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Playing Games With the Dollar

by Steven K. Beckner

For the past year, after becoming treasury secretary, James A. Baker III has turned the Reagan administration's international economic policy on its head.

In particular, Baker has steered the Treasury Department from a policy of benign neglect of currency exchange rates to one of aggressive intervention. In the process, Baker has depressed the value of the dollar through a combination of intervention in the currency markets and economic policy "coordination" with our trading partners.

Another example of Baker's activism is his proposal to "solve" the Third World debt dilemma by pumping billions of dollars of new loans into already heavily indebted nations, while increasing the role of the World Bank. But that's another story.

Baker's exchange rate policy—a complete reversal of the administration's previous stance of letting the market determine the proper level of the dollar—has been accompanied by a lot of hoopla. In particular, the May economic summit accord among the five leading industrial nations was hailed as a victory for Baker's scheme of coordinated economic policies and managed exchange rates.

Little Gain at Great Expense

A closer look reveals that relatively little has been gained, but at great expense.

True, the dollar has declined by more than 30 percent since last September, when the Group of Five began the process of beating down the buck at Baker's behest. And that should have a salutary effect on the U.S. trade deficit, which reached a staggering $150 billion last year. But ultimately it could increase inflationary pressures if the dollar decline gets out of hand. Besides, market forces would have brought the dollar down anyway—without the tensions that have developed.

Part of the new U.S. policy has been to bully Japan and West Germany into lowering their interest rates and stimulating their economies in order to promote more imports from the United States. Throughout the Baker era of "coordination" we have been having a verbal trade war with the Common Market, with Japan, even with Canada. And lately it has degenerated into retaliatory actions and threats of retaliation against one anothers' exports.

But Baker, joined by Federal Reserve Chairman Paul Volcker and other U.S. officials, has gone on enjoining West Germany and Japan to pump up their economies through fiscal and monetary means to spur demand for U.S. exports. It apparently hasn't occurred to Treasury officials that European and Japanese growth will suffer to the extent that appreciation in their currencies erodes their ability to compete.

By June, West German Bundesbank President Karl Otto Poehl had had enough. He made it clear at an International Monetary Conference in Boston that he was fed up with Bakerism. Poehl likened U.S. calls for stimulatory policies in Germany, Japan, and other industrial nations to those made by the Carter administration during the late seventies and said Germany is "not prepared to accept advice that would lead to higher budget deficits, higher inflation and finally to higher interest rates and in the long run to less growth."

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In This Issue

Political reporter Robert Shogan of the *Los Angeles Times* talks with Republican political consultant Lee Atwater and Cato Institute president Edward H. Crane, two of the contributors to Cato's book *Left, Right, and Babyboom: America's New Politics.* The book, which is gaining increasing attention among journalists and political practitioners, argues that baby boomers are economically conservative and socially tolerant.

Chairman's Message

The Bishops on the Economy

A year ago, I was asked to debate John Kenneth Galbraith before a subcommittee of the House Banking Committee on the issues raised by the second draft of the Pastoral Letter on the U.S. Economy by the Catholic bishops. For reasons that were not explained, Galbraith withdrew from this debate, even before reading my testimony. A final version of the Pastoral Letter is expected soon, and these issues are enduring. For that reason, my Chairman's Message reproduces the testimony that I prepared on this issue last year.

We are all indebted to the Catholic bishops for two themes of their Pastoral Letter on the U.S. Economy. They remind us of our individual moral responsibility to love our neighbors and to care for the poor. And they also remind us of the value of experimenting with alternative forms of voluntary relations, within the firm and the community, to resolve problems of shared concern.

I am saddened, however, by their expansive vision of the role of the state as the instrument of our economic salvation. As an economist and a Protestant, I am not qualified to pass judgment on the origins and development of Catholic social teaching. The Pastoral Letter, however, is clearly intended to shape the views of the larger community about the U.S. economy. For that reason, I must observe that the Letter appears to be based more on the contemporary secular vision of social democracy than on the message of the Scriptures. The message of the Letter is one of rights, obligations, power, solidarity, and participation. The message of the New Testament is one of love, joy, grace, forgiveness, and redemption. The Letter speaks of "the Gospel mandate of justice." In fact, the Gospels say almost nothing about justice. The Letter describes justice in terms of outcomes or end-states. In the Old Testament, however, justice is usually described in terms of the application of general rules or laws. In Leviticus, for example, one reads, "You shall do no injustice in judgment; you shall not be partial to the poor or refer to the great, but in righteousness shall you judge your neighbor." The bishops endorse using the awesome powers of the state to transfer income to the poor. Jesus uses the parable of the good Samaritan to make the point that charity involves an individual, voluntary act of sacrifice to aid another. The Letter speaks of laws and programs. The Scriptures speak of virtues, but not requirements; sins, but not crimes. The Letter seeks to provide an agenda for the state. The New Testament provides no agenda for the state. The bishops encourage us to seek justice through political action. Jesus counsels us that "the Kingdom of God is not of this world." One has reason to question the moral authority of a letter that has so little apparent basis in the Scriptures of our shared religious heritage.

