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A Do-It-Yourself Agenda for President Reagan

by Doug Bandow

After spending two decades in politics, Ronald Reagan no longer has to worry about elections. He attained the California governorship in 1966, only to spend much of the next 18 years campaigning for president. And after his landslide reelection in 1984, Reagan focused on preserving the Republicans' fragile Senate majority in November.

But that is now behind him. Whatever political excuses Reagan has had for constantly compromising his most deeply held principles—and the rationalizations have been legion—are now gone. If Reagan wants to leave a lasting legacy, one remembered for decades rather than just months, he has barely two years to act.

Time is especially short if Reagan continues to look at Franklin Roosevelt as his role model. For Roosevelt's enduring political endowment to succeeding generations, an ever-growing welfare/warfare state, remains as intrusive as ever. Reagan, despite his rhetoric, has done little more than trim government at the edges.

During Reagan's first term spending went up almost as fast as under Carter; the bureaucracy under Reagan spews out regulations only slightly more slowly than it did before. Ronald Reagan may have gained record public approval levels and won an overwhelming number of legislative battles on Capitol Hill, but 20 or 40 years from now the Reagan Revolution may be merely thought of as the Reagan Interlude, a period when state growth slowed ever so slightly.

At least, that will be the legacy unless Reagan takes more political chances in his last two years in office than he has during his first six. In particular, he must seriously challenge Congress on the budget, instead of allowing even the most bloated spending measures to become law with only a verbal protest.

But despite the separation of powers, Reagan is not helpless. He also could kill regulations, change military strategies, make appointments, and rearrange agencies with the stroke of a pen, just as he terminated oil price controls a week after taking office. For example, here are a dozen actions that Reagan could take tomorrow—without the approval of Congress—to help implement the philosophy that twice got him elected president:

1. Abolish draft registration. Reagan was the anti-draft candidate of 1980, denouncing on principle President Carter's decision to reinstitute registration. The draft sign-up, said Reagan, "destroys the very values that our society is committed to defending."

But in 1982 Reagan yielded to Pentagon pressure and adopted the program as his own. He has started draft prosecutions, allowed Selective Service to invade supposedly private Social Security files, and encouraged other federal agencies to assist in hunting down nonregistrants. His first Selective Service director even urged private firms to refuse to employ any young man who had not registered.

Yet there is no security justification for the program. Despite Reagan's claims that registration "saves" up to eight weeks in an emergency, internal administration reports have shown that number to be a fraud. In fact, the peacetime sign-up is irrelevant, since volunteers would fill the training camps if the country faced a crisis serious enough to require mobilization. So Reagan

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In This Issue

Catherine England presides over a meeting of the advisory committee for Cato's Financial Deregulation Project. Left to right are Lawrence K. Roos, former president of the St. Louis Federal Reserve Bank; Susan Woodward of the Council of Economic Advisers; England; and Cato chairman William Niskanen.

Judicial Activism and Economic Liberty

President's Message

The recent nomination and subsequent confirmation of William Rehnquist as Chief Justice and Antonin Scalia as Associate Justice of the Supreme Court has sparked a renewed interest in the arcane subject of judicial philosophy. Curiously, this interest was not displayed during the Senate's confirmation hearings, where posturing politicians contented themselves with the less intellectually trying task of digging around for skeletons in Mr. Rehnquist's closet.

But lately, due in part, I think, to the Cato Institute's work in this area with our Adjunct Scholars Richard Epstein and Stephen Macedo, an intense debate has ensued over the wisdom of the now dominant conservative approach of judicial restraint (i.e., deference to legislatures) and the somewhat elusive doctrine of Original Intent. From the halls of the Justice Department to the meeting rooms of the Heritage Foundation to the pages of the *Wall Street Journal*, intelligent conservatives—after the initial euphoria of *Reagan* appointments—are wondering aloud if the majoritarian instincts of Rehnquist and Scalia are really consistent with the individualist, free market tradition that is the best of conservative thought.

William Rehnquist in particular, as Macedo points out in his monograph, *The New Right v. the Constitution*, is an advocate of untrammeled majoritarianism who is openly disdainful of individual rights. In a 1980 speech he set out to "debunk" what he termed the "cliché" held by too many Americans "that the United States Constitution can fairly be described as a charter which guarantees rights to individuals against the government." The Constitution, he said, was adopted "to create a limited national government, which was empowered to curtail . . . individual freedom."

Such statist sentiments are the result of what is delicately known in legal circles as "moral skepticism," or the idea that it is impossible to distinguish between competing moral claims, i.e., between right and wrong. This then leads to legal positivism—what is right is what is, what the legislature has made into law—which rejects the idea that the Constitution is founded on, as Lincoln put it, "an abstract truth, applicable to all men and all times."

And so we find that even in the area of economic rights, which some conservatives had hoped the new Court would resurrect (after five decades of neglect), Mr. Rehnquist is the wrong man. He has written, "In the fields of liberty as well as property, the states must be left to work out their destinies within broad limits," concluding that there "is no . . . reason for . . . elevating the doctrine of freedom of contract into a constitutional principle."

Unfortunately, Antonin Scalia's philosophy of judicial restraint—though not as blatantly statist—is far too close to Rehnquist's views to offer proponents of capitalism and private property much cause for optimism. "The Supreme Court decisions rejecting substantive due process in the economic field are clear, unequivocal, and current," Scalia told a Cato conference in 1984. "In my view the position the Supreme Court has arrived at is good."

To justify his unwillingness to defend economic liberties from the bench, Scalia told the audience, "I do not detect the [necessary] sort of national commitment to most of the economic liberties generally discussed." But, of course, it is not the role of a Supreme Court justice to "detect" the winds of popular sentiment. It is to uphold the Constitution, which, not coincidentally, includes provision for a Supreme Court to protect our liberties against the majoritarian impulses of legislatures.

The *Wall Street Journal*, which had originally been wildly enthusiastic about the prospect of a Rehnquist court, appears to be having second thoughts. A recent op-ed by a member of the *Journal*'s editorial board, Gordon Crovitz, commented favorably on both Epstein's and Macedo's criticisms of conservative jurisprudence and concluded, "There is no turning back the clock to before the New Deal. But this does not mean economic rights are dead. They are still inscribed in the Constitution."

In a withering attack on Rehnquist in the *Journal*, law professor Bruce Ledewitz noted that "an acceptance of the general notion of fundamental natural rights was part of 18th-century political thought. The framers were not skeptics. And that fact raises a disturbing question. If skeptics did not create this constitutional tradition, what makes us think

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CATO INSTITUTE

Cato Launches Financial Deregulation Project

The Cato Institute has launched a major Financial Deregulation Project under the direction of Senior Policy Analyst Catherine England.

It has become clear that changing technology and the global marketplace have outstripped the ability of the federal government to effectively regulate the financial services industry. Many observers argue that regulation is particularly detrimental in an industry as basic to the economy as financial services. The Cato project will attempt to identify the most important regulatory obstacles to efficient banking, and to discover the most effective avenues for deregulation.

Robert Genetski of Harris Bank, Cato president Ed Crane, and former Citibank chief economist Leif Olsen at planning meeting on Financial Deregulation Project.

England points out, "Anyone following the debate over the direction of the U.S. banking system will have encountered several assumptions on which most people seem to base their support for the current regulatory system, such as the 'inherent instability' of banking as an obvious lesson of the Depression or the fear of 'concentration' of financial power. We feel it is important to identify and analyze these assumptions in order to determine the viability of deregulation."

