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How Zoning Laws Break Up Families

by George W. Liebmann

Many pressing social problems, including homelessness, social isolation of the elderly, and inadequate child care have a single cause: zoning restrictions. Relief of those problems does not require drastic change. Indeed, modification of local ordinances to allow accessory apartments, home occupations, and convenience shops in residential neighborhoods is consistent with the purpose of zoning: protection of residential neighborhoods against traffic, noxious uses, and strangers.

Nearly all American zoning ordinances, which were based on the Standard Zoning Enabling Act promoted by Secretary Herbert Hoover's Department of Commerce in the late 1920s, authorize "accessory uses" in residential neighborhoods. Those usually include such amenities as porches and garages. However, the courts become more resistant when accessory uses include self-contained rental apartments in single-family houses, garage apartments, or separate houses on single-family lots. The "granny house" or "echo house" (a small backyard cottage) is a familiar European institution, and the two-family home or duplex apartment, the rental from one portion of which is used to pay the mortgage, is likewise familiar abroad. In Germany people who build two dwelling units, one for the owner's occupancy and one for rental, can deduct against taxes 5 percent of the cost for eight years and 2.5 percent thereafter. Finland and, since 1992, Britain allow modest amounts of the rent from an accessory apartment to be disregarded for income tax and social security purposes.

Fortunately, there has been enhanced interest in that type of housing in the United States in recent years. The American Planning Association has published model ordinances. The District of Columbia and Fairfax County, Virginia, have been considering ordinances to legalize the creation of apartments in homes. Some form of that type of legislation has been adopted in Hawaii; Montgomery County, Maryland; Marin County, California; and various towns in Fairfield County, Connecticut. It is no accident that the legislation first appeared in jurisdictions notorious for high-cost housing. An estimated 40 percent of American suburbs now allow accessory apartments in some form.

The move toward accessory apartments has been largely spontaneous and has generated little opposition, for it is nonthreatening. The ordinances expand, not impair, the rights of property owners. Municipalities tend not to oppose changes that are expected to increase revenue by raising land value assessments. Because the apartments thus created are small and therefore usually inhabited by single persons or the elderly, the impetus to exclude families that will burden municipal services is absent.

The appeal of accessory apartments is enhanced by the opportunity to create an additional housing unit for as little as $16,500. However, the major impetus for changing the law is the need arising from recent social developments. Those developments include the demand for living units by an increasing number of elderly persons priced out of nursing homes (from 1970 to 1978 the life expectancy of a woman of 75 is said to have increased by 57.5 percent); the increased incidence of divorce and consequent need of women

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In This Issue

John Stossel of ABC News "20/20" takes a question from Kent Jeffreys of the Competitive Enterprise Institute at a Cato Policy Forum on September 17 where Stossel discussed why journalists are drawn to crisis stories.

Socialized Medicine vs. Patient Power

President's Message

Over the next year Americans will witness one of the most important policy debates of our time. The health care plan being promoted by President Clinton and Hillary Rodham Clinton poses a question far more fundamental than health care itself, important as that issue is. This debate is really about the kind of society we wish to live in—one in which we increasingly become wards of an egalitarian state or one whose foundations are the traditional American principles of individual liberty and responsibility.

In October, when it had become increasingly obvious that California's school choice initiative had no chance of winning, Bill Clinton jumped into the fray with a revealing turn of phrase that has direct relevance to his approach to health care. He said (with no apparent sense of hypocrisy) that it would be lamentable if more parents had an opportunity to send their children "to private schools that didn't have to meet any standards at all." What about the standards that parents have for the education of their children?

To the president, his wife, and much of his administration, standards that aren't set by the government are no standards at all. "I'm a government junkie," Hillary Clinton told reporters during the First Family's trip to Japan. Indeed, this administration seems thoroughly addicted to the idea that government not only can solve every problem faced by our society, but that it should play an intrusive role in each and every aspect of our lives, whether problems exist or not.

Bill Clinton says he is a New Democrat, but he neither supports entrepreneurship nor recognizes the need to rein in runaway government spending, as does, say, Rep. Tim Penny. Clinton cloaks a leftist, egalitarian, redistributionist philosophy in the rhetoric of "competitiveness" and "reinventing government." Although past Democratic presidents have clearly supported big government initiatives, it could be argued that Wilson, FDR, and Johnson were more interested in power than they were in pursuing an ideological agenda. On the Republican side, George Bush falls into that category. The point is that the Clinton administration may well be the first truly leftist administration in American history.

Certainly that would explain its extreme antipathy toward business and the private sector. The Clintons lash out at doctors and the insurance industry for somehow conspiring against the American people, because price controls require demonizing those who are to be controlled. The word "profits" is used unapologetically as a pejorative, because if profits were recognized as the driving force in allocating resources in a free economy, what justification would there be for the government's allocating health care resources?

Make no mistake about it, the Clintons' health care proposal is intended to socialize one-seventh of our GDP. Under their mandatory, universal, comprehensive plan you will be allowed to buy health insurance only through regional health alliances run by state governments (or large corporations and unions, in some instances), and the policies will include minimum benefits that most people wouldn't buy on their own. Some plans will be super-comprehensive, but as Bill Niskanen points out, that is like having the choice of flying first class or coach but not having any say about where the plane is going.

Bill Clinton, with a straight face, offers a 2,000-page health care proposal that would create some 70 new government commissions, boards, and agencies and then attacks insurance companies for their "overcomplicated, burdensome, bureaucratic paperwork." Nothing like 70 new government agencies to cut down on unnecessary paperwork. Worse, rationing of health care is inherent in the Clinton call for price controls and total spending limits. But if things get completely out of control, there is always the National Health Board, composed of a handful of true experts, to sort everything out.

The good news is that polls show that a growing majority of Americans recognize the Clintons' plan for what it is. We don't want the same system that delivers the mail providing our health care. And increasingly, the health care proposal of Sen. Phil Gramm, based on the "Patient Power" plan developed by the Cato Institute and John Goodman's Dallas-based National Center for Policy Analysis, is being perceived as the major free-market alternative to the Clintons' socialistic scheme.

We need (and most Americans support) a free market in health care. The market works only if it is consumer driven, and that can't happen as long as our tax code and government regulations create a system of low-deductible "insurance" (really a prepayment system) in which third parties and government bureaucrats control the flow of money. Medical savings accounts will allow Americans to pay for their own routine health care and return insurance to its proper role of covering catastrophic events. With the consumer back in charge, we will see a tremendous downward pressure on prices, the elimination of unnecessary medical procedures, and a return of the private doctor-patient relationship that has been virtually destroyed by the current system.

Do we need health care reform? You bet we do. But we need a true free market in health care, not mandates and socialized medicine. That's why it is very encouraging that the prepublication orders for Cato's new abridged paperback edition of *Patient Power* are for 100,000 copies. The "Patient Power" alternative to the Clintons' plan is sweeping the nation—order in bulk and help spread the word!

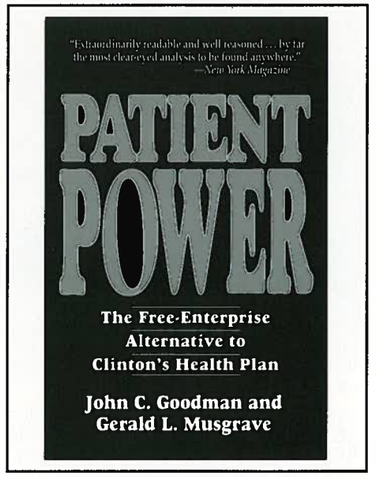
— Edward H. Crane

100,000 Books Being Distributed

Cato Steps Up Effort to Promote Patient Power

The Cato Institute is promoting its alternative free-market medical care reform on several fronts and also focusing critical analysis on President Clinton's government-dominated plan. On September 27 the Institute sponsored a conference, "Assessing the Clinton Health Care Plan," at which six analysts and keynote speaker Sen. Phil Gramm (R-Tex.) dissected the plan. Gramm condemned it as "socialized medicine" and for denying Americans the freedom to buy medical coverage directly from insurance companies. The alternative he has introduced in Congress embodies some of the provisions of Cato's Patient Power proposal, including the creation of tax-free medical savings accounts to cover the high deductible of a catastrophic health insurance policy.

