and State."

★ ★ ★ ★ ★

Jim Dorn participated in the annual Interlaken (Switzerland) conference on economics organized by Karl Brunner of the University of Rochester. Dorn also spoke to an American University Washington Semester group on law and economics.

★ ★ ★ ★ ★

Robert L. Bradley, Jr., who is writing a book for the Cato Institute on energy regulation, spoke to a meeting of the Institut Economique in Paris on "125 Years of Oil and Gas Regulation." Participants included Guy Plunier of the Institut Economique, Henri Lepage of the Enterprise Institute, and representatives of the U.S. Embassy and major oil companies.

Three Cato Institute books were nominated for the 1984 Mencken Award, given annually by the Free Press Association for the best book on individual rights. The books are *Water Crisis: Ending the Policy Drought* by Terry L. Anderson; *Underground Government: The Off-Budget Public Sector* by James T. Bennett and Thomas J. DiLorenzo; and *Telecommunications in Crisis: The First Amendment, Technology and Deregulation* by Edwin Diamond, Norman Sandler, and Milton Mueller.

★ ★ ★ ★ ★

In his annual report on the state of antitrust policy, published in the *Antitrust Law Journal*, Chairman James C. Miller III of the Federal Trade Commission argued that the Chicago-school view has replaced the structuralist view as the new orthodoxy on antitrust. He said the Chicago view was now being challenged from two new directions: the industrial planners and the Austrian school. Miller cited Cato adjunct scholar Dom Armentano's book *Antitrust and Monopoly: Anatomy of a Policy*

Failure as the leading text of the Austrian challenge.

★ ★ ★ ★ ★

Ed Crane delivered an address entitled "Democrats and Republicans: Does It Make Any Difference?" at the annual National Committee for Monetary Reform conference in New Orleans. More than 2,500 attendees heard him excoriate both parties for their interventionist policies and propose free-market alternatives.

★ ★ ★ ★ ★

Two Cato authors have spoken recently about the results of their research. Adjunct scholar Terry L. Anderson, author of *Water Crisis: Ending the Policy Drought*, attended a Hawaii conference designed to explore options for managing the state's water resources. Anderson presented a paper analyzing water codes and laws from a property-rights perspective. Wendy McElroy, editor of *Freedom, Feminism, and the State*, was invited to speak at the University of Kansas on proposed anti-pornography legislation in that state. ■

Journal Looks At Debt Issue

Twenty-eight scholars and policymakers look at the problem of world debt in the Spring/Summer 1984 *Cato Journal*. The topics covered include the origins of the debt crisis, the difficult problems facing debtor and creditor nations alike, and long-term monetary reforms, as well as such related issues as foreign aid and international trade.

The differing perspectives of policymakers are reflected in articles by James B. Burnham, U.S. executive director of the World Bank, and by Carlos Geraldo Langoni, former president of the Central Bank of Brazil.

Michael Mussa of the University of Chicago explores the role of U.S. inflation in creating the debt crisis, while A. James Meigs of First Interstate Bank of Los Angeles points to banking regulation as a contributing factor. Jerry L. Jordan, a former member of the Coun-

cil of Economic Advisers, and William R. Cline of the Institute for International Economics offer contrasting views on how to restore credibility to international lending. Allan Meltzer of Carnegie-Mellon University surveyed the basic issues of the debt problem. Gerald P. O'Driscoll, Jr., and Eugenie D. Short of the Federal Reserve Bank of Dallas analyzed the role of federal deposit insurance in encouraging risk by major banks. Anna J. Schwartz of the National Bureau of Economic Research commented on their discussion.

This issue of the *Journal* is dedicated to the late Robert E. Weintraub, an economist with the congressional Joint Economic Committee, who helped to plan Cato's conference on "World Debt and Monetary Order" but died before it was held. The volume is available from the Cato Institute for \$5.00. ■

Is America Deindustrializing?

Can America Compete? by Robert Z. Lawrence (Washington: Brookings Institution, 1984), 156 pp., \$22.95/\$8.95.