A centerpiece of the project will be Cato's fifth annual monetary conference, scheduled for February 26-27, 1987, which will be devoted to an examination of financial regulation and the options for change. Among the speakers will be Robert Litan of the Brookings Institution on the separation between investment and commercial banking, Thomas Huertas of Citibank on banking and commerce, financial consultant Bert Ely and George Kaufman of Loyola University on the historical roots of banking regulation, Joe Cobb of the Joint Economic Committee on why government regulates money and banking, and Gerald O'Driscoll of the Dallas Federal Reserve Bank on deposit insurance. England will present a paper on alternative regulatory structures.

The project will also include several roundtable discussions on some of the basic questions of financial regulation. The first of these, on deposit insurance, was held September 12 in Washington. Participants from business, academia, and the public policy community discussed the basic goals of deposit insurance and whether government insurance served those goals. Participants included James Barth of George Washington University, Paul Horvitz of the University of Houston, Michael Laub of the American Bankers Association, William Haraf of the American Enterprise Institute, consultant Leif Olsen, and Bonnie Ohri of the Chamber of Commerce.

The project will also include a number of publications. The papers from the February conference will appear in the *Cato Journal*. Several research papers will be published as part of the Policy Analysis series, and two or three books on related topics will be published. In late 1987 a summary report on the project will be published, containing the best research papers produced by the project, and distributed to members of Congress, the news media, academics, and the industry.

Financial support for the project has been received from the Ford Foundation, the John M. Olin Foundation, Sears Roebuck, and other sources. ■

Judicial Activism (Cont. from p. 2)

skeptics like Justice Rehnquist can sustain it?" Leading conservative political theorist Harry Jaffa of the Claremont Graduate School subsequently wrote a letter to the editor endorsing Ledewitz's views.

Judicial activism has gotten a bad reputation because liberal judges like William Brennan have created the dubious concept of a "living constitution," which allows them to "actively" ignore the Constitution. But judicial activism in the name of what the Constitution *says* is not only commendable, it is a moral and legal imperative. And the Lockean natural rights principles that underlie the work of the Framers dictate no less respect for property and economic rights than they do such fundamental rights as privacy and free speech.

Ed Crane

—Edward H. Crane

Macedo, Epstein, Fein Debate Constitutional Rights

As Congress considered the Supreme Court nominations of William Rehnquist and Antonin Scalia, three distinguished experts on constitutional law debated the role of the courts in protecting individual rights at a Cato Institute luncheon.

Stephen Macedo, assistant professor of government at Harvard University, presented the thesis of his recent Cato book, *The New Right v. the Constitution*. Macedo charged that "the conservative invocation of original intent has less to do with reference to the ideas of the founders than with political preference for majority power over individual rights and liberty. . . . The New Right's commitment to majoritarianism in government power is deeply opposed to the only intentions which could really count—those written into the original document."

Rejecting recent Supreme Court decisions that have devalued economic freedoms, Macedo called for "a principled jurisprudence [that] would take account of the high constitutional standing of both personal rights and economic liberties, values that find a central place in the constitutional text."

Bruce Fein, visiting fellow in legal and constitutional studies at the Heritage Foundation, rejected Macedo's claim that many conservatives today propose to sacrifice individual rights to majoritarianism. Instead, he said, "The doctrine of original intent is to vindicate the intent of those who drafted the provisions. . . . [It] is neither prodeferential nor anti-deferential to the legislature or the executive." He also argued that the Constitution was intended to constrain the federal government, not state governments, and therefore the Supreme Court is generally wrong to strike down state laws.

Richard Epstein, professor of law at the University of Chicago and author of *Takings: Private Property and the Power of Eminent Domain*, said, "If you understand the natural-rights utilitarian theory from which our document emerges, you will be able to come up with an interpretation of the police power provision which is radically more narrowly construed than under the present Supreme Court." He defended his position that the contracts clause and the eminent domain clause rule out much of the federal government's intervention into economic matters.

A large crowd attended the luncheon, including Solicitor General Charles Fried; U.S. Circuit Judge Danny J. Boggs; Tony Podesta, president of People for the American Way; Hyman Bookbinder, Washington representative of the American Jewish Committee; Gordon Jones, vice president of the Heritage Foundation; and Clarence Pendleton, chairman of the U.S. Commission on Civil Rights. ■

Harvard professor Stephen Macedo, author of *The New Right v. the Constitution*, speaks at Cato luncheon on individual rights as Bruce Fein of the Heritage Foundation and Richard Epstein of the University of Chicago listen.

Clarence Pendleton, chairman of the U.S. Civil Rights Commission, talks with Cato president Edward H. Crane at luncheon forum on individual rights and the courts.

Cato Journal Examines Business Cycle, Income Transfers

Some of the world's leading monetary economists have articles in the Fall 1986 issue of the *Cato Journal*, which presents the papers from Cato's January 1986 conference, "Money, Politics, and the Business Cycle."

Beryl W. Sprinkel, chairman of the Council of Economic Advisers, wrote the opening paper, "Monetary Policy and the Business Cycle." The impact of unstable monetary policy is considered in a paper by Leland Yeager of Auburn University, with comments by Herschel Grossman of Brown University and Axel Leijonhufvud of UCLA.

Nobel laureate F. A. Hayek's analysis of business cycles is considered in the light of history by Gottfried Haberler of the American Enterprise Institute and Roger Garrison of Auburn University.

Political questions are unfortunately never far from a discussion of monetary policy, and several papers deal with political influences on monetary institutions. Richard Wagner of Florida State University offers a public choice perspective on the Federal Reserve Board, while Alan Reynolds of Polyconomics discusses how market participants watch the Fed's actions. David Meiselman of Virginia Polytechnic Institute and David Fand of Wayne State University discuss whether electoral cycles influence monetary policy.

Leif Olsen, visiting fellow at the American Enterprise Institute, asks, "Is Monetarism Dead?" Allan Meltzer of Carnegie-Mellon University examines Japan's success with monetary policy and draws lessons for the United States.

Other contributors to the volume include William Haraf, Peter Bernholz, James M. Buchanan, Gerald P. O'Driscoll Jr., Michael D. Bordo, Hugh Rockoff, and Richard Timberlake.

The Spring-Summer issue of the *Cato Journal* featured papers on income transfers. James Gwartney of Florida State University and Richard Stroup of Montana State University point out that, despite the way we usually talk about income transfers, most transfers are not designed to benefit the poor. "Successful politicians tend to support programs that aid organized special interests more than programs that help the poor. . . . The bulk of transfer benefits are intended to help politically active groups such as farmers, the elderly, business, and organized labor."

Papers by Cato chairman William Niskanen and by Montana State University economists Terry Anderson and P. J. Hill discuss constitutional constraints on income transfers.

A wide variety of transfer programs are examined in the volume: farm programs by Bruce Gardner and by Bruce Benson and M. D. Faminow, capital subsidies by Gary Fournier and David Rasmussen, social security by Peter Ferrara, and regulation by Robert Crandall.

The transfers that usually generate the most attention, of course, are payments to the poor, and those are not ignored in this volume. Charles Murray, author of *Losing Ground*, discusses what we have learned about welfare in the past two years. Greg J. Duncan of the University of Michigan examines the welfare population, and June O'Neill of the Urban Institute considers the relationship between transfer programs and poverty.

Each issue of the *Cato Journal* is available for $6.00. A year's subscription is $18.00. ■

Education Reformers Ignore Union Obstacles, Speaker Says at Forum

The recent spate of education-reform reports are virtually irrelevant because they ignore the real obstacles to educational improvement, charged Myron Lieberman at a recent Cato Policy Forum.