Cato chairman William Niskanen described the Clinton plan as "radical, arrogant, unreal, and unwise." "Clinton proposes to transform the American health care system, now over three times as large as the Department of Defense, into one giant bureaucracy," Niskanen said. He said the plan would result in price controls, increase costs, raise taxes, eliminate jobs, and reduce the growth of wages. "Most of the problems of the current system, other than the more general problems attributable to the persistence of poverty, are attributable to prior government mistakes that have led us to have too much of the wrong kind of health insurance. . . . The central feature of a wise health care system is to make the patient, not the doctor or the government, the primary decisionmaker."



Michael D. Tanner, Cato's new director of health and welfare studies, said the Clinton plan is "fundamentally dishonest," because although it promises choice, Americans will be forced to buy health insurance through government cooperatives and because the plan is designed to force patients and doctors into health maintenance organizations. He said that Clinton claims his plan rejects price controls but that in fact it will cap insurance premiums, a measure that will force insurance companies to control prices charged by doctors and hospitals. Although Clinton says his plan will reward responsibility, Tanner said that it will actually reward irresponsibility because everyone will pay the same premium for insurance regardless of lifestyle or health. He concluded that the proposal will tax the middle class to benefit the poor and large corporations, whose insurance costs for early retirees the government will pick up.

In other remarks, Merrill Matthews, Jr., a medical ethicist with the National Center for Policy Analysis, said it would be unethical for a doctor to participate in the Clinton plan because it would reduce patient autonomy and medical decisions would be balanced against "national goals." Jane Orient of the Association of American Physicians and Surgeons said the various health plans allowed by the Clinton blueprint would have to restrict access to services to remain solvent under the insurance companies' fee schedules. She added that information-filing requirements would preclude patients' paying doctors out-of-pocket for services because doctors would be under threat of audits and asset forfeiture for violations of the law.

Jack Strayer of the Council for Affordable Health Insurance, a group of small insurers, and Don Devine of the American Conservative Union also spoke at the conference.

On December 6 Cato will cosponsor a

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Seminars Held in New York, Chicago

ABC's John Stossel Asks Why Reporters Pander to Fear

Cato Events

August 6: Jack Kemp talked about taxes, trade, government spending, and other public policy issues at a **Roundtable Luncheon** with the Cato staff.

August 9: Ognian Pishev, the Bulgarian ambassador to the United States, described the political and cultural barriers to liberalizing the Bulgarian economy at a **Roundtable Luncheon** with Cato staff and guests.

September 2: **"What Next for the Steel Trade?"** was the question discussed at a Policy Forum featuring Horst Buelte, president of the American Institute for International Steel; Gary N. Horlick of O'Melveny & Myers; and Robert W. Crandall of the Brookings Institution. The forum was prompted by the U.S. International Trade Commission's recent upholding of only a portion of the dumping cases brought by the U.S. steel industry. The speakers, advocates of free trade in steel, analyzed the rulings and their impact on steel-producing and steel-using industries as well as the likelihood of future protectionist policy in the steel sector.

September 8: Rep. Robert S. Walker (R-Pa.) spoke on **"Real Deficit Reduction: The Taxpayer Buy-Down Act of 1993"** at a Policy Forum. Walker's bill, H.R. 429, would allow taxpayers to designate up to 10 percent of their tax liability for deficit reduction and require Congress to cut spending by that amount.

September 9: The first **Monthly Term-Limits Luncheon** was sponsored by the U.S. Term Limits Foundation and Cato. First-term U.S. Rep. Bob Inglis (R-S.C.), author of the Amendment for a Citizen Congress, and Paul Jacob, executive director of U.S. Term Limits, brought the audience up to date on state campaigns to limit the terms of members of Congress.

September 15: Some 250 people attended a **"New Perspectives for the Nineties"** city seminar in New York City, featuring Lawrence Kudlow, chief economist for Bear Stearns & Company and a treasury official in the Reagan administration, and John Fund, editorial writer for the *Wall Street Journal* and coauthor of *Cleaning House: America's Campaign for Term Limits*. Also speaking were Cato president Edward H. Crane; Stephen Moore, director of fiscal policy studies; and Roger Pilon, director of Cato's Center for Constitutional Studies.

Thomas Szasz, author of *The Therapeutic State* and other books, delivers Cato's annual Distinguished Lecture on October 13.

September 17: John Stossel of the ABC News program "20/20" spoke at a Policy Forum titled **"Pandering to Fear: The Media's Crisis Mentality."** He said that reporters are drawn to crisis stories lacking scientific merit because they attract viewers and readers more than other stories. Stossel, who has reported on the benefits of deregulation and other market-oriented topics, said that government regulatory agencies are usually less effective than market processes—including consumer reporting—at providing consumers with the information they need.

September 21: A Policy Forum entitled **"The United Nations as Global Policeman: Luring America into Quagmires?"** featured a debate between Burton Yale Pines of the National Center for Public Policy Research and John Steinbruner of the Brookings Institution. Pines said the United States should not let the United Nations determine its foreign policy because it is corrupt, inept, meddling, and anti-American. Steinbruner countered that it is in America's interest to respond to the breakdown of civil order in places such as Bosnia.

September 23: Cato Mencken Research Fellow P. J. O'Rourke was the dinner speaker at a **"New Perspectives for the Nineties"** city seminar in Chicago. Also featured were David Hale, chief economist and first vice president of Kemper Financial Services, and Cato's president Edward Crane, executive vice president David Boaz, and Roger Pilon.

September 27: A conference on **"Assessing the Clinton Health Plan"** featured Sen. Phil Gramm (R-Tex.) as keynote speaker. Gramm condemned the Clinton plan as "socialized medicine" and offered an alternative that includes medical savings accounts to protect consumers' freedom of choice. Among the participants on two panels that analyzed the Clinton plan were Cato chairman William Niskanen; Michael Tanner, Cato's director of health and welfare studies; Merrill Matthews, Jr., of the National Center for Policy Analysis; Jane Orient of the Association of American Physicians and Surgeons; Jack Strayer of the Council for Affordable Health Insurance; and Don Devine of the American Conservative Union and Citizens against Rationing Health.

Roger Pilon and David Lucas (center), plaintiff in the 1992 Supreme Court takings case, talk with Richard Epstein after a forum on Epstein's new book, *Bargaining with the State*.

At a "New Perspectives for the Nineties" seminar in Chicago, P. J. O'Rourke, Cato's Mencken Research Fellow, explains just how big a bite out of your paycheck the Clinton health care plan will take.

September 28: At a Book Forum, law professor and Cato adjunct scholar Richard A. Epstein of the University of Chicago spoke about the difficulties associated with government distribution of favors, the theme of his new book, ***Bargaining with the State,*** published by Princeton University Press. Judge Stephen F. Williams of the U.S. Circuit Court of Appeals for the District of Columbia commented.

September 30: Michael Maren, a former relief worker with the U.S. Agency for International Development and Catholic Relief Services, indicted government food policies for empowering tyrants and undermining local agriculture and markets in the developing world at a Policy Forum on **"Food Aid and the Somalian Tragedy: Good Intentions Gone Awry."**

October 1: David Frum, legal columnist for *Forbes*, spoke on **"The Alienation of Business from the Law"** at a luncheon for journalists and Cato policy staff. Frum noted that since the law has become little more than a proliferation of arbitrary rules, among businessmen the phrase "that's against the law" has lost its moral bite.

October 5: At a Book Forum, best-selling author Peter McWilliams spoke about his new book, ***Ain't Nobody's Business If You Do: The Absurdity of Consensual Crimes in a Free Society.*** McWilliams said adults should be allowed to do whatever they wish with their own persons and property as long as they don't physically harm other people or their property,

October 13: Thomas Szasz, author of *The Myth of Mental Illness*, gave the annual Cato Distinguished Lecture entitled **"Adult Dependency: Idleness or Illness?"** Szasz discussed the increasing medicalization of what were formerly regarded as moral problems and the concomitant depreciation of character and responsibility for oneself.

October 14: The probable economic effects of **Medical Savings Accounts** were analyzed at a Policy Forum with Greg Scandlen and Mark Litow of the Council for Affordable Health Insurance and Michael Tanner. Scandlen and Litow reported the results of a CAHI study that projects savings over five years of $240.8 billion in health care spending and $55.5 billion in administrative costs if MSAs are adopted. Tanner rebutted President Clinton's claim that all opponents of his plan are defenders of the status quo and argued that medical saving accounts are the only real alternative to socialized medicine. ■

CATO INSTITUTE CALENDAR

The Politics and Law of Term Limits
Washington • Cato Institute • December 1, 1993
Speakers will include George Will, Lloyd Cutler, Thomas Mann, Becky Cain, Ronald Rotunda, and John G. Kester.