Moreover, there is reason to question the ethical basis for any system of government that is not based on the consent of the governed. The bishops assert an extensive set of economic rights and claim that "there can be no legitimate disagreement" on these rights. Our fundamental political compact, however, provides no basis for these rights. Indeed, the U.S. Constitution provides no specific authority for the many programs of the modern welfare state. There may be reason to amend the Constitution to reflect the broadly shared preferences of the contemporary American community. Our political processes, however, require that any new definition of rights or a specific authority to secure these rights be based on the broad consent of the governed. My own judgment is that there would be ample disagreement on these issues.

The Letter also reflects a serious misunderstanding of the origins of wealth and the determinants of poverty. Some of the purported facts are wrong. For example, the Letter asserts that the abundant natural resources of the U.S. "are the base of the nation's great wealth." Most of our nation's great wealth, in fact, consists of human skills. Most of the remaining wealth consists of capital produced over several generations. Only a small percentage of the wealth consists of natural resources. The contemporary world provides ample evidence that the wealth of nations is more dependent on the nature of the economic system than on the physical resource base. The care of the poor in any nation is based on both the will and the ability to help the poor. The bishops correctly remind us of our moral obligation to help the poor. The political agenda of the Pastoral Letter, however, is likely to undermine the ability to help the poor,

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CATO INSTITUTE

Zschau Victory Cited as Evidence

Baby-Boom Book Released at Summer Reception

Rep. Lindy Boggs (D-La.) talks with Fred Smith, president of the Competitive Enterprise Institute, and Cato vice president David Boaz, editor of *Left, Right, and Babyboom*, at a reception in honor of the book.

Rep. Ed Zschau's victory in the hard-fought battle for the Republican senatorial nomination in California may be a harbinger of the political future, Cato vice president David Boaz said at a forum held to celebrate the publication of *Left, Right and Babyboom: America's New Politics*, edited by Boaz.

Zschau fits the political profile of the baby-boom generation well, Boaz said: he is conservative on economic issues (one of the 17 best House members in National Taxpayers Union ratings) but moderate on social and foreign-policy issues. He should run very well against Sen. Alan Cranston and encourage future candidates in both parties to adopt that set of positions.

Boaz quoted one of the book's con-

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Niskanen (Cont. from p. 2)

by reducing the incentives to create wealth. This agenda appears to be based more on the perspective of a "zero-sum society" than on a society based on both caring and opportunity. The bishops, of all people, define human dignity in terms of material well-being but neglect the corrosive effect on human dignity of acquiring economic wealth by political action.

In several cases, the argument is internally inconsistent. Most importantly, the Letter recognizes that American farmers and the governments of poor countries may have some responsibility for the economic conditions that they face. The poor and the unemployed, however, are absolved from any such responsibility. Specifically, one might expect a bishops' letter to recognize that so many American children are now poor because they were born to mothers who have never married, to parents who have since divorced, or to fathers who do not care for them. The bishops correctly remind us that caring for our neighbors is a moral responsibility, but so also is caring for one's own children.

The Letter also endorses a number of inconsistent policies. The bishops recommend both "more extensive use of job sharing, flex time, and a reduced work week" and "methods . . . to discourage the overuse of part-time workers." Following an expression of concern about the hungry of the world, the bishops recommend mandatory production controls on American farmers and several measures that would increase the cost of farm production. The bishops endorse increased economic aid to the governments of poor countries, most of which are oppressive, but they express concern that foreign private investment helps "to maintain an oppressive elite in power . . . and aggravate[s] the exploitation of workers." One wonders whether the bishops have either read their own Letter or reflected on the several decades of experience with the domestic and international welfare state.

Good intentions are not a sufficient guide to either personal behavior or social policy. The "good Samaritan's dilemma" or, in modern terms, the "moral hazard problem" is inherent in human nature. A voluntary sacrifice to aid the poor is an act of charity, when the conditions that have led to their poverty are beyond their control. It is less clear that such acts are charitable when the expectation of aid induces behavior that leads to or maintains poverty. It is even less clear that taxing one group to aid another group has any moral basis, unless it reflects the full consent of the individuals subject to the tax. On some issues, I believe, a moral basis for social policy leads to conclusions that are directly contrary to those of the Pastoral Letter. There can be no moral basis for laws or programs that undermine the family, our basic human social unit. There can be no moral basis for policies that reinforce the power of the many oppressive governments of the world. Those who claim moral authority to speak for the poor and the oppressed have a special obligation to understand the consequences of the policies that they propose. I regret that the bishops have wrapped their moral concerns in the rhetoric of social democracy, rather than with the wisdom and understanding on which a resolution of our shared concerns must be based.