Not a single one of the reports even mentions teachers' unions, which are powerful obstacles to change in the schools, said Lieberman, professor of education at the University of Pennsylvania and author of *Beyond Public Education*. Unions and teacher tenure laws have made it very difficult to fire teachers either for cause or because of curriculum changes.

In regard to the recent report of the National Governors Association on education reform in the states, Lieberman said, "Governors and other public officials have a bigger stake in the appearance of reform than in the reality." He charged that education reform is largely a media event and argued that no real reform will occur until the governing structure of the schools is changed. Meaningful reform in the near future, he predicted, will come only from contracting out educational services.

Commenting on Lieberman's talk, August Steinhilber, general counsel of the National School Boards Association, praised the governors for "taking the responsibility for bringing about reform at the state and local level." Steinhilber began his remarks by saying, "I'm relieved that for once I don't have to talk about creationism, AIDS, drug testing, or the insurance crisis." Some observers noted that virtually all of these problems would cease to exist in a system of private schools.

Cato chairman William Niskanen, serving as moderator, noted that "the governors have set a deadline for school reform in 1991, the same year that Congress has set for balancing the federal budget." ■

Myron Lieberman: Real educational improvements will come from contracting out educational services and from profit-making schools.

Carpenter Debates International Drug War

Cato foreign policy analyst Ted Galen Carpenter participated in a forum on international narcotics trafficking and U.S. national security for congressional staff, sponsored by the Center for Law and National Security. Also on the panel were Assistant Secretary of State Ann B. Wrobleski, international business consultant Rensselaer Lee III, and Drug Enforcement Administration chief John C. Lawn.

Wrobleski stated that the drug trade constituted a "threat to civilization" and insisted that only a concerted international campaign to eradicate supplies would solve the problem. She added that there could be no neutral or "passive" nations in this struggle. Lawn echoed Wrobleski's comments, but asserted that equally vigorous efforts at domestic law enforcement and demand reduction must accompany global diplomatic initiatives.

Lee focused on the economic role of narcotics in Latin America, noting that the drug trade was a vital source of foreign exchange and jobs. There were serious risks, he insisted, in pressuring fragile governments to challenge powerful pro-drug economic constituencies. Instead, Lee urged U.S. officials to increase developmental assistance to diversify the economies in drug-producing nations, thereby giving growers some legal alternatives.

Carpenter stressed that the U.S. crusade against international narcotics was an exercise in futility. Citing figures from the State Department's own annual narcotics strategy reports, he observed that declines in the supplies of marijuana and heroin had been meager and were more than offset by the explosive growth in the quantity of cocaine. Even an interruption in current supply lines would be futile, he noted, since the most recent report conceded that global production of drugs was "many times the amount" currently consumed by drug users.

Carpenter warned that U.S. demands for vigorous drug eradication programs threatened to undermine friendly governments and create support for radical leftist insurgencies. He stressed that the communist "Shining Path" guerrillas in Peru and the M-19 organization in Colombia were already using the narcotics issue to gain support from growers and to portray the incumbent governments as U.S. "lackeys."

Rather than intensifying this hopeless crusade and risk even more adverse foreign policy consequences, Carpenter urged the U.S. to end its own failed experiment in narcotics prohibition. Legalizing domestic drug use would enable legitimate businesses to enter the field, thus diverting lucrative revenues away from criminal elements and international terrorist organizations. Such action, he argued, would financially cripple those forces, thereby enhancing rather than weakening America's national security. ■

Adjunct Scholar James Buchanan Wins Nobel Prize

James M. Buchanan, a Cato Institute Adjunct Scholar, has been awarded the 1986 Nobel Prize in economics. Buchanan's work in Public Choice theory, also known as the economics of politics, was cited.

Buchanan is university professor of economics at George Mason University and general director of the Center for Study of Public Choice, which he founded. Among his many important works are *The Calculus of Consent* (with Gordon Tullock), *Cost and Choice*, and *What do Economists Do?*

Public Choice theory starts from the premise that politicians and bureaucrats are rational maximizers of self-interest like everyone else. Politicians profit by winning elections, so they have to please voters, generally by giving them benefits. Since each benefit tends to be concentrated among a few people, while the costs are diffused among all the taxpayers, there is more pressure for spending than for restraint. Buchanan warns economists that while there may be cases of "market failure"

James M. Buchanan, the 1986 Nobel laureate in economics, was Cato's second Distinguished Lecturer.

—where the market process fails to produce an ideal result—there is at least as much chance of "government failure," so they should not automatically turn to government to remedy perceived failings of the market.

Three years ago, when Buchanan and the Public Choice Center moved to George Mason from Virginia Polytechnic Institute, he became the second speaker in Cato's Distinguished Lecturer series. His talk, printed in the January 1984 issue of *Policy Report*, focused on his view of his role as a "constitutional political economist" rather than as a "public-policy economist." Constitutional political economy, he said, "rests squarely on the basic presupposition that only the *rules* of politics matter and that these rules determine the patterns of the outcome we shall observe, almost independently of whom we may elect and who writes position papers offering policy advice." He recommended that economists devote some research efforts to "alternative constitutional rules for the political economy."

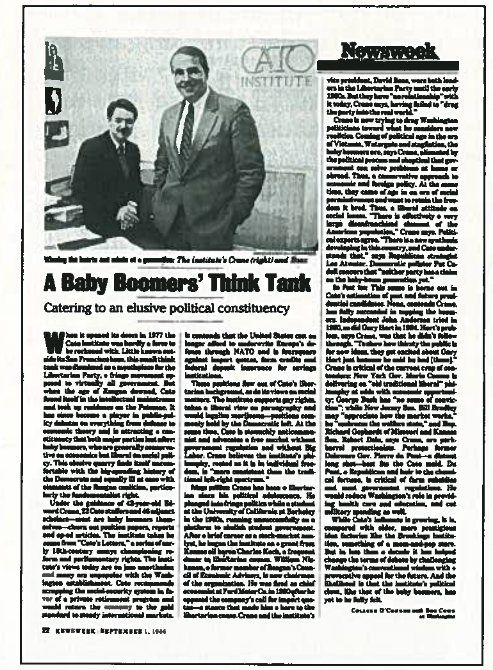
Buchanan speaks frequently at Cato Institute conferences. His latest article appears in the Fall 1986 issue of the *Cato Journal*.

Buchanan is the second Cato scholar to be honored with the Nobel Prize. Distinguished Senior Fellow F. A. Hayek, who was also our first Distinguished Lecturer, received the award in 1974. ■

Newsweek Says Cato Is "Winning Hearts and Minds"

The Cato Institute "has helped change the terms of debate by challenging Washington's conventional wisdom with a provocative appeal for the future," wrote *Newsweek* in its September 1 issue. "And the likelihood is that the institute's political clout, like that of the baby boomers, has yet to be fully felt."

The full-page article explored Cato's outlook and programs in depth, emphasizing the appeal of Cato's unique libertarian approach to the baby-boom generation. The caption under a picture of Cato president Edward H. Crane and vice president David Boaz read, "Winning the hearts and minds of a generation," and the article was titled, "A Baby Boomers' Think Tank."



Newsweek

A Baby Boomers' Think Tank

Catering to an elusive political constituency

***Newsweek*'s September 1 story about the Cato Institute.**

Since its move to Washington five years ago, *Newsweek* said, Cato "has become a player in public-policy debates on everything from defense to economic theory and is attracting a constituency that both major parties lust after: baby boomers, who are generally conservative on economics but liberal on social policy. This elusive quarry finds itself uncomfortable with the big-spending history of the Democrats and equally ill at ease with elements of the Reagan coalition, particularly the fundamentalist right."