Alternative Visions in the Ethics and Policies of Health Care Reform
Cosponsored with Harvard Medical School Division of Medical Ethics and Beth Israel Hospital Seminars in Medicine
Boston • Beth Israel Hospital • December 6, 1993
Speakers will include Roger Pilon, Loren Lomasky, Marcia Angell, Ezekial Emanuel, Troy Brennan, John Goodman, and Richard Epstein.

Sixth Annual Benefactor Summit
Grand Cayman • Hyatt Regency Britannia • February 17-20, 1994
Speakers will include David Lucas, Richard Epstein, William Niskanen, Paul Craig Roberts, Jonathan Rauch, and Bret Schundler.

The Monetary Future of the Americas
12th Annual Monetary Conference
Cosponsored with Center for Free Enterprise Research (CISLE) and the Fraser Institute
Mexico City • Hotel Presidente • May 25-26, 1994
Speakers will include Hernan Buchi, Luis Rubio, Lawrence Kudlow, Steve Hanke, and Jerry L. Jordan.

Clinton Health Plan Will Bust Budget, Limit Choices

Policy Forum

Five days after President Clinton unveiled his health care reform plan in a nationally televised speech to Congress, the Cato Institute brought together a number of health care experts in the F. A. Hayek Auditorium to examine the president's proposals. Among the speakers whose remarks are excerpted below were Sen. Phil Gramm (R-Tex.), sponsor of the Comprehensive Family Health Access and Savings Act, which includes medical savings accounts; William A. Niskanen, chairman of the Cato Institute; Michael Tanner, director of health and welfare studies at the Cato Institute; Merrill Matthews, Jr., director of the Center for Health Policy Studies at the National Center for Policy Analysis and ethicist for the medical ethics committee at the Richardson Medical Center in Dallas; and Jane Orient, a physician and executive director of the Association of American Physicians and Surgeons.

Phil Gramm: I can honestly say that, since I've been in Congress, we have never debated an issue that is more important to the future of America than is health care reform. And I am convinced that the American people, when they get all the facts, will make rational, sound decisions. We will end up changing the health care system in the right direction, promoting price competition and unleashing the genius of free enterprise.

Let me begin with the president's speech. It is an incredible paradox to me that a debate that started about our inability to pay medical bills and the explosive growth of Medicare and Medicaid, a growth that threatens to bankrupt the government and the country, produced a speech before a joint session of Congress in which the president promised the American people seven major new benefits.

We have two basic problems in health care, cost and access, that exist because the health care market works differently than other markets. It works differently because, beginning in 1929, we instituted a system of third-party payment through private health insurance. Today when a person goes to the hospital, 95 percent of the bill is paid by someone else. And since the consumer is not paying the bill, the natural market incentives to be cost conscious and efficient do not work.

The administration says that free enterprise has failed in health and we should now try collectivism. But the truth is, we do not have anything approaching price competition or free enterprise. If I bought groceries the way I buy health care, I would eat differently and so would my dog. If 95 percent of your food purchases were paid for by an institution to which you simply paid a fee once a month, you would make very different purchasing decisions.

The president says, let's fix the health care problem by letting government be the only buyer. Yet nowhere is government able to control costs, and nowhere is there an example of price competition that does not control costs. The only one-buyer market run by the government that I can think of is the Defense Department. Is the president telling us that if we organize health care like the Defense Department, government will hold down red tape, regulation, waste, inefficiency, or fraud? Medicare and Medicaid already account for about 30 percent of health care expenditures and most of the paperwork; how could anybody believe that by having the government take over the whole health care system we would reduce red tape and paperwork?

The president was extremely misleading about choice. He said that you will have choice, but he didn't explain that your existing insurance policy will be canceled and that the only choices you will have will be the ones that the government gives you. You will pay your money to a health care purchasing collective and then choose from the options allowed. You will not have the choice of going to Blue Cross and Blue Shield and buying a policy directly, and you will not have the choice, as the president's program stands today, of going directly to a health care provider.

The president says that everybody ought to have a standard benefits package. I am totally opposed to a standard benefits package because two things are bound to happen. First, if the experience of the states that have standard benefits packages is any indication, any group with a letterhead will ultimately induce Congress to include its special interest. Benefits will expand exponentially, and people will be forced to pay for services they don't want. Why should a school teacher who doesn't drink or use drugs be forced to pay for alcohol and drug rehabilitation services in the standard benefits package?

Second, because there is not enough money in the world to pay for Clinton's plan, our choices will be limited. In every single case in which government is the only buyer of health care, the ultimate mechanisms for trying to control costs are rationing, wage controls, price controls, and limitations on services. I don't think Americans want that sort of system.

My proposal would give people more, not fewer, choices. I would give people the right to take the share of their current health insurance premiums that is being paid by their employers and join a health maintenance organization or set up a medical savings account. A 45-year-old man paying about $4,500 a year for health insurance could buy a catastrophic policy that would pay everything over $3,000 for about $1,600 a year. He could then put the other $2,900 into a medical savings account that could be used only to pay medical expenses up to the deductible on that catastrophic policy. At the end of the year, if he hadn't spent the whole $2,900, he could keep it. With a medical savings account, he would have an incentive to look at alternatives, to be cost conscious.

Ninety-two percent of all families in America don't spend $3,000 a year on health care. So they'd be back at the grocery store pushing their carts down the aisle, buying their own food and paying for it. They would become cost conscious, and the system would begin to respond—its technological genius directed not only toward doing it better but toward doing it cheaper. When people are free to choose, the system changes and we unleash price competition, the most effective instrument for cost control and efficiency that has been developed in 5,000 years of civilization.

The president announced that he may want Congress to pass a law to prevent private insurance companies from canceling people's policies before his program can go into effect. Well, it seems to me that we may also need a law to protect people from having their policies canceled after the president's plan goes into effect. And I intend to offer an amendment that says: "Nothing in this act shall prevent a free person in America from buying health care directly from a health insurance company or a private provider of health care. Nothing in this act shall require people involuntarily to buy health care or health insurance through the government, and nothing in this act shall require people to pay money to the government purchasing cooperative if they choose not to."

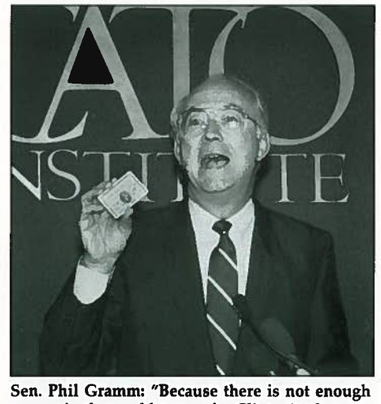
William A. Niskanen: My role in this assessment of the Clinton health care plan is to be the independent, objective, dispassionate, academic commentator. In that spirit, the Clinton health plan is the most *radical*, *arrogant*, *unreal*, and *unwise* policy proposal to be made by any administration in my lifetime. Let me count the ways.

Radical—because Clinton proposes to transform the American health care system, now over three times as large as the Department of Defense, into one giant bureaucracy. The federal government, for the first time in any area of American life, would set a total budget for public and private expenditures for health care and allocate that budget among state or regional health alliances. All people would have the same comprehensive coverage designed by the government, regardless of their health status and health habits. The only individual choice would be to select more or less expensive versions of the same coverage.

Individuals would be allowed to purchase health insurance only through the monopoly health alliances in their regions, unless they were members of a large firm or union that elected to be its own health alliance. Every person selecting the same plan would pay the same premium, regardless of the costs he would be likely to incur. Health providers would have to accept any applicant and could not terminate a participant for any reason, including nonpayment of premiums. The federal government would have the authority to approve premium increases and to investigate and publicize the "reasonableness" of new drug prices. Each alliance would adopt a fee schedule, and no provider could charge a fee in excess of that schedule. The federal government would also have the authority to determine the allocation of new residency positions by medical specialty.

All of those measures are described, of course, under headings such as "Increasing Choice" and "Reducing Bureaucracy." The only people who retain what we used to cherish as American freedoms are undocumented residents, who are guaranteed emergency care and may elect any insurance plan, including none, that is available.