This book addresses the popular claim that America is losing its international edge in manufacturing and turning into a "nation of hamburger stands." Lawrence's perspective reflects his awareness that accelerating manufactured output is not the key to America's economic health, as many respected theorists seem to think. America's steady smokestack growth in the decades following World War II—when so much foreign competition had literally been bombed out of the market and then ensnared by foreign governments—was taken for granted. But as circumstances change, so must expectations concerning the appearance of economic health.

Lawrence argues first that America is not deindustrializing. "Although the share of manufacturing in the economy has declined, the manufacturing sector continues to grow." The period of supposed deindustrialization, 1973-80, was one of a worldwide manufacturing slump; thus, a diminished share for manufacturing was not unique to America. The absolute increase in U.S. manufacturing output since 1973 has been about the same as the average for all industrial countries.

During the relative slowdown of manufacturing, the rate of capital formation and research and development spending in that sector actually accelerated. Modernization and reevaluation are important parts of progress, and technological development during the depressed period in part accounts for our present industrial strength. Much of the confusion and worry over changes in manufacturing growth, then, has resulted from drawing unwarranted conclusions from the 25-year correlation between a strong economy and increasing manufacturing.

To the extent that the United States is actually becoming less of a manufacturing nation, Lawrence sees no grave problem. "In the absence of demand for particular products . . . resources should be directed away from activities

in which they are no longer needed." Although Lawrence does not discuss the matter in detail, America is becoming more of a service economy. This is largely because the work of our burgeoning financial institutions, whose high interest rates are presently attracting a great deal of foreign investment, are classified as service firms. Hence America is merely shifting some of its production from one area to another, based on its comparative advantage.

Again keeping the overall picture in mind, Lawrence resolves the widely held but ridiculous concerns over America's trade balance. Month after month newspapers report the mammoth trade deficit in manufactured goods, but ignore the regular surpluses

Policy Report Reviews

in services rendered. As Paul Heyne's article in the *Cato Journal* (Winter 1983/84) refreshingly explains, if one includes all relevant factors in the calculation, our overall trade balance must remain even because it is an accounting identity.

Unfortunately, Lawrence is not as impressive on policy matters as he is on theory. He does oppose national industrial policy for largely Hayekian reasons, saying that the relevant business decisions are those "that a central committee is ill-equipped to make." By this he means that government cannot obtain as efficiently as can the business people in the market the myriad of minute, yet relevant, pieces of information needed to make decisions.

He apparently fails to see the depth of this insight, however, since he does advocate some interventionist measures for government. Lawrence favors a government program to provide loans to finance education and retraining because, he says, the market fails to provide sufficient opportunities in this regard. But his conception of "market failure" is based on a highly artificial theory. The only real choice is between

the market and some form of government intervention. Government attempts to target individual skills through subsidized loans are as inefficient as government attempts to target industries: in both cases, government acts from an extreme shortage of relevant information compared with the amount that the market effectively utilizes in allocating resources.

What Do Unions Do? by Richard B. Freeman and James L. Medoff (New York: Basic Books, 1984), 293 pp., \$22.95.

Power and Privilege: Labor Unions in America, by Morgan O. Reynolds (New York: Universe Books, 1984), 309 pp., \$14.95.

Are unions coercive monopolies that extract higher wages for their members at the expense of the rest of society? Or do unions play a largely beneficial role by improving workplaces and increasing productivity? These two books offer diametrically opposing views on the nature and role of unions. Each has received considerable publicity and exceptional praise from many reviewers.

What Do Unions Do? represents what Reynolds calls the "Harvard/National Bureau of Economic Research" view of labor unions. (Both the book's authors are affiliated with those institutions.) Freeman and Medoff argue that despite the negative aspects of union monopoly power, unions can perform valuable services in a market economy.

In fact, the benefits of unions outweigh the costs. For instance, unions help provide certain public goods in the workplace. If workers wish to "exchange" wages for additional fringe benefits, such as a comfortable lunch lounge or job safety, they can accomplish it only by collective bargaining. Clearly, workers cannot negotiate on an individual basis for exchanges whose effects involve the workers as a group. Freeman and Medoff detail a number of voluntary exchanges between workers and management that can be achieved only through collective bargaining.