The article discussed Cato's work in such areas as social security, monetary policy, banking deregulation, and the cost of NATO, and explained that all these positions are "rooted in individual freedom."

Crane said, "The *Newsweek* article is a dramatic and gratifying confirmation of Cato's growing stature in the public policy arena." He expressed concern, however, that the article might lead some readers to think that Cato chooses its issues in order to appeal to the baby-boom constituency. In fact, he pointed out, Cato's studies reflect its philosophy of personal and economic liberty, which seems to appeal to the baby-boom generation.

In other media news, Stephen Macedo's book *The New Right v. the Constitution* has recently drawn the attention of both the *Washington Post* (September 21), *the Wall Street Journal* (October 8), and *Fortune* magazine (November 24). ■

Conference on Entrepreneurship

The Cato Institute co-sponsored "The National Conference on Entrepreneurship" in late September. The conference was designed to explore the secrets of successful entrepreneurship, highlight the importance of entrepreneurs to the U.S. and world economies, and investigate policy directions that would create a climate in which economic risk-taking and innovation can flourish.

Principal sponsor of the conference was the Fund for an American Renaissance, headed by Rep. Jack Kemp, and other participating organizations included the Competitive Enterprise Institute, the Urban League, the National Center for Neighborhood Enterprise, the Business Roundtable, and a number of publications including *Inc.*, *Working Woman*, and *Black Enterprise*.

Conference speakers included Secretary of Labor Bill Brock, author George Gilder, Federal Trade Commission chairman Daniel Oliver, U.S. Chamber of Commerce chairman Edward Donley, and Wall Street executive Muriel Siebert. ■

At the 1986 General Meeting of the Mont Pelerin Society, held in St. Vincent, Italy, Cato president Ed Crane talks with Antonio Martino, professor of economics at the University of Rome and organizer of the conference. *Cato Journal* editor James A. Dorn and Cato vice president David Boaz also attended the conference.

The Ironies of Reykjavik

by Earl C. Ravenal

On the eve of what were to be only "base camp" talks at Reykjavik, columnist William Safire said that "the only way to get a good agreement is to be prepared to leave without any agreement." If that is true, Ronald Reagan should either have got a very good agreement or have left without an agreement.

In a sense, he did both.

That reading differs from the instant reports of the networks, which must affix a one-word label to all events and accordingly labeled this one "failure," and from the automatic judgment of the arms control trade union, which fastened only on the missed (really deferred) opportunity and pronounced Reagan's performance a "disaster."

On the other side, it differs from the euphoric expressions of relief by conservative hawks, such as columnist George Will, who pronounced the Reagan refusal "the president's finest hour." In this case, the truth lies somewhere between. Reykjavik is not the last summit, the death of arms control. It is an awkward, but largely constructive, episode, more a beginning than an end.

If we are to preserve and reassemble the scraps from the table in Hofdi House, we need to account for what happened. Misleading explanations of Ronald Reagan's behavior, which preeminently conditioned the outcome, abound. Everyone knows that Reagan valued his "dream" of strategic defense (SDI) so much that he forfeited—at least for the moment, perhaps indefinitely—what his bargaining partner, Mikhail Gorbachev, called the "historic chance" to achieve the most extensive arms control agreement in the four decades of nuclear weapons.

But why did he do this? Arms controllers are quick to insinuate some irrational compulsion to explain Reagan's affection for this improbable defensive scheme. Gorbachev invoked a familiar demon: "What [the administration] intends is what the U.S. military industrial complex wants. The president is not free to adopt a major decision that was possible"—a description echoed by many in the American peace movement. But, to understand Reagan's motive in rejecting so much to save what might appear to be so little, one must go beyond imputations of irrational motives or Marxist theories of institutional compulsion.

Thus, one must examine the logic of strategic defense. One must assess the possible benefits of a defense-dominated strategic regime, say in 20 or 30 years, and therefore the benefits that both superpowers might attain by setting a course now that might end in such a regime.

> **"Perhaps the most far-reaching portent of Reykjavik is a foreign policy that is not merely unilateral but disengaged, and an America that is not just a Fortress but an Astrodome."**

First of all, the question of Gorbachev and of American arms controllers, *Why would you need strategic defense in a world with no ballistic missiles or even no long-range nuclear weapons?* is countered by the equally ingenuous question, *Why would you fear strategic defense in such a world?* True, somewhere on the way to a defense-dominated regime is the possible stage of a world with still a large number of nuclear weapons and also a substantial American defensive shield—a state of affairs that the Soviets would have reason to fear, since it would confer on the United States the capability of an unanswerable first strike.

But perhaps the transition could be arranged; indeed, one of Ronald Reagan's *best* ideas—though one for which he has been roundly derided—is that, if and when the United States comes up with something promising in strategic defense, we would "give it" to the Russians, or "sell it to them at cost." One thing is certain: The transition to a regime of mutual defense must be a semi-cooperative endeavor; at all stages, we would have to work closely with the Russians. This does not mean merging our military research; but it surely means—and probably Reagan means—keeping the Soviets informed about progress in numbers and test results, and even giving them some help.

If these benign conditions are met, strategic defense, rather than being destabilizing and inimical to offensive arms control, might actually be synergistic with arms control. The point here is not whether, on net balance, one agrees or not with the proposition of strategic defense. The point is that, although Gorbachev said that "it would have taken a madman to accept" SDI, it does not take a madman—or a knave—to propose SDI.

Indeed, the question, *What are the minimum provisions we need now to preserve the option of strategic defense?* defines the American bargaining position and the limits of arms control. Therefore, if there is to be a bargain on nuclear arms then research outside the laboratory and testing of key components, even in space, must be accommodated (though certainly under careful controls that the Soviet side can devise and that the American side can allow). That is where the deal must come down.

Beside this rational motive to preserve the option of strategic defense, what might have caused the impasse at Reykjavik? Much of the problem can be attributed to the dynamics of bargaining. It was a case of indigestion. Even Gorbachev said, ruefully, in his summary press conference that agreements had not materialized "because our proposals were presented as a package."

An extraordinarily rich fare of proposals was put forward by the Soviets: With regard to intermediate-range missiles, a zero-zero balance in Europe, with another 100 missiles on each side out of the European theater, and British and French forces, even with their projected enhancement, not counted. With regard to strategic nuclear weapons, a cut of roughly 50 percent (actually, upon analysis, closer to 30 percent), with only half the present number of heavy, potentially first-strike Soviet missiles. With regard to nuclear testing, accommodation of Reagan's proposal to avoid an absolute moratorium and instead impose progressive restrictions on tests, allowing continuing development of warheads.

Too much movement, and too precipitous movement—more than enough to bemuse senior principals and to overload their backup staffs, trying, on Masonite boards spread over bathtubs and and toilets upstairs, to sort out the crumbs from the sessions below. On top of it all, the realization exploded late that Sunday that the Soviet proposals, which seemed at first like self-contained products on the shelf and which had been separately bought and pocketed by the Americans, were really tied on contingent strings to the Soviet insistence on keeping the genie of the Strategic Defense Initiative bottled up in the laboratory.

Reagan gamely countered (or was it, according to Assistant Secretary of Defense Richard Perle, that Reagan had proposed and the Soviets had countered?) with an impromptu extension of the agreed five-year "50 percent" cut in in strategic nuclear weapons to the abolition of all intercontinental ballistic missiles in 10 years. The Soviet leader promptly enlarged the proposal to encompass elimination of all long-range nuclear delivery vehicles. And finally (on whose initiative?) both agreed to destroy all kinds of nuclear weapons.