Arrogant—because the plan would substantially change the structure of the health care system, rather than let the structure evolve in response to changing the specific rules that bias choices in the current system. No group of people—however intelligent, knowledgeable, and well meaning—can design a complex



Sen. Phil Gramm: "Because there is not enough money in the world to pay for Clinton's plan, our choices will be limited."

social system with any prospect of success. As usual, Adam Smith may have made this point first and best:

> The man of system is apt to be very wise in his own conceit. He seems to imagine that he can arrange the different members of a great society with as much ease as a hand arranges the different prices on a chess-board. . . . But that in the great chess-board of human society, every single piece has a principle of motion of his own, although different from that which the legislature might choose to impress on it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder.

The "man of system" who designed the Clinton plan has made a career of turning gold into lead. That may require considerable intelligence, but it destroys characteristics that are especially valuable.

Unreal—because Clinton seems to believe that his plan will reduce the costs of health care. There are a number of reasons, however, why his plan would *increase* costs. Broader health insurance coverage, by reducing the incentive of both patients and providers to control costs, has been the primary *cause* of the relative inflation in medical care prices and expenditures during the past several decades. Universal coverage and broader coverage for the elderly and many others would compound the problem. The mandatory one-size-fits-all comprehensive plan would cover some services that most people would never consider using or purchasing insurance to cover. For some people, abortion would be such a service; for others, therapeutic massage; and for still others, alcohol and drug rehabilitation. For most people, mandatory coverage of such services would increase the premium for their health plan; for many people, the exclusion of some service from the plan would increase their direct expenses for that service.

The Clinton proposal requires that every health plan accept any applicant at the same premium. Given that most medical expenses are incurred by a small proportion of people, that would increase the premiums for most people—the same effect that including alcoholics and teenage boys in the risk pool on which your auto insurance is based would have. It would also reduce the financial incentive for individuals to maintain healthy habits and for employers to maintain safe working conditions and wellness programs for their employees.

Finally, most of us would pay higher taxes. The administration claims that an increase in the tax on tobacco and a small payroll tax on large firms that serve as their own health alliances would be sufficient to finance the subsidies for the several types of broader coverage, but Senator Moynihan has correctly described those projections as "fantasy." The beginning of wisdom on this issue will be to recognize that all of the numerical projections of costs and savings that you will hear over

(Cont. on p. 8)

Clinton Plan (Cont. from p. 7)

the next months will be fantasy. The most important fact that bears on this issue is that the current costs of the Medicare, Medicaid, and kidney dialysis programs are *many times* the official projections of those costs when the programs were first approved.

Moreover, the administration has an unreal perspective on the effects on the labor market, asserting that the mandate that all employers finance most of the premium for any of the comprehensive plans would have no adverse effects on employment and wages. For firms that do not now provide health insurance, the comprehensive plan will cost either the employer or the taxpayer somewhere between $1 and $2 an hour. The employer mandate is most likely to reduce the employment of low-skilled workers and reduce the growth of real wages for high-skilled workers.

And the administration also maintains the unreal position that global budgets, premium controls, and fee controls would be sufficient to control costs in the face of a subsidized increase in the demand for medical care, without the several adverse effects of nonprice rationing. Budget controls have not been very effective in controlling the growth of government spending; we have no experience on which to base an expectation that they would be effective in controlling the sum of government and private expenditures for any good or service. Premium controls would threaten the solvency of private insurers and would probably lead some insurers to withdraw from the health insurance market. Fee controls would almost surely lead to several forms of nonprice rationing and would probably lead some providers to withdraw from supplying those services subject to the most stringent controls. In summary, one wonders what world those who designed this plan live in.

Unwise—because Clinton proposes a much more radical restructuring of the American health care system than is necessary to address the several real problems of the current system. Criticism of the Clinton plan does *not* imply a defense of the status quo. One can accept each of the six principles that the president articulated so effectively without endorsing any of the five major features of his plan: mandatory universal coverage, mandatory comprehensive coverage, mixed risk pools with the same premium, mandatory employer financing, and government-supervised management.

Most of the problems of the current system, other than the more general problems attributable to the persistence of poverty, are attributable to prior government mistakes that have led us to purchase *too much* of the *wrong kind* of health insurance. Too much because health insurance is tax deductible. The wrong kind because the tax code is strongly biased in favor of employer-provided insurance. The wrong kind also because the tax and regulatory preferences for the Blues replaced the older form of indemnity insurance with cost-based reimbursement—a form of insurance that has led too many doctors to behave like bears who have discovered the honey pot.

William Niskanen: "The 'man of system' who designed the Clinton plan has made a career out of turning gold into lead."

We can correct those problems without a radical transformation of the American health care system that would create a new set of problems. The central feature of a *wise* health care system is to make the patient, not the doctor or the government, the primary decisionmaker. Most patients should be treated as responsible adults, not as opportunities to bill some third-party payer or as wards of the state. The role of physicians should be changed to make them more responsible professional agents of the patients, not cogs in some massive government-managed bureaucracy. The role of government should be limited to setting the necessary shared rules of the system, not the structure or the outcomes of the system. Patient Power, not the interests of medical care providers or the fantasies of the most recent generation of social engineers, should be the foundation of a wise system of health care.

The necessary first step toward that end is to reject the major features of the Clinton health plan. The appropriate next step is to change those government rules that have created the several major problems of the current system. There is ample reason and current political momentum for change. Our challenge is to use this opportunity to solve our problems, not to create new ones.

Michael Tanner: There are many areas in which the president's rhetoric does not match reality. First is choice. The administration insists that there will be choice of physicians and insurance plans under its proposal. I think that is untrue. Americans will be forced to buy their insurance through government-controlled purchasing cooperatives, which will offer them a limited number of plans to choose from. The government will determine what benefits those plans can offer, what they charge, what their copayments will be, what services will be covered, and so on. We are told that we will be able to choose our own doctors, but the plans are designed to funnel us all into managed-care systems and HMOs.

As more and more people are forced to choose managed care, the number of patients available for fee-for-service doctors will shrink and more and more of those doctors will have to join managed-care networks. Uwe Reinhardt of Princeton University estimates that when 50 percent of the American people are in those networks, fee-for-service practice will collapse and all the remaining doctors and patients will have to move into the networks.

Second, the Clinton administration insists that there are no price controls in its program even though it sets caps on premiums. But when costs increase, insurers will have to impose price controls on physicians and hospitals. To escape the blame for price controls and the rationing that will inevitably follow, the administration has set up the insurance companies as administrators of the price controls.

Third, the administration talks of responsibility. But its plan ultimately relieves individuals of responsibility. People who smoke, practice unsafe sex, fail to exercise, have poor diets—people who are fundamentally irresponsible in their lifestyle choices—will not suffer any adverse financial consequences. Their irresponsibility will be subsidized by individuals who have healthy lifestyles. We are going to penalize people who are responsible and subsidize people who are irresponsible. We are also going to penalize companies that are responsible—companies that, for example, have instituted wellness programs to reduce the cost of their insurance. There is no incentive to have a wellness program in the Clinton system because the company will pay the same premiums as those that don't.

Finally, I want to touch on fairness. When all is said and done, because of the community-rating provisions, most middle-class Americans are going to have to pay more for their health care. Americans below the poverty level are going to be subsidized, and some big businesses are going to receive enormous windfalls. The administration is going to pick up the tab for early retirement for certain giant corporations, which is why some of them support its plan. The Clinton plan is fundamentally a tax increase on the middle class to subsidize the poor and the rich.

Merrill Matthews: I'd like to talk about the ethics of the Clinton health care plan. The draft, which is marked "privileged and confidential," has a little section called "Ethical Foundations of Health Reform." It says: "Choice: each consumer should have the opportunity to exercise effective choice about providers, plans, and treatment. Each consumer should be informed about what is known and what is not known about the risks and benefits of available treatments and be free to choose among them according to his or her preferences." I agree with that.

There are two aspects to choice, which are the two pillars of medical ethics: patient autonomy and informed consent. As a patient, I should be in control of the health care I receive, and I should be provided enough information to make an informed decision.

I am on the institutional review board for human experimentation at the medical school in Dallas. Once a month we meet to consider and approve or disapprove research protocols. Each physician or researcher who wants to conduct an experiment with humans has to write up a protocol, which tells us what the researcher has in mind doing, what the background is, what the researcher hopes to achieve, what the procedures would be, what the outcome should be, and so forth. We also examine an informed-consent document. We scrutinize that document to see if it is clear and tells the patient precisely what is involved in layperson's terms. And then we as a committee vote on both the procedures and the accompanying informed-consent document. Many of the patients who make decisions about experimental treatment have minimal education, though the procedures can be very detailed and esoteric. But we believe that those people can give an informed consent. They can make a decision about whether or not they want to have the procedures done. They do not always make the right decision, incidentally, but patient autonomy does not guarantee that you will make the right decision. Patient autonomy only guarantees that you as the patient have the right to make the decision.