William A. Niskanen

—William A. Niskanen

Is the Constitution a Charter of Liberties?

Scalia Debates Epstein on Courts and Rights

Supreme Court nominee Antonin Scalia (left) and University of Chicago law professor Richard Epstein debate judicial activism in a new Cato booklet.

Supreme Court nominee Antonin Scalia debates University of Chicago law professor Richard Epstein on the role of the courts in protecting economic freedom in a new publication from the Cato Institute.

Scalia's and Epstein's papers were originally delivered at the Cato Institute's 1984 conference "Economic Liberties and the Judiciary." They appeared in the Winter 1985 issue of the *Cato Journal* and will appear in a book, *Economic Liberties and the Judiciary*, to be published by George Mason University Press in 1987.

Responding to those who argue that economic freedoms are protected by the Constitution, Scalia writes, "My skepticism arises from misgivings about, first, the effect of such expansion on the behavior of courts in other areas quite separate from economic liberty, and second, the ability of the courts to limit their constitutionalizing to those elements of economic liberty that are sensible."

Epstein, author of *Takings: Private Property and the Power of Eminent Domain*, replies, "To provide for no (or at least no effective) check on the legislature's power to regulate economic liberties is to concentrate power in ways that are inconsistent with the need to diversify risk. To allow courts to strike down legislation, but never pass it, helps to control political abuse without undermining the distinctive features of the separate branches of government."

Epstein's and Scalia's remarks reflect an ongoing debate among advocates of the free market about the proper role of the courts in protecting economic freedom. Advocates of judicial restraint would defer to legislatures in making decisions about economic policy. Advocates of constitutional protections for economic freedoms, led by Epstein, argue that that policy leaves citizens at the mercy of legislative abuses. They insist that courts have a responsibility to strike down laws that violate the Constitution's protections of private property and freedom of contract.

The Cato Institute is further participating in the current debate over judicial philosophy with the publication of *The New Right v. the Constitution* by Harvard political scientist Stephen Macedo. Macedo argues that the "Jurisprudence of Original Intent" favored by conservatives seems to put untrammeled majoritarianism in place of constitutionally guaranteed liberties.

Conservative judges say they want to limit the judiciary's power. But, says Macedo, what this amounts to is an unwarranted acquiescence to abuses of power by the legislative and executive branches. He calls for a principled judicial activism that interprets the Constitution as a charter protecting both economic freedom and civil liberties.

Macedo's view stands in sharp contrast to that of Chief Justice nominee William H. Rehnquist, who wrote, "The Constitution is often referred to as a 'charter of liberty' or a 'bulwark of individual rights against the state.' The original Constitution was neither of these things. . . . [It] was adopted not to enshrine states' rights or to guarantee individual freedom, but to create a limited national government, which was empowered to curtail both states' rights and individual freedom."

Scalia v. Epstein: Two Views on Judicial Activism is available from the Cato Institute for $4.00. *The New Right v. the Constitution* is available for $7.95.

Cato president Edward H. Crane talks with former Delaware governor Pete du Pont. A number of Cato staff members and associates discussed policy alternatives over lunch with du Pont, who said, "Cato is on the cutting edge of political thinking."

Jobs Programs Fail the Unemployed, Study Charges

"Federal job-training programs have harmed the careers of millions of Americans, failed to impart valuable job skills to the poor, and squandered billions of dollars annually," contends investigative journalist James Bovard in a new Cato study.

Bovard charges that programs from the Area Redevelopment Administration in 1961 to the Job Training Partnership (JTPA) created by the Reagan administration have failed to train significant numbers of unemployed Americans and have discouraged the unemployed from moving to areas where jobs can be found and from seeking more useful training. Perhaps most astonishingly, the federal government has kept no meaningful statistics on the programs and has often issued misleading statistics.

The Department of Labor, for instance, claimed a 90 percent success rate for Job Corps participants—yet recruits were counted as "employed" if they held a job for only a single day, and at one corps center graduates were counted as employed if they had a job interview scheduled. The Comprehensive Employment and Training Act of the 1970s paid people to attend ballet school and to give people rides to welfare offices.

President Reagan claims a 68 percent success rate for JTPA. But that rate is at best a "one-day-on-the-job" figure. The real function of JTPA is to transfer job-training costs from the private to the public sector.

Summer youth jobs programs have been a boondoggle in many cities. In Washington, D.C., youths complain that they are routinely sent home early and are required to listen to lectures about nuclear power and South Africa during the "work" day. Many summer jobs programs involve "job shadowing"—watching someone work. Youths who participate in such programs, Bovard charges, are not learning any useful skills.