These responses, though perhaps inspired acts, can be viewed as irresponsible, or at least lightly considered. For such a total abolition by the two superpowers would leave the present more modest nuclear states (England, France, China, Israel and India) and the budding nuclear states (such as Pakistan, Argentina, Brazil, South Africa, South Korea, Taiwan and even possibly Libya) as nuclear giants. The meeting had reached a personal and organizational crisis, and it had to end.

There is a set of questions hardly addressed in the analysis of the Reykjavik experience. For the innovative proposals broached by both sides inevitably prejudice the "extended deterrence" that the United States now offers to its allies. For some time, our European allies have displayed a curious ambivalence about American attitudes toward nuclear arms control. They fear too little arms control, and they fear too much arms control.

Too much nuclear arms control, arranged bilaterally by the superpowers, leaves Europe exposed to lower-level aggression and to political pressures based on a preponderance of Soviet conventional military strength. If the promise of Reykjavik were ever fully realized, American escalation to the first use of nuclear weapons would be rendered infeasible. The "coupling" that is the basis of the validity of the American defensive guarantee to Europe, and the basis of NATO, would be dissolved; America's nuclear umbrella would become a pious symbol rather than a practical deterrent.

> **"Reykjavik is not the death of arms control. It is an awkward, but largely constructive, episode, more a beginning than an end."**

To what extent did this prospective state of affairs cross Reagan's mind as he accepted a future regime without offensive nuclear weapons *but with a defensive strategic shield?* If the Russians actually want to get the United States out of Europe, they ought to abet Reagan's instincts. This is true in two respects, only the first of which the Soviets yet comprehend.

First, American intermediate nuclear forces would be withdrawn from European soil as part of the zero-zero bargain with the Soviets. The original purpose of these deployments was not to add incrementally to NATO's strength, since about 500 longer-range nuclear warheads on American ballistic missile submarines off Europe's coast already are targeted on Eastern Europe. Rather, these newer weapons—Pershing IIs and cruise missiles—were to provide another level of escalation within Europe, and thus political reassurance to our allies that extended deterrence is still credible, precisely because of the hope that this level of nuclear escalation could be invoked *without* triggering an intercontinental exchange. Thus, perversely, these intermediate nuclear forces are a perpetual reminder of just the opposite point: that the United States is always attempting to put time and distance between the defense of Europe and the commitment of its strategic weapons, which would bring down ultimate destruction on our own homeland.

There is a second way in which Ronald Reagan's emerging strategic vision impairs America's commitment to the defense of our allies: The only real military innovation of this administration, the SDI, is an attempt to insulate American society from the damage of an encounter with the Soviets in Europe or anywhere else, for that matter.

The acute irony is that these moves *derive from* America's support for its alliances, since, to be credible, invoking our extended deterrence in a foreign war would have to permit the exemption of American society from "unacceptable" destruction. And yet, if perfected, these strategic moves will lead to an insulation of the United States from the consequences of alliance and, more generally, to unilateralism and even quasi-isolationism. This is a vision that will outlast Ronald Reagan's presidency. For it has always appealed strongly to the American Right as an escape from the trammels of alliance—the consultation and deference that often degenerate into inhibitions on the actions of the United States.

Does Ronald Reagan intend—or even recognize—these consequences? Perhaps not, at least explicitly. But it is especially ironic that the president, in his address to the American people Monday night, chose to quote the Fourth of July oration of Secretary of State John Quincy Adams, in 1821. As

(Cont. on p. 13)

Reagan's Agenda (Cont. from p. 1)

should admit his mistake and abolish the program just as Carter started it—with a simple executive order.

2. Drop agricultural marketing orders. There probably has been no more persistent critic than Reagan of government regulation, especially in the field of agriculture. In September 1980, for instance, Reagan pledged to free "farmers from unnecessary and counterproductive regulations." But some "counterproductive regulations" have powerful political patrons, and Reagan has chosen not to challenge the Republican-leaning growers, many of them professionals seeking to find a tax shelter rather than earn a living, who favor federal controls on dozens of fruits, vegetables, and specialty crops.

Marketing orders prevent farmers from even growing or marketing some produce without the government's permission. The result over the years has been mountains of spoiled food, as well as higher and more unstable prices. Yet the administration has not only protected this federally enforced cartel for the industry's largest growers, but extended it to kiwifruit.

The entire archaic system—an outgrowth of the Great Depression and Roosevelt's attempt to revive the economy through government price-fixing—should be killed. Reagan should order the Agriculture Department to lift all marketing orders.

3. Withdraw U.S. troops from Korea. For years Reagan has regaled audiences with tales of the "welfare queen," the cheat who makes hundreds of thousands of dollars off the federal dole. Yet he seems unconcerned about the international welfare queens like South Korea, a wealthy, populous nation that benefits from a U.S. security guarantee worth an estimated $24 billion last year.

Whether or not America was required to maintain a global military presence after World War II, the international balance has since changed dramatically. For instance, China, which intervened in the Korean War as American troops neared its southern border, is now governed by a pragmatic leadership that has much to lose from any resumption of hostilities. Moreover, the Korea that was defended in the early 1950's at a cost of 54,000 American lives does not resemble the growing industrial giant that today has five times the gross domestic product and twice the population of its northern neighbor.

Not only is South Korea perfectly capable of defending itself, but its safety is not intimately tied to this nation's security. The Koreas sit astride sea lanes between the USSR and China, hardly a region of great American interest; Japan is already well within range of Soviet forces. And however important are U.S.-Korean cultural and economic ties, they do not warrant an American promise to go to war.

Just as a liberal Democrat could not have gone to China, Jimmy Carter was forced to drop his plans to pull U.S. troops out of Korea. But Reagan, the hawkish commander-in-chief, could reexamine our nation's international role and initiate a withdrawal from Korea.

> "Twenty years from now the Reagan Revolution may be thought of as the Reagan Interlude."

4. Cancel Executive Order 11246. The administration has vigorously, if not very successfully, attacked state and local government racial-quota programs through the courts. But the federal government is responsible for one of the most offensive race-conscious programs now on the books.

In 1965 President Lyndon Johnson signed Executive Order 11246, establishing what has come to cover some 300,000 businesses and groups that have contracts with the federal government. The paperwork burden imposed by the program is reason enough to shelve the order, but more important is the issue of the federal government pressuring private industry to discriminate on the basis of race.

Of course, the government says it uses "guidelines," not quotas, but in practice the two are the same, since firms are often punished for failing to meet the numerical goals. The system is based on often inaccurate and incomplete surveys of minority workers, and there is no reason to expect firms to end up with a set percentage of any racial and ethnic group. Nor is there any evidence that E.O. 11246 has helped disadvantaged workers; the pay gap between blacks and whites has closed most in industries that do the least business with the federal government.

In 1980 Reagan argued that "increasing discrimination against some people in order to reduce it against others does not end discrimination." He should dismantle the federal quota system.

5. Interpret the McCarran-Walter Act more narrowly. Few presidents have talked more eloquently about freedom than Ronald Reagan, yet his administration has used archaic immigration regulations to prevent the American people from hearing the views of leftist activists from abroad, such as Chile's Hortensia de Allende, and of right-wing political figures like Roberto D'Aubuisson of El Salvador as well.

Since the law now empowers the executive branch to exclude people for ideological reasons, it should be changed, as has been proposed by Rep. Barney Frank (D-Mass.). However, Reagan could act independently to restrict the reach of the law. For instance, the State Department has frequently denied visas to controversial foreigners on the basis that the person's visit "would be prejudicial to the public interest," apparently assuming that it would be dangerous to allow Americans to hear opposing viewpoints. Yet the administration surely could take a more sensible view as to what constitutes a threat to the "public interest."