Cato Conferences

Mark your calendar now for these upcoming Cato Institute conferences:

February 21-22, 1985

"The Fed's Future: Changing Monetary Regimes"

Third Annual Monetary Conference

Speakers include Paul Craig Roberts, Lawrence K. Roos, David Meiselman, Maxwell Newton, Lawrence H. White, Philip Cagan
Capital Hilton, Washington, D.C.

June 29-July 6, 1985

Summer Seminar in Political Economy

Speakers include Israel Kirzner, Earl Ravenal, Ralph Raico,

Roy Childs

Dartmouth College, Hanover, New Hampshire

geoning, expensive bureaucracy called the Environmental Protection Agency—was all too predictable. But the regulation of industrial pollution today is undergoing significant change. Economic considerations have gained much weight, and the EPA is now investigating policies that attempt to balance the benefits of pollution reduction against the costs of control.

Crandall examines the history, effectiveness, and direction of current pollution control policy. The book is especially strong in its integration of economic and political factors; one is never long discussed before its impact on the other is brought to light. Unfortunately, however, this valuable study suffers from an affliction too common to its genre: filled with acronyms and professional jargon, which make the underlying issues difficult for the non-specialist to comprehend, it reads much like the pieces of legislation it is discussing.

Several options for regulatory reform are discussed, most notably the use of tradable pollution rights in the form of pollution permits or credits for emission reductions. Such permits could be exchanged by companies located within delimited areas classified according to the degree of pollution present. Thus, one company might purchase EPA-granted credits from another company that had already reduced its level of pollution. Credit transfers would result in reducing pollution where it would be least costly to do so while maintaining an overall decrease in pollution levels.

Crandall suggests that there is a steady evolution toward a more comprehensive use of marketable permits within the EPA and that such use has already realized some cost savings. But he also indicates that the attempt to create and regulate the market has stimulated the development of an inordinate amount of additional bureaucracy. Indeed, the EPA's experience in this regard is typical of the difficulty any central agency would encounter when emulating a market: "It is difficult enough to establish emission-level goals and offset transactions for single pollutants. It would be even more difficult to set the ratios for trading reductions in particulates for increases in hydrocarbons, for instance. Measuring the value of marginal reductions in each pollutant and establishing the appropriate trading ratios among them based on these values would only complicate the movement toward marketability."

Perhaps unintentionally, Crandall's analysis points up a fundamental truth: a social problem must be approached either through market forces guided by the spontaneous order, or by a massive bureaucracy controlling by force of law. The quixotic "middle ground" of an agency successfully caricaturing the market is beyond the scope of any board of experts. The most useful insight to be gleaned from *Controlling Industrial Pollution* is that a lasting, evolving, true market solution to the problems it addresses, one compatible with the ethics of a free society, is still a long way off. ■

The authors also present empirical evidence that unions increase productivity, job stability, and equality. The bulk of the book consists of an evaluation of that evidence, and the conclusion of the final chapter is that legal changes to make unionization easier would be desirable.

Power and Privilege takes up the anti-union gauntlet in direct opposition to Freeman and Medoff. Reynolds examines both the history and the present status of labor unions, depending heavily on anecdotal evidence in contrast to Freeman and Medoff's reliance on quantitative data. In chapter 4, "The New Rationale for Unionism," Reynolds challenges Freeman and Medoff's evidence directly and scores some telling points.

He argues, for example, that simply observing a relationship between higher worker productivity and unionization in no way implies that the latter is the cause of the former. Such a relationship may be explained equally well by the monopoly-power theory of unions. If unions force wages above their market-clearing levels, then low-paying, low-productivity jobs may be eliminated. No one, however, would claim that this is a beneficial effect of unions.