Bovard's study, "The Failure of Federal Job Training," is part of the Cato Institute's Policy Analysis series and is available for $2.00.

Babyboom Book (Cont. from p. 3)

tributors, Democratic strategist Pat Caddell, who says the nature of today's political trends can be seen by comparing the typical voter of 1970 with today's typical voter. In 1970 the average voter was considered to be a nonworking woman in her forties, living in the midwest with a blue-collar husband—sometimes typified as a Dayton housewife married to a machinist. She was conservative on social issues but liberal on economic issues. Today, Caddell says, the typical voter is a single working woman in her thirties, living in the Sunbelt with a white-collar job. She's conservative on economic issues but liberal or tolerant on social issues. Politicians will appeal for her vote in a very different way.

Coincidentally, *Left, Right and Babyboom* was quoted extensively by columnist George Will in the *Washington Post* the day of the forum.

Sell Agencies to Federal Employees

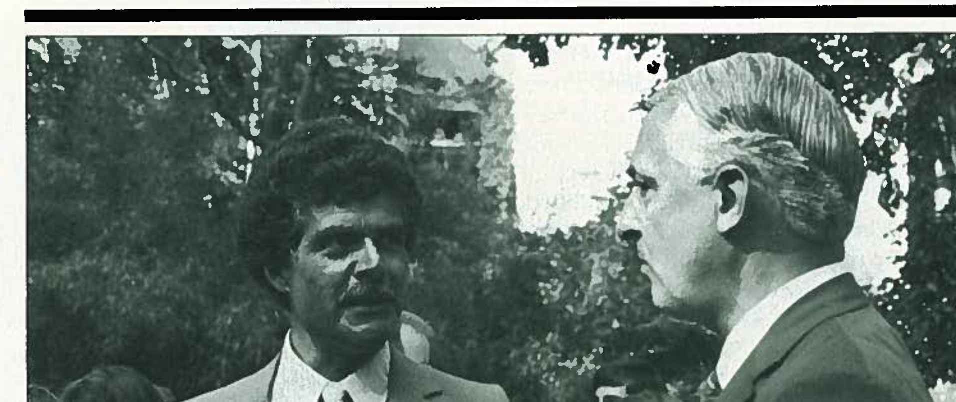
Selling shares of government enterprises to their employees is the most politically feasible way to privatize many services, according to a new study from the Cato Institute.

Peter Young, executive director of the Adam Smith Institute (USA), writes that this method of privatization has no losers. Unlike the current administration policy of selling a government enterprise to a private company which tends to alienate the employees without attracting public support, Young claims the worker buy-out option is attractive to both of these groups. "Privatization should be popular with employees because it preserves jobs and popular with the public because it preserves—and frequently upgrades—service."

Young points to the success of worker buy-outs in Great Britain as evidence of the concept's viability. British Telecom, the National Freight Corporation, and British Aerospace have been shifted from the public to the private sector by worker buy-outs. The privatized companies have been extremely popular with the new employee-shareholders, and public sector enterprises have begun naming themselves as candidates for privatization.

Young suggests a number of government enterprises as suitable for employee takeover, including Amtrak, the U.S. Postal Service, and the Tennessee Valley Authority. Privatizing these enterprises would cut the federal budget, while making the enterprises more efficient.

"Privatization: The Worker Buy-Out Option," is part of the Cato Institute's Policy Analysis series and is available for $2.00.



D. T. Armentano, professor of economics at the University of Hartford and author of *Antitrust Policy: The Case for Repeal*, just published by Cato, talks with Interstate Commerce Commission member Fred Andre, a leading deregulator, at a recent Policy Forum.

Employer Sanctions or Open Borders?

Policy Forum

The Cato Institute regularly sponsors a Policy Forum at its Washington headquarters where distinguished analysts present their views to an audience drawn from government, the media, and the public policy community. A recent forum featured Annelise Anderson, senior research fellow at the Hoover Institution and author of a Hoover monograph, Illegal Aliens and Employer Sanctions: Solving the Wrong Problem, *and Sen. Alan K. Simpson, chairman of the Subcommittee on Immigration and Refugee Policy of the Senate Judiciary Committee and co-sponsor of the Immigration Reform and Control Act.*

Annelise Anderson: What should we do about illegal immigration into the United States? This is an important issue. We have on our border, uniquely among industrialized countries, a large Third World country of some 80 million people. We have had considerable economic interchange with Mexico over many years. And we have had a history of open labor markets with Mexico, more open at some times than others. Until 1964, we had the bracero program, which in some years admitted 400,000 temporary workers a year. We have a smaller temporary worker program now that sets up a legal flow of workers across the border. We also have an illegal flow, over 50 percent from Mexico.