And though there are 32 other, more explicit, categories under which visitors from abroad may be barred, the administration is empowered to grant waivers for temporary visits (but not permanent residence). Here, too, the administration should take a more libertarian position: except where a visitor seems likely to, say, engage in violence, waivers should be routine. To accomplish these goals, Reagan need only instruct his attorney general and secretary of state accordingly.

6. Negotiate a nuclear test ban treaty. The House included a prohibition on large nuclear tests in the 1987 military appropriations bill, a provision Reagan complained "would pull the rug out from under our arms negotiators in Geneva and imperil our national security."

But a test ban treaty is eminently achievable: the Soviets have maintained a unilateral moratorium on testing for more than a year. And despite Mikhail Gorbachev's enthusiasm for such an accord, it would be in the interest of the United States as well.

A test ban would slow the arms race by preventing the development of new nuclear weapons; the Center for Defense Information points to "the H-bomb pumped X-ray laser, directed plasma weapons and other more 'usable' and therefore more dangerous weapons that both sides would be better off without." Further, a test ban would likely preserve America's technological advantage. Even the White House has admitted that the Soviets may use continued testing to "develop efficient miniature warheads," which would allow them to "exploit fully" the MIRV capability of their larger missiles.

President Reagan says he wants an arms agreement. Here's his opportunity—he should sit down with Gorbachev and transform the Soviet moratorium into a treaty.

7. Drop the auto airbag rule. In 1980 candidate Reagan denounced the Carter administration for requiring the installation of airbags in autos: "The airbag requirement is both expensive and harmful, and should be eliminated." But after losing a court battle over an early, clumsy attempt to repeal the rule, Reagan switched sides and, in 1984, came up with a regulation that is even worse than the one it replaced.

The administration will force auto manufacturers to install some form of "passive restraints" in 10 percent of their vehicles by 1987 and all of them after 1990 unless states with two-thirds of the population enact mandatory seat belt use laws. And, spurred on by the administration, a host of states, including New York and California, now penalize motorists who don't buckle up.

Of course, airbags can be effective in protecting front-seat passengers in front-end collisions, but they are expensive and the Transportation Department has consistently overestimated their effectiveness. The most important issue, however, is philosophical: does Ronald Reagan, of all people, believe in the federal government as national nanny? Reagan should tell Transportation Secretary Elizabeth Dole to rescind the airbag rule.

8. Kill the Agency for International Development (AID). Traditionally, conservative Republicans have been the strongest critics of foreign aid, but the program has been a favorite of Reagan's, with outlays jumping from $6.5 billion in 1980 to $14.6 billion this year.

Indeed, when the House Appropriations Committee voted, last summer, to reduce foreign assistance spending by 9.7 percent in 1987, Secretary of State George Shultz denounced the action as a "tragedy for United States foreign policy" and lobbied for more funds. Instead, the administration should take the lead in cutting back expenditures. Moreover, Reagan should dismantle AID, which has become the primary bureaucratic exponent of ever more international assistance, irrespective of how previous funds have been wasted.

> "Reagan could kill regulations and rearrange agencies with the stroke of a pen, without the approval of Congress."

Though Reagan's appointees in AID have regularly articulated the rhetoric of free-market reform, little of substance has changed; foreign aid programs still funnel money into the hands of repressive Third World governments, underwrite counterproductive economic policies, and subsidize the welfare state abroad. While Reagan cannot cut off the funds without Congress's approval, he can, at least, eliminate the bureaucracy that is now mishandling them by simply repealing the executive order establishing AID.

9. Scrap "voluntary" trade restraints on products like steel and semiconductor chips. There are few areas where Reagan's rhetoric has been better and his actions worse than international trade.

From the campaign stump to the White House, Reagan has denounced "protectionism" for all of the right reasons—and then has proceeded to amass probably the most protectionist presidential record since Herbert Hoover. Autos, pick-up trucks, motorcycles, sugar, steel, textiles, shingles, and semiconductor chips are just a few of the products on which the administration has raised import barriers.

But the excuse has always been that if Reagan didn't act, Congress would do something much worse. And on big issues, such as the 1983 Domestic Content Bill and this year's textile legislation, Reagan stood firm against ill-considered congressional initiatives. Now, however, is the time for Reagan to do the right thing on the other trade issues as well. He should call Special Trade Representative Clayton Yeutter into the Oval Office and tell him to tear up any agreements with other nations limiting their exports.

10. Keep the military out of the drug war. The hysteria over drug use hit almost unprecedented levels in the fall, as Democrats and Republicans tried to outpoint each other by proposing ever more draconian measures to stem the flow of drugs into the country.

One of the worst proposals was to call in the military; the House, in essence, would have required the Pentagon to seal off America's borders. The administration opposed the measure, which was killed by the Senate after Democrat Sam Nunn denounced it for being "the largest grant of power in peacetime to the president of the United States in history." But Reagan has himself deployed the troops in an attempt to halt drug production and smuggling, most recently sending America's armed forces into Bolivia.

However, Congress passed the Posse Comitatus Act of 1878, which generally bars use of the military for domestic law enforcement, for good reason. The purpose of the military is to defend the country, not to enforce civilian laws. The two roles should be kept entirely separate; the government certainly shouldn't send U.S. forces to wage war on drug growers in foreign lands.

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Reagan's Agenda (Cont. from p. 11)

Reagan should first remember his professed small government philosophy and reconsider the Pentagon's objections to being drafted in the drug war. Then he should retract his April directive authorizing use of troops and equipment to search for drugs abroad.

11. Withdraw from the Food and Agricultural Organization (FAO). The United Nations and its various affiliated agencies long ago drifted away from their supposed purpose of promoting world peace and prosperity; today they spend most of their time undermining the economic and political values of the West.

While talk is usually cheap, in this case the American taxpayers have been spending $1 billion annually for a system that is developing regulatory initiatives that would effectively destroy the present international economic order—at a huge cost to consumers and producers in this nation and around the world. To slow this rush toward totalitarian global management, the administration sank the Law of the Sea Treaty and withdrew from the United Nations Educational, Scientific and Cultural Organization; it should now take aim at the FAO.

For the FAO is moving to replace the informal network of plant research centers with an official international system headed by an FAO "Commission on Plant Genetic Resources"; it is also demanding control over plant genetic materials, which it calls part of the "common heritage of mankind" to be managed by the UN. There's no reason for this nation to subsidize the attempted politicization of scientific research. Reagan should pull the United States out of the FAO.

12. Appoint judges who believe in economic freedom. Perhaps Reagan's most lasting legacy will be his court appointments; he will have selected almost half of the federal bench, and the "Rehnquist Court" may well shape American jurisprudence into the next century.

But Reagan's judicial appointees, while generally critical of the sort of social activism where courts have distorted the Constitution to promote the expansion of state power, also oppose judicial "activism" even where mandated by the nation's founding document. For example, the Constitution restricts the government's power to seize property by eminent domain, yet two years ago, in an opinion authored by Reagan's first high court appointee, Sandra Day O'Connor, the Supreme Court refused to block Hawaii's clearly unconstitutional taking of private land.

The overriding purpose of the judiciary is to protect individuals from government—to be, in the words of James Madison, "an impenetrable bulwark against every assumption of power in the legislative or executive." Unfortunately, justices like William Rehnquist prefer to defend state authority. So Reagan should instruct his Justice Department that the foremost qualification for judicial office is the belief that the Constitution means what it says when it limits government power and guarantees personal liberty.