Jane Orient: "Americans will not be allowed to spend their own money for the medical treatment of their choice."

A health care reform proposal that reduces patient autonomy or informed consent is unethical by our current standards of medical ethics. The Clinton proposal reduces both. First, it will limit the patient's choice of physician. Second, there is a strong push toward managed care. Under managed care your choices are limited. Limiting choices saves money. What treatment you receive, and even *whether* you receive treatment, may be decided by someone other than you and your physician—someone looking over your physician's shoulder.

Third, the Clinton plan interferes with the physician-patient relationship. Physicians are already becoming "strangers at the bedside," in part because insurers, employers, and the government are coming between the physician and the patient. The Clinton plan would increase that alienation. Anything that undermines the physician-patient relationship is ultimately unethical because it removes the people who are most immediately involved from the decisionmaking process.

Fourth, the president's plan is unethical because of the health care rationing that will ensue. If you put the entire budget for health care into the federal budget, if you politicize health care, it will have to compete with other valid claims on the federal government's money, such as defense and education. There will never be enough money to go around, and rationing will follow.

Whoever controls the money, controls the power. Under the president's plan, the federal government will control the money. Under the medical savings account proposal, individuals would control the money.

We who support medical savings accounts are trying to empower individuals to make decisions. When patients are in control of the money, providers will inform them about their choices. The president's plan empowers bureaucrats to make the choices. The president's plan is, therefore, entirely unethical. Medical savings accounts are the only ethical alternative.

Jane Orient: I don't know how many other physicians in this country can say this, but I have actually read the administration's 243-page health care document. The president's plan will destroy private medicine and replace it with a monstrous bureaucracy, which will be financed by the functional equivalent of a tax.

The plan is quite vague about how the tax will be collected, but one very interesting provision is that if a person goes bankrupt, the health plan will have first claim on the debtor's assets, ahead of the mortgage company and the rest. (Is the president expecting a lot of small businesses to go bankrupt?) The equivalent of a payroll tax will be imposed on people who are not on a payroll. The plan states that those who are nonworkers or who are only part-time workers or who are not employed for the full 12 months of the year are responsible for the

(Cont. on p. 15)

Zoning Laws (Cont. from p. 1)

with children for income obtained from renting extra space; the decline in the marriage rate; and, most dramatic, the decline in family size, which renders much older housing needlessly large. The average number of persons per household declined from 3.14 in 1970 to 2.63 in 1990, a decline of more than 15 percent in 20 years. The number of persons over the age of 14 living alone increased from 7 million in 1960 to over 21 million in 1988. The number of households containing six or more persons declined from 6.8 million in 1965 to 3.3 million in 1987.

It has been estimated that 2.5 million to 3 million accessory apartments are already in use in the United States, the equivalent of six or seven years' average rental housing production. The annual number of conversions to owner-occupied apartments has been put at 50,000 to 65,000, or, since 1980, about half the number of unsubsidized rental units completed each year.

Legalize Accessory Apartments

Recent experience with accessory apartments suggests that planners need not plan; they simply have to get out of people's way. Even the most widespread use of accessory apartments (particularly if they are restricted to owner-occupied buildings) is unlikely to give rise to use intensities as high as those for which most large homes were built. Provided the usual restrictions on hazards and four-axle trucks are present, no nuisance will be created in the neighborhood.

The benefits of enhanced use of accessory apartments are manifold:

- Persons of reduced means (the elderly, female heads of broken families) who would otherwise have to sell homes are enabled to retain them.
- The elderly can obtain housing in good neighborhoods and can frequently both receive services (transportation, home health care) and provide services (child care), the burden of which might otherwise fall on the state. (The percentage of women over 65 with no living spouse who lived with children or other relatives declined from 58 percent in 1950 to 18 percent in 1980, coincidental with the migration to severely zoned suburbs.)
- A revival of the extended family may be fostered, since most people desire some, but not too much, proximity to their parents. "Granny houses" or apartments with separate entrances and cooking facilities meet that need. Grandmothers' caring for grandchildren may reduce fashionable demands for expensive and publicly supported day care. Zoë Baird and her supporters notwithstanding, the answer to the day-care "problem" resides in the next township, not in Washington, nor even in Peru.
- A more diverse suburban population in terms of both age and income may result, thus ensuring that the entry of women into the workforce does not cause neighborhoods to be populated predominantly by latchkey children during the day, and the attendant problem of delinquency. The number of young adults in suburban communities who are available to teach also may be increased.

> **"Small-scale retail uses assume particular importance in marginal, low-income suburbs in danger of becoming the slums of the future."**

- Minority and lower income persons may benefit directly by being introduced to suburban neighborhoods in small numbers, vouched for by landlord-neighbors, and indirectly through the phenomenon of "filtering," the sequence of moves that follows creation of each new housing unit. Professor Bernard Siegan of the University of San Diego has noted that "the construction on the average of 1,000 new units, both houses and apartments, makes it possible for a total of about 3,500 moves to occur to different and likely better housing conditions. . . . Beginning with the third succession of moves, poor families were represented in approximately the same proportion which they represent of the population."
- A very large number of new housing units will be provided at limited public or private cost. Accessory apartments may be bought on line at a third or less of the $75,000 it costs to build each new subsidized unit. Moreover, the accessory apartments are in better quality buildings. Unlike subsidized housing, they also enjoy the benefit of resident-owner management. Accessory apartments could provide low-rental housing where earlier efforts have failed or provoked controversy.

Although no fortunes may be made from construction of accessory apartments, various interest groups have reason to support the idea: home improvement contractors; lenders; real estate agents; organizations of the elderly and of divorced parents; hospital discharge planners; and large employers, including school systems.

That there is a perceived problem of homelessness in a nation that is said to have spent, before the 1970s, eight times more on housing than the countries of Western Europe and three times more than Japan as a proportion of its capital investment suggests that the housing problem involves not a physical shortage but failure to adapt.

Neighborhood Retail Stores

The increasing number of accessory apartments, both those sanctioned by law and those created in defiance of it, results in a migration to the suburbs of groups not previously represented in large numbers—the elderly and single persons of modest means. That in turn, together with the increase in single-parent households, creates a need for greater access to retail and service establishments traditionally excluded from residential neighborhoods except for a limited class of mostly professional "home occupations." Although nearly all residential zoning laws authorize home occupations, many define that term to exclude businesses and to limit permitted uses to those regarded as "customary." The logic of that is unclear. The exceptions for professional offices are said to rest not on function but social class, and the prohibition of retail establishments rests on an unwillingness to make the distinctions necessary for appropriate regulation.

It is not easy to justify on any functional grounds the prohibition of very small one-room retail establishments. The absurdity of the health-and-safety rationale for prohibition has been recognized since the dawn of zoning, one of whose fathers, Albert Bettman, once confessed, long before Mrs. Thatcher, that "there have been mighty healthy kids raised over grocery stores."

Traffic as a reason for exclusion is difficult to justify, at least where deliveries by large trucks are prohibited. Besides, the concentration of traffic in a few areas zoned for commerce might be even less acceptable than the more even distribution that would result from liberalizing the restrictions on home occupations. In any case, as Richard Babcock has written, "If our test were based on traffic annoyance, the church would be the first to be excluded from the residential district."

The danger of retail uses in residential areas is restricted by the fact that the uses are self-limiting. Any home occupation that depends on traffic from elsewhere would locate in an area accessible to large-scale traffic movement. Siegan's study of an unzoned city, Houston, suggests that "a limited number of commercial uses—probably no more than 5 percent of structures on local streets—might in time enter the subdivisions . . . most of which would provide services for local residents and thereby augment the viability of the area," even if there were no restrictions on size. Of more affluent subdivisions with large lots, Siegan writes, "The high cost of the homes coupled with the fact that they are on low-traffic streets would make them economically unfeasible for purchase by a commercial user."