The strong points of *Power and Privilege* are its critique of current interventionist policies and its appeal for complete deregulation of labor relations. The weak point is that Reynolds seems to imply that unions would serve no useful function in a pure market economy—here he should take a cue from *What Do Unions Do?* Each book balances the other; anyone who reads both will obtain an excellent overview of the nature and effect of unions.

Controlling Industrial Pollution: The Economics and Politics of Clean Air, by Robert W. Crandall (Washington: Brookings Institution, 1983), 199 pp., \$26.95/\$9.95.

In the wake of Earth Day and the Club of Rome's *Limits to Growth*, the 1970s saw the battle over industrial pollution overwhelmingly won by liberal forces, often at the expense of economic sanity. The result—a complex, bur-

"To be governed..."

Look, I would have asked for a lot more than \$2,000 . . .

Last Christmas, the College of the Virgin Islands paid a \$2,000 speaking fee to Sen. J. Bennett Johnston (D-La.) and covered round-trip air fares for him and his wife. . . .

In the continuing resolution that provides fiscal 1985 funds for several federal agencies, Johnston persuaded the Senate to add \$500,000 for the college to establish a Caribbean Cultural Center. . . .

Johnston . . . said, "It was a dumb thing of me to put the amendment in like that. Of course, there was no quid pro quo, and it hadn't occurred to me that anyone would make a connection."

—*Washington Post*, Oct. 10, 1984

What about taxpayer depression?

Government Employees: Depression, Anxiety, Phobias, Alcoholism, Drug Dependency, etc. may be legitimate grounds for disability retirement or accommodation by your Agency. Harvey Friedman, Attorney at Law.

—Ad in the *Washington Post*, Oct. 24, 1984

It's been a great personal sacrifice to lobby for them all these years

I don't like import quotas. I never have and I never will.

—Lee Iacocca in *Fortune*, Nov. 12, 1984

No comment

Witnesses representing . . . the American Institute of Certified Public Accountants spoke in support of the progressive income tax system . . .

Testimony submitted by the accounting group was critical of proposals for a single rate of taxation.

—*Washington Post*, Aug. 10, 1984

Where you stand depends on where you sit

Rep. Thomas Corcoran, R-Ill. . . . [was] nominated to the [Synthetic Fuels Corp.] board by Mr. Reagan late Wednesday. . . .

A longtime critic of the SFC, Mr. Corcoran voted against the establishment of the corporation in 1980. . . .

Mr. Corcoran, who once called the SFC "a turkey this country cannot afford," said he can now support it under new congressional guidelines.

—*Washington Times*, Oct. 12, 1984

Foot soldiers for protectionism

The U.S. shoe industry is trying to convince Congress that growing reliance on imported footwear is "jeopardizing the national security of the U.S." The headline on a recent industry press release cautioned, "Military Might Go Barefoot in Case of War." . . .

That shortage could cripple our battle plans in Europe, the group says, where NATO is deemphasizing tanks and armored divisions. "This strategy will fail

if the foot soldier is without shoes," [Footwear Industries of America president George] Langstaff warns.

—*Wall Street Journal*, Aug. 24, 1984

Just a friendly reminder

The Democratic solicitation of PACs has been quite aggressive. Recently, after the National Association of Home Builders threw its weight behind home builder Dean Gallo, the Republican candidate challenging incumbent Democratic Rep. Joseph Minish in a tight race in New Jersey, [Rep. Tony] Coelho engineered a blunt letter from the House leadership to the organization's chief lobbyist. It said . . . that the Home Builders' "good relationship with Democrats in the House" could be "damaged" unless the group fulfilled a "responsibility" to make a \$5,000 donation to Rep. Minish.

. . . The letter . . . was signed by House Speaker Thomas O'Neill, Majority Leader Jim Wright, Ways and Means Committee Chairman Dan Rostenkowski and Banking Committee Chairman Fernand St. Germain.

—*Wall Street Journal*, Oct. 29, 1984

I'm shocked—shocked to discover that gambling is going on at this track!

In Annapolis, the Maryland Court of Appeals upheld the right of race tracks in the state to bar convicted gamblers.

—*Washington Post*, Oct. 10, 1984

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