Reagan took office in 1981 with great promise—two decades of rhetoric supporting individual freedom, a clear agenda for reforming almost every federal department, and a landslide electoral victory. But after gaining passage of the tax bill and budget cut package in mid-1981, the vaunted "Reagan Revolution" ground to a virtual halt; the President systematically ignored opportunities to deregulate, refused to exercise his veto power, and squandered his political capital.

He still has two years left, however, more than enough time to use his opportunity to make America a freer nation by simply signing a few executive orders and phoning some Cabinet members. And as his success on everything from tax reform to contra aid demonstrates, Reagan retains sufficient political clout to move Congress. So he should move quickly to develop a legislative program that would truly get the government "off our backs."

Today Reagan stands as a colossus astride the political system. Whether his legacy remains equally overpowering, however, depends on what Reagan does before January 20, 1989. For with the last election that matters to him now past, Reagan no longer has any reason not to commit everything to achieving the political sea change that he was elected to create. It is up to him, and him alone, whether historians will speak of his eight-year tenure as the Reagan Revolution or the Reagan Interlude. ■

Doug Bandow, former special assistant to President Reagan, is a senior fellow at the Cato Institute.

Cato chairman William Niskanen discusses President Reagan's economic policies at a forum for French businessmen arranged by the Committee for Economic Development.

Reykjavik (Cont. from p. 9)

Reagan excerpted it: "Wherever the standard of freedom and independence has been or shall be unfurled, there will be America's heart, her benedictions, and her prayers."

So far, this would seem to be an affirmation of America's involvement—even military involvement—in the fate of kindred democratic nations. But Adams followed this nod of sympathy with an abrupt disclaimer: "But she goes not abroad in search of monsters to destroy. She is the well-wisher to the freedom and independence of all. She is the champion and vindicator only of her own."

"The transition to a regime of mutual defense must be a semi-cooperative endeavor; we would have to work closely with the Russians."

Statesmen and strategic observers will take due note of this darker facet of the envisaged trade-away of American intermediate nuclear forces and the prospective substitution of a space shield for our present forces, nuclear and conventional, on the marches of alliance in Central Europe and East Asia. Perhaps the most far-reaching portent of Reykjavik is a foreign policy that is not merely unilateral but disengaged, and an America that is not just a Fortress but an Astrodome. ■

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Fundamental Reforms Needed on Free Trade, Policy Analysis Says

If a liberal international trading order is to survive, the negotiators at the GATT talks will have to undertake fundamental reform of the system, rather than simply tinker with a long list of specific proposals, according to a new study from the Cato Institute.

Martin Wolf, director of studies at the Trade Policy Research Centre in London, writes, "Bargaining over specific issues within a sturdy system may make sense but not when the system itself is flawed. A logical first step, therefore, might be a comprehensive review of the GATT system as a whole."

Wolf also urges that the costs of protectionism be made more visible in each country. This suggests replacing import quotas and especially "voluntary" export restraints with tariffs, whose cost is more apparent.

Wolf warns that free trade is in grave danger from a number of factors, including the spread of discriminatory trade restrictions, the growth of government intervention in the market in developed countries, and the refusal of governments in developed countries to accept fundamental shifts in comparative advantage.

Wolf's paper, "Fiddling While the GATT Burns," is part of the Cato Institute's Policy Analysis series and is available for $2.00. ■

Will Military Spending Make the West Grow Poor?

Policy Report Reviews

How the West Grew Rich: The Economic Transformation of the Industrial World, *by Nathan Rosenberg and L.E. Birdzell (New York: Basic Books, 1986), 353 pp., $19.95.*

Nathan Rosenberg and L.E. Birdzell provide a superlative, concise economic history of Western civilization from the Middle Ages to the twentieth century. Well researched and highly readable, this book analyzes economic growth from a perspective of change and innovation, debunking several myths about economic development along the way.

Beginning with the Middle Ages, Rosenberg, an economist, and Birdzell, a legal scholar, document the gradual economic transformation from mercantilism to capitalism. The decentralization of economic power under market capitalism set the stage for a dramatic leap forward via the industrial revolution. Merchants responded to consumers rather than feudal lords in this new economic era. The result was a significant increase in the standard of living for the poorest in Western society as well as people in upper economic strata.

Beyond documenting the effects of economic change, this book is notable for its unique perspective on evolution and development. An entire chapter, for instance, is devoted to the "Evolution of Institutions Favorable to Commerce." The creation of an urban culture, market prices, and a moral system emphasizing obligation and responsibility resulted in an atmosphere conducive to progress and innovation.

The book focuses on several themes, one of the most important being change. Throughout, the authors call readers' attention to the importance of flexibility and innovation for economic progress. The key to economic development is establishing an environment free from coercion and rules that restrict the entrepreneur's ability to satisfy consumers' wants.

Mercantilism was based on state-granted business charters and dictated prices. The rise of an industrial class largely outside the feudal economic system allowed for market prices to allocate resources according to the desires of the masses. The rise of market capitalism, then, decentralized the economic process, inducing a burst in growth and a clear rise in living standards.

Chapter by chapter, the authors destroy myths surrounding the development of Western economies—myths such as the importance of natural resource endowments, luck, exogenous technological innovation, exploitation, etc. *How the West Grew Rich* is a thoroughly documented, well-written, and refreshing look at the dynamic effects of markets. It represents an important contribution to understanding economic processes and history.

The Overburdened Economy, *by Lloyd Jeffrey Dumas (Berkeley: University of California Press, 1986), 297 pp., $18.95.*

In this book Lloyd Dumas cements his reputation as America's leading economic critic of high defense spending. Drawing upon the seminal work of Seymour Melman (*Pentagon Capitalism, The Permanent War Economy*), Dumas has produced a biting critique of the economic policies of the Reagan administration.

Dumas starts by challenging the assumption that America has experienced a strong recovery from the severe downturn of 1980-1982. He cites an impressive series of statistics including the poverty rate, commercial bank failures, public debt, decaying infrastructure, and the rate of home mortgage foreclosures. Dumas sees the last four years as a time of continuing economic crises and argues that resource diversion for military purposes has been a significant contributing factor to this decline.

The book offers quantitative estimates of the drainage of resources occasioned by military spending. Dumas estimates that over 30 percent of the nation's engineers and scientists are primarily involved with military-oriented activity. America is thus experiencing its own version of the "brain-drain" problem. Even at highly undervalued land prices, the physical capital of the Department of Defense is $474.9 billion—resources that represent opportunity costs to the civilian economy. In contrast, the physical capital of private industry was valued at a sum only slightly more than two times higher, a figure that includes the capital of the many private firms that produce military-related items.

As well as containing a critique of current economic policies, this book should also be of considerable interest to the economic theorist. Dumas presents a powerful challenge to both Keynesian theory and national income accounting by attacking one of their most cherished assumptions: that all activity which is paid for must be productive. In many instances, military spending is an example to the contrary, as Dumas has documented. This implies that national income figures may not be a very good index of economic well-being. In addition, the Keynesian emphasis of generating "spending" will only make matters worse if this spending diverts resources to nonproductive activities.

Also interesting is the disaggregated approach to growth theory presented here. Such a theory is consistent with the Austrian criticism of neoclassical models for excessively aggregating capital, labor, and resources. Dumas breaks resources down into different categories, depending upon the type of contribution (or non-contribution) they make to economic well-being. Dumas's dual contributions to theory and policy make this book highly recommended.