Benefits of Small-Scale Retail

Residents' fear that retail uses might depreciate the value of their homes would be limited, since changes would occur slowly and would be self-limiting because each neighborhood would be able to support only a few retail establishments. One possible approach to the legalization of new uses would allow home offices (which cannot be policed in an age of telecommuting) as well as small-group social services and such retail establishments as are sponsored or contracted for by the local homeowners' or condominium association.

There would be several benefits from small-scale retail uses in residential neighborhoods. The first is simple convenience. There is a characteristic lack of neighborhood shops within walking distance; a loaf of bread entails an automobile trip—often of a significant distance. That limits shoppers to drivers, which causes problems for some families, and restricts children's participation in shopping. It also takes up the scarce time of two-earner families and uses fuel. The absence of facilities within walking distance likewise renders residential suburban communities inhospitable to the elderly.

Children are disadvantaged both as shoppers and as potential employees. Teenagers' frustrations with transportation and their boredom are compounded by great dependence on parents at a time when teens are striving for greater independence. Moreover, part time work, especially in the summer, is one of the best solutions to the problem of teenage idleness. Employment within a reasonable distance would also benefit many women.

> **"Planners need not plan for accessory apartments; they simply have to get out of people's way."**

Small-scale retail uses assume particular importance in marginal, low-income suburbs in danger of becoming the slums of the future—Jane Jacobs's "gray areas." That is especially so for one-car and no-car families. The "incompatible" use thus actually increases the livability of those areas. The relatively few who desire to use homes for small or beginning businesses also benefit. Seymour Toll points out that the business use of homes provides a safety net in hard times, as was true during the depression.

Removing restrictions on home occupations would also benefit consumers by encouraging competition that is now stifled. One may recall Jacobs's strictures in the context of city life on "monopolistic shopping centers [which] cloak under the public relations hoohaw the subtraction of commerce from the intimate and casual life of cities."

Some restrictions on home occupations are desirable. While the restriction against retail sales should be swept aside, Babcock has suggested that "protection from the common law nuisance (whether in the form of a hen house or a noisy window air conditioner) is the minimum [a neighbor] is entitled to expect. . . . [He] should have the right to insist that there be provided the equivalents of the open space and light that would exist if the single-family detached-dwelling style had been maintained [and] protection from the hazards of contagion and fire and from the use of residential streets for four-axle trucks." Size limitations and requirements that a building's primary use be as a home and that the number of employees from outside be limited can be justified. Jacobs's point that "gray areas are unequipped to handle strangers" is valid, although the absence of heavily trafficked streets itself will operate to restrict the appeal of home-based establishments.

The governing principle, as Richard Harwood suggests, should be that no regulation may infringe on the right of any resident to use a minor portion of a dwelling for gainful employment that does not change the character of the surrounding residential area. That undoubtedly is an oversimplification: if a valid object of restrictions is to limit use to residents of the neighborhood, restrictions on size and number of employees have a part to play, as do limitations on signs and restrictions on deliveries by large trucks. With those qualifications, however, it is difficult to justify most restrictions on home occupations by reference to objective performance standards. As with accessory apartments, there are important social considerations that weigh in favor of greater tolerance of home occupations.

The least frightening way of introducing change may be by providing homeowners' and condominium associations with a zoning exception allowing them to operate or authorize the operation of convenience stores of limited size. Granting those neighborhood "governments" that real and important power may go far to restore community and self-government to otherwise anonymous suburban tracts, or what have been called "neighborhoods of strangers and jurisdictions without traditions."

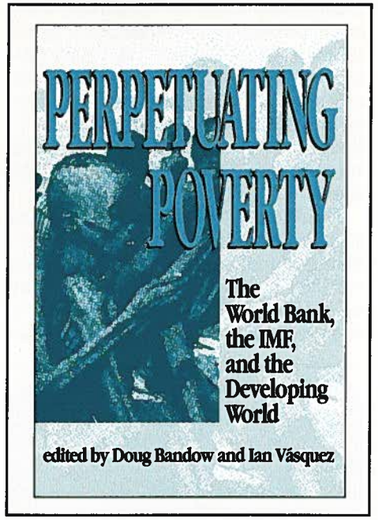
(Cont. on p. 15)

Foreign Aid Has Failed

How World Bank and IMF Keep Third World Poor

Since World War II, it has been widely believed that undeveloped countries cannot become prosperous without billions of dollars from rich countries. The World Bank alone has lent $300 billion. A new Cato book, *Perpetuating Poverty: The World Bank, the IMF, and the Developing World*, edited by Doug Bandow and Ian Vásquez, argues that after 40 years, that strategy has been a complete failure. *Perpetuating Poverty*, based on a 1991 Cato conference on multilateral lending institutions, is an eye-opening review of the scandalous record of the World Bank and the International Monetary Fund. The startling findings include the following.

- India has received the most foreign aid of any country since 1951—about $55 billion—but today 40 percent of its population is in poverty.
- After two decades of development planning, financed largely by the IMF and World Bank, sub-Saharan Africa today has a lower per capita income than it did when the aid started, and Latin America is saddled with $430 billion in foreign debt.
- After that dismal showing, the IMF wants to give the former Soviet republics twice as much aid (in real terms) as all of Western Europe received under the Marshall Plan.
- While the industrial nations support foreign aid, they also maintain trade restrictions against poor countries that reduce those nations' incomes by twice the amount of the aid.



Chapters focus on Russia, Eastern Europe, Africa, Latin America, Mexico, Brazil, India, and the Philippines. The final section discusses how development occurs without foreign aid, particularly through free trade. Contributors to the volume include an impressive group of scholars and analysts, among them, Paul Craig Roberts, Doug Bandow, James Bovard, J. Michael Finger, Nicholas Eberstadt, Melanie S. Tammen, James Burnham, George Ayittey, Roberto Salinas León, Jim Powell, and the late David Osterfeld.

In their introduction, Bandow and Vásquez point out that "as their failures have become undeniable, international aid agencies have only escalated their lending," and a new agency for Eastern Europe has been created. They argue that foreign aid is premised on flawed assumptions, such as the view that money is a precondition for economic achievement rather than the result of it. Moreover, they write, foreign aid is bound to fail because it is extended to the very governments whose economic policies impede economic growth; the aid helps them to hide the worst effects of their irrational policies and put off badly needed market reforms.

"Ultimately, Third World nations can emerge from underdevelopment only through their own efforts," the editors write. "They have always had the potential to do so, but inward-looking domestic policies, economic nationalism, and other forms of statism have prevented literally billions of people around the globe from enjoying the prosperity that naturally arises from economic freedom."

Perpetuating Poverty points the way toward abolishing the destructive bureaucracies and putting in their place policies based on economic liberty—for the good of the developed and developing worlds alike.

Doug Bandow is a Cato senior fellow. Ian Vásquez is assistant director of the Institute's Project on Global Economic Liberty. ■

Patient Power (Cont. from p. 3)

public conference entitled "Alternative Visions in the Ethics and Policies of Health Care Reform" with the Harvard Medical School Division of Medical Ethics and the Beth Israel Hospital Seminars in Medicine Series. The conference, to be held at Beth Israel Hospital, will feature Roger Pilon, director of Cato's Center for Constitutional Studies; adjunct scholar Richard Epstein of the University of Chicago Law School; Loren Lomasky, a philosopher at Bowling Green State University; John Goodman, coauthor of *Patient Power;* and Professors Ezekiel Emanuel and Troy Brennan of the Division of Medical Ethics.

Cato's other health care reform activity includes publication of a 150-page, mass-market paperback condensation of *Patient Power*, John Goodman and Gerald Musgrave's book that details the Cato proposal for market reform of medical care, including medical savings accounts and individual tax deductions for catastrophic insurance. Cato plans to distribute 100,000 copies of the book, many of them through the Association of American Physicians and Surgeons and other doctors. The book will cost $4.95. A 19-page summary of the plan has been published as a pamphlet, 1 million copies of which are expected to be mailed. It is available for $4.

Cato is also participating in the Patient Power Network, the first meeting of which was held July 9 at the Institute's headquarters. PPN is an informal group that will meet occasionally to exchange information pertinent to free-market alternatives in health care reform. The other participants include the National Center for Policy Analysis, Golden Rule Insurance Company, Council for Affordable Health Insurance, Physicians for Patient Power, Medical Action Committee for Education, Association of American Physicians and Surgeons, Americans for Free Choice in Medicine, Coalition against Rationing Health, and Citizens for a Sound Economy. ■

Tanner Will Direct Health Studies

Roberts Is Named Cato Fellow

Paul Craig Roberts has joined the Cato Institute as a Distinguished Fellow. Michael D. Tanner has been named director of health and welfare studies.