The Gold Standard: An Austrian Perspective, *ed. Llewellyn H. Rockwell (Lexington, Massachusetts: Lexington Books, 1985), 147 pp., $19.00.*

This book is the result of a conference held by the Ludwig von Mises Institute on monetary reform. All of the authors consider themselves members of the Austrian school of economics and all of the pieces argue for the adoption of some form of gold standard. The volume begins with a sympathetic, although skeptical, introduction by Leland B. Yeager.

Those looking for clear and concise arguments for the laissez-faire interpretation of the gold standard will find this book the best available source. The essays by Murray Rothbard, Hans Sennholz, Richard Ebeling, Roger Garrison, Joe Salerno, Lawrence White and ex-congressman Ron Paul argue forcefully for eliminating the role of government in money and the use of gold-backing for currency as a means of enforcing market discipline. Most of the authors are careful to distinguish their proposals for reform from the various "impure" and non-laissez-faire gold standards which have existed (and failed) throughout history. In addition to economic theory and policy proposals, this volume also contains some history of thought—discussions are offered of the monetary views of Carl Menger, Ludwig von Mises, and Michael Heilperin.

Unfortunately, large parts of the book are unsatisfactory when considered as contributions to modern economic theory. Many of the essays have a strongly anachronistic flavor and do not succeed in integrating their arguments with the (often relevant) debates in modern monetary theory. In addition, many of the strongest arguments against the gold standard are given short shrift. The possible disadvantages of a falling price level, for instance, are not satisfactorily addressed.

Perhaps the most serious criticism of this volume is that it identifies laissez-faire too closely with the gold standard. Many economists have far more sympathy for the former than the latter. Alternative views of free-market money include electronic payments systems, private fiat currencies, and partial or total separation of the unit of account from the medium of exchange. Closely linking laissez-faire to the gold standard represents precisely the sort of monetary constructivism that the authors in this book criticize in other contexts.

While government intervention may be required to move money to the free market, this book does not make a convincing case that restoring the dollar-gold link is the most effective or efficient means of making this step. An alternative solution would be to simply remove all restrictions upon private note issue and financial intermediation. Rothbard argues that would not be sufficient to dethrone government dollars. Even if this were true, it would simply imply that the best solution is to keep our present form of money but increase the restraining force of potential competition.

The Gold Standard in Theory and History, *ed. Barry Eichengreen (New York: Methuen, 1985), 280 pp. $11.95 (paper).*

Barry Eichengreen has collected a dozen well-respected studies of the gold standard to produce what is perhaps the most useful academic source on the topic. The volume's title is somewhat misleading as the historical research far outweighs the theoretical. Only two pieces are theoretical: David Hume's classic account of how a metallic monetary standard ensures balance of payment equilibrium between countries; and a model concerning the interaction between gold and the price level by Robert Barro, a contemporary macroeconomic theorist.

Eichengreen's fine introduction lays out three basic features of a gold standard: (1) interconvertibility between bank-issued money and gold at a fixed "official" price; (2) freedom to import and export gold; (3) a set of rules relating the quantity of money to that country's gold stock. People often think that for centuries prior to World War I the gold standard was the normal state of affairs in the Western world. Yet only from 1880 to 1914 did such an international gold standard operate. This period is therefore the object of close examination.

War being the natural enemy of stable monetary regimes,the twentieth century has not been kind to the gold standard. World War I wounded it fatally, and by the end of World War II it was all but blown away. The two final sections on the interwar and the Bretton Woods eras investigate this demise.

The allure of the gold standard is its foundation for stable exchange rates, steady price levels, international harmony of interests, and, in many quarters, limited government. The historical examination clearly shows the superiority of gold over fiat-money regimes. Yet Eichengreen's introduction points out a solid objection to reintroducing a gold standard: at current prices central-bank stocks of gold would not provide credible backing for a convertibility system. The ratio of dollar holdings to potential gold reserves is far too high to confidently make the move to gold. One alternative is to first undertake a great dollar deflation to lower the ratio—obviously not an attractive prospect. The other is to set the official (convertibility) price of gold far above the market price. But this would engender a rapid dollar inflation because people would then trade in their gold for dollars at the official price, representing a large increase in high powered money.

Eichengreen's discussion of monetary reform leads us to a general problem with the book: the selection totally neglects the theory, history, and reform alternative of *free* banking. His third criterion for a gold standard implies that only monetary systems managed by the government through a central bank are under consideration. But shouldn't Scotland's tremendously successful experience with gold during the 18th and part of the 19th century qualify as a gold standard, even though the system was operated strictly by private enterprise? Perhaps the book's publication lag kept the editor from benefiting from Lawrence H. White's crucial 1984 study, *Free Banking in Britain.* In any case, the complete neglect of free banking and the Scottish experience is a glaring drawback of the book. ■

"To be governed..."

Why do they call me a preppy?

"I think this [a "Reagan '88" rally] is cute," said Bush supporter and congressional aide Gary Maloney.

Cute?

"No, no, no, no," he revised. "I mean, I think the idea's neat."

—*Washington Post*
Aug. 8, 1986

But what's that got to do with congressional staffs?

Following President Reagan's announcement last week of a major initiative against drugs, Rep. Dan Burton (R-Ind.) decided to institute drug testing of his staff. . . .

The point, he said, is that "people who are admired by children have a responsibility to set an example."

—*Washington Post,* Aug. 11, 1986

Democracy in action

A panel representing eight Southeastern states has voted to designate North Carolina as the repository for all the region's low-level radioactive refuse, in the first test of a new national plan for setting up sites for disposal of nuclear wastes.

The two North Carolinians on the Southeast Compact Commission voted against the proposal.

—*International Herald Tribune*
Sept. 13, 1986

You'll find out soon enough

[Baltimore mayor and gubernatorial candidate William Donald Schaefer] repeatedly declined to specify his solutions to a number of state problems. For instance, he would not specify his view on whether the state should accept hundreds of millions of dollars in new state income tax revenues that would result from federal income tax revision. . . .

Schaefer expanded on the tax issue later in the interview. "I've been pushed by *The Washington Post* on that tax question continually," he said. "I give the same answer. And this is the way I operate. . . . I don't tell you how to run *The Post.* Let me figure out how I want to be as governor."

—*Washington Post,* Aug. 26, 1986

Free enterprise makes America great

[New York Governor Mario Cuomo] is presenting a $4.5 million check to help a fiberboard manufacturer reopen a plant. . . . "The fiberboard's important," he tells the workers . . . "but the most important thing is that more than 100 people will be able to work and go home having earned their own way."

—*Wall Street Journal*
Sept. 4, 1986

We could be just as uplifted for half the money

It's forgotten that when people give something to the nation and its government—whether it is a magnificent collection of art and the buildings to house it or something as mundane as taxes—it can be an ennobling and uplifting experience.

—David Broder in the
Washington Post, Aug. 17, 1986

Surprise!

When cocoa farmers, who are the backbone of Ghana's economy, are paid sharply higher prices, they have proved themselves willing to work much harder and grow lots more cocoa than when prices were low.

—*Washington Post,* Aug. 28, 1986

Dressed for the job

Two men, one wearing a mask of President Ronald Reagan, the other a mask of former President Jimmy Carter, holding up a bank in Mount Washington, Ohio.

—Picture caption in the
International Herald Tribune
Sept. 13, 1986

Nothing is big in Texas anymore

The only alternative to the deep and debilitating cuts currently being considered [in the University of Texas budget] is a modest increase in the State's sales tax—from 4⅛ to 5%.

—Letter from the University of Texas
to its alumni, Aug. 5, 1986

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