Roberts was assistant secretary of the Treasury for economic policy in 1981-82 and for the past decade has held the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies. He played a major role in shaping the tax reform policies at the beginning of the Reagan administration that many credit with the unprecedented economic growth over the following eight years. Before that he was instrumental in launching the pro-tax-cut, supply-side revolution in economic policy as an editor and columnist at the *Wall Street Journal*.

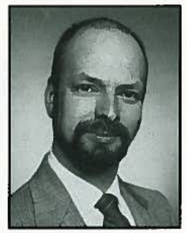
Roberts will continue to serve as chairman of the Institute for Political Economy. He is currently a columnist for *Business Week*, the *Washington Times*, the Scripps Howard News Service, and *Le Figaro*. He is also a contributing editor of *National Review* and a senior research fellow with the Hoover Institution. Roberts is the author of many books and scholarly articles, including *Alienation and the Soviet Economy* (1971), *The Supply-Side Revolution* (1984), and, most recently, *Meltdown: Inside the Soviet Economy*, published by Cato in 1990.

"We are delighted that Craig Roberts will soon be playing an important role at the Cato Institute," said president Edward H. Crane. "There are few individuals in America who combine Craig's scholarly achievements with his fierce commitment to human liberty. We are honored to have Craig Roberts on our staff and look forward to a long and productive relationship with him in our efforts to promote a market-liberal policy agenda."

Tanner will focus on reforms in medical care, welfare, and other entitlement programs. For the past two years Tanner was director of research at the Georgia Public Policy Foundation in Atlanta. Before that he was legislative director at the American Legislative Exchange Council for five years.

Tanner has written two Policy Analysis studies on medical reform for the Institute, "Laboratory Failure: States Are No Model for Health Care Reform" and "Health Care Reform: The Good, the Bad, and the Ugly." He is also the author of several books and scholarly articles, including *Dollars and Doctors: State Health Policy in the 1990's* (1991) and *The Politics of Health: A State Solution to the AIDS Crisis* (1990).


Paul Craig Roberts


Michael Tanner

In other personnel changes, David Arendt has been named director of development. Arendt has 10 years' development experience and was formerly director of capital resources at St. Norbert College in Wisconsin. Julie Riggs has moved from conference director to director of membership development. Nicole Gray, who has been Riggs's assistant, succeeds her as conference director. Jerry Taylor, director of natural resource studies, and Sheldon Richman, senior editor, have joined the staff of *Regulation* magazine as associate editors.

Cato has named three new adjunct scholars. They are Jonathan G. Clarke, former British diplomat and president of European Management Services, Inc.; Charles H. Hamilton of Carmel, Indiana, an adjunct research associate at the Indiana Center on Philanthropy; and Dwight R. Lee, an economist at the University of Georgia and coauthor of the Cato book *Failure and Progress*. ■


Julie Riggs


David Arendt

Policy Analysis Studies

197. Laboratory Failure: States Are No Model for Health Care Reform by Michael Tanner (September 23, 1993)

196. Paved with Good Intentions: The Mythical National Infrastructure Crisis by John A. Tatom (August 12, 1993)

195. The Cold War Navy in the Post-Cold War World by Christopher A. Preble (August 2, 1993)

194. How to Balance the Budget by Reducing Spending by William A. Niskanen and Stephen Moore (April 22, 1993)

193. The Economic Impact of Replacing Federal Income Taxes with a Sales Tax by Laurence J. Kotlikoff (April 15, 1993)

192. The Futility of Raising Tax Rates by Bruce Bartlett (April 8, 1993)

191. Present at the Re-creation: The Need for a Rebirth of American Foreign Policy by Jonathan G. Clarke (March 31, 1993)

188. The Myth of America's Underfunded Cities by Stephen Moore and Dean Stansel (February 22, 1993)

187. Caveat Emptor: The Head Start Scam by John Hood (December 18, 1992)

186. How Governors Think Congress Should Reform the Budget by Stephen Moore (December 9, 1992)

184. Health Care Reform: The Good, the Bad, and the Ugly by Michael Tanner (November 24, 1992)

All Policy Analyses are $4.00 each.

Books

Grassroots Tyranny: The Limits of Federalism by Clint Bolick. $21.95 cloth/$12.95 paper

Apocalypse Not: Science, Economics, and Environmentalism by Ben Bolch and Harold Lyons. $19.95 cloth/$10.95 paper

Patient Power: Solving America's Health Care Crisis by John C. Goodman and Gerald L. Musgrave. $16.95 paper

Call toll-free 1-800-767-1241 (Mon. - Fri., noon - 9:00 p.m. eastern time)

"Patient Power" Pamphlet Available

Congress Should Avoid States' Health Care Mistakes

Cato Studies

As it debates reforms in health care, Congress would do well to learn from the mistakes of the states, argues Michael D. Tanner in "Laboratory Failure: States Are No Model for Health Care Reform" (Policy Analysis no. 197). Tanner examined the record of nine states—Connecticut, Florida, Hawaii, Maryland, Massachusetts, New York, Oregon, Vermont, and Washington—that have implemented or proposed health care reforms that regulate fees, mandate insurance, impose managed competition, or involve other government controls. He found that those states have experienced insurance premium increases, unimproved access to health care, lost jobs, increased Medicaid spending, an exodus of insurance companies, and explicitly rationed medical care.

Tanner shows how inequities in federal tax law are at the root of our current problems and proposes changes that would return choices about health care to the patient.

Free-Market Alternative to Clinton's Medical Plan Outlined

Patient Power, the Cato Institute's free-market alternative for medical care reform, is summarized in a new Briefing Paper (no. 19). In "Patient Power: The Cato Institute's Plan for Health Care Reform," Brink Lindsey, director of regulatory studies, has presented the major ideas in John Goodman and Gerald Musgrave's 673-page *Patient Power: Solving America's Health Care Crisis*, which the Institute published in 1992. Lindsey writes that soaring health care costs have one fundamental cause: people usually spend someone else's money when they purchase health care services. The rise of third-party payment has created incentives that make runaway spending inevitable. Health insurance is now the equivalent of auto insurance that pays for fill-ups and oil changes.

The Patient Power plan for market-oriented health care reform seeks to put control over spending back in the hands of individual patients. Under the plan, people could make deposits to tax-free medical savings accounts to finance routine medical expenses; workers currently covered by employer-provided insurance could fund their MSAs by switching from low-deductible policies to high-deductible catastrophic policies and depositing the premium savings; and the arbitrary discrimination of today's tax system would be eliminated, enabling all Americans, regardless of employment status, to claim tax benefits for purchasing catastrophic insurance and making deposits to medical savings accounts.

The paper is also available in a convenient pamphlet for $4.

Published Elsewhere

Cato policy directors and authors lately have published articles in magazines and journals on a wide range of timely subjects.

Doug Bandow
"The Risks of Coercive Nonproliferation," *Freedom Review*, September-October 1993.

Bruce Bartlett
"Taxes, Growth and Mr. Clinton," *National Review*, August 23, 1993.
"How Not to Stimulate the Economy," *Public Interest*, Summer 1993.

David Boaz
"Solutions Are the Problem: Liberating the Poor," *Georgetown Journal on Fighting Poverty*, Spring 1993.

Ted Galen Carpenter
"Foreign Policy Peril: Somalia Set a Dangerous Precedent," *USA Today Magazine*, May 1993.
"U.S. Troops in Macedonia: Backdoor to War?" *National Interest*, Winter 1993-94 (forthcoming).

Jonathan G. Clarke
"The Conceptual Poverty of U.S. Foreign Policy," *Atlantic Monthly*, September 1993.

Edward H. Crane
"Defending Civil Society" *Vital Speeches*, October 1, 1993.

James A. Dorn
"Economic Liberty and Democracy in Asia," *Orbis*, Fall 1993.
"Transition from Plan to Market on a Constitutional Basis," *Voprosi Ekonomiki* (Questions of Economics), no. 6 (1993).
From Plan to Market: The Future of the Post-Communist Republics, edited with Larisa Piyasheva (Russian-language volume published in Moscow, 1993).
"Transition from Plan to Market: A Constitutional Perspective," *Biblioteca della liberta*, no. 123 (1993).

Jeffrey R. Gerlach
"A U.N. Army for the New World Order?" *Orbis*, Spring 1993.

Leon T. Hadar
"What Green Peril?" *Foreign Affairs*, Spring 1993.

Stanley Kober
"Revolutions Gone Bad," *Foreign Policy*, Summer 1993.
"The CIA Should Stay Out of Economic Spying," *USA Today Magazine*, September 1993.

Christopher Layne
"The Unipolar Illusion: Why New Great Powers Will Rise," *International Security*, Spring 1993.
"American Hegemony—Without an Enemy," *Foreign Policy*, Fall 1993 (with Benjamin Schwarz).

Brink Lindsey
"Protectionist Racket," *Reason*, November 1993.

William Niskanen
"The Reflections of a Grump," *Public Choice*, Fall 1993.
"Our Democratic Leviathan," *Public Interest*, Winter 1994 (forthcoming).

Roger Pilon
"Freedom, Responsibility, and the Constitution: On Recovering Our Founding Principles," *Notre Dame Law Review* 68, no. 3 (1993).
"On the First Principles of Constitutionalism: Liberty, Then Democracy," *The American University Journal of International Law and Policy*, Winter-Spring 1992-93.
"On the Folly and Illegitimacy of Industrial Policy," *Stanford Law & Policy Review*, Fall 1993.

Sheldon Richman
"Much Ado about Nothing: Population Growth as Promise, Not Problem," *The World & I*, June 1993.

Alan Tonelson
"Superpower without a Sword," *Foreign Affairs*, Summer 1993. ■

Interns Needed
Positions available year round. Contact Sheldon Richman, Cato Institute, 1000 Massachusetts Ave., N.W., Washington, D.C. 20001

Zoning Laws (Cont. from p. 11)

Let Individuals Plan Their Lives

In an age of diminishing personal savings and reduced agriculture, the home is the principal capital asset of most families. A society that professes respect for private property and individual self-reliance and suspicion of needless government regulation should hesitate before denying individuals and families free recourse to what is for most the sole available cushion against personal, social, and economic dislocations.

Thus, it seems that to revive what George Kennan called "the golden chain that binds the generations," federal, state, and local governments ought to look with favor on a number of obvious measures:

• Replacement of the highly extravagant and scandal-ridden federal subsidies and tax credits for newly constructed low-income housing with simpler, modest tax relief for rentals from accessory apartments. Although in principle no such benefit is needed once homeowners are free to act in their own interest, a short-term tax exemption would popularize accessory housing and prod local governments to lift prohibitions against it.

• State statutes such as the Mello Act in California, which stimulated local legislation by liberalizing rules, and comprehensive redrafting of the state zoning enabling acts, which provide the legal authority for local zoning restrictions.

"Accessory apartments may foster a revival of the extended family, since most people desire some, but not too much, proximity to their parents."

• Amendments to state laws relating to homeowners', condominium, and cooperative housing associations to give enterprises operated by such associations the same zoning exceptions given to public bodies.

• Liberalization of the Federal Housing Administration's lending limits for accessory apartments to at least correspond to those for mobile homes.

• Amendment of zoning enabling laws to allow developers of new self-contained subdivisions (of, say, 40 units or more) to include duplex homes and convenience stores in projects situated in residential zones.

• Liberalization of local ordinances to allow accessory apartments in owner-occupied homes as a matter of right (as recommended by former Housing and Urban Development secretary Jack Kemp's Task Force on Regulatory Barriers to Affordable Housing).

• Liberalization of "home occupation" restrictions to legitimize telecommuting and to permit small-scale social service and one-room retail establishments, but with restrictions on signs and deliveries by large trucks.

Politicians and bureaucrats should stop talking about America's alleged housing shortage and start relaxing the barriers to fullest use of the housing we already have. ■

Clinton Plan (Cont. from p. 9)

employer's share of the premium up to the amount of their income.

The president's plan is intended to save money, but the only way it can save money is to ration care. We know that rationing is planned because citizens have been attending forums throughout the country where their job is to come to a consensus on "prioritizing patients' needs." In other words, given a three-line description of the patient's problem, which is surely all the information they need, they are to decide who gets medical care and who doesn't when the money runs short. It would seem that universal access means restricted access.

Under the president's plan, Americans will not be allowed to spend their own money for the medical treatment of their choice, and physicians apparently will not be allowed to accept out-of-pocket payments. Claims forms will have to be submitted in all instances, electronically, of course.

In addition to electronic claims forms, the plan gives government all kinds of mechanisms for intruding into medical practice. For example, the government will have the right to audit physicians' records and those of clinical facilities to make sure that the rules are being followed. The rules will include practice guidelines that have the force of law.

Another provision is asset forfeiture. The illegal activities of physicians that might lead to forfeiture could include providing an unnecessary service, failing to provide a necessary service, failing to report information to the national data bank, or even miscoding something. There are no limits on asset forfeiture. If there is a suspicion that you earned money from an illegal activity, the federal government can take your property, all of it. Then you are forced to prove the property innocent in a court of law. Of course, by then they have frozen your bank accounts so you have nothing with which to pay your lawyer.

Physicians may well be unable to earn a living by practicing medicine in the way that they've been taught—in a way that puts the good of the patients first. If they cooperate with the plan and put the demands of the bureaucracy first, then are accused of an offense leading to forfeiture, I can only say that will serve them right: what is the loss of all your worldly possessions if you have already sold your soul? ■

Mark Your Calendar!

Cato Benefactor Summit
Grand Cayman Island
February 17-20, 1994

Speakers will include
David Lucas, Richard Epstein, Mayor Bret Schundler, Jonathan Rauch, and Paul Craig Roberts

"To be governed..."

Don't force us to get violent

Sen. Paul Simon yesterday gave the television industry two months to clean up TV violence or face the threat of regulation.

—*Washington Times*, Aug. 3, 1993

You just don't get it

When the city of Miami hired a team of consultants to determine whether it discriminated against minority-owned businesses in contracting work, the researchers reported what arguably would be good news: They didn't find a clear pattern of discrimination to justify the city's decade-old policy of directing a percentage of its work to minorities.

But angry city commissioners refused to accept that conclusion.

An incredulous Vice Mayor Miller Dawkins, the group's only black member, railed at the stunned consultants: "The whole purpose of this study was for you to prove that there was a disparity in minority hiring."

—*Wall Street Journal*, Aug. 13, 1993

Washington never changes

[On the day of John F. Kennedy's funeral, President Lyndon B. Johnson and Kennedy speechwriter Theodore Sorensen] discussed drafts for Johnson's speech to the joint session of Congress two days later.

"[Treasury Secretary C. Douglas] Dillon says we've got to have a sentence on being frugal and thrifty," Johnson said, "and at least talk like we're going to watch expenditures."

—*Washington Post*, Sept. 26, 1993

They need modernized buildings so they can give state-of-the-art economic advice to ignorant Third Worlders

The renovation of the World Bank's six-building complex in downtown Washington is over budget by $84 million.

—*Washington Post*, Sept. 23, 1993

It's all government money until they give some of it back

Allowing people to delay payment of retroactive taxes is giving [rich people] a tax-free loan.

—Eleanor Clift on the "McLaughlin Group," Aug. 7, 1993

Actually, it's the $1 billion question

NASA flight controllers waited in vain today for signals from a mysteriously silent $1 billion Mars probe that either braked into orbit around the red planet or sailed into the trackless wastes of space....

No one knows exactly what went wrong.

"That's the $64,000 question," [NASA project manager Glenn] Cunningham said. "I wish we knew."

—*Washington Post*, Aug. 25, 1993

It's not easy being P.C.

The *U.C. Davis Law Review* follows the convention of using female pronouns. This Article follows that convention except when referring to a criminal defendant, where male pronouns are used. Federal criminal defendants are overwhelmingly male.

—*University of California Davis Law Review*, Winter 1993

But for insurance they also rely on government coercion

Members of Fair Housing Council Rely on Faith in Their Fight

—headline in the *Washington Post*, Aug. 7, 1993

Our father who art in Washington

Maybe too many Democrats thought it reasonable—given the public's willingness to sacrifice—to let the public choose which sacrifice to make [in the budget bill].

That last is a mistake no parent would make. If Mom and Dad announced that the family had hit a bad patch and would have to cut back, the kids would understand and agree. But what parent in her (or his) right mind would leave it to the kids to choose between spinach and Cocoa Crisps or let Johnny choose between his Nintendo and Susie's school books?

—William Raspberry in the *Washington Post*, Aug. 11, 1993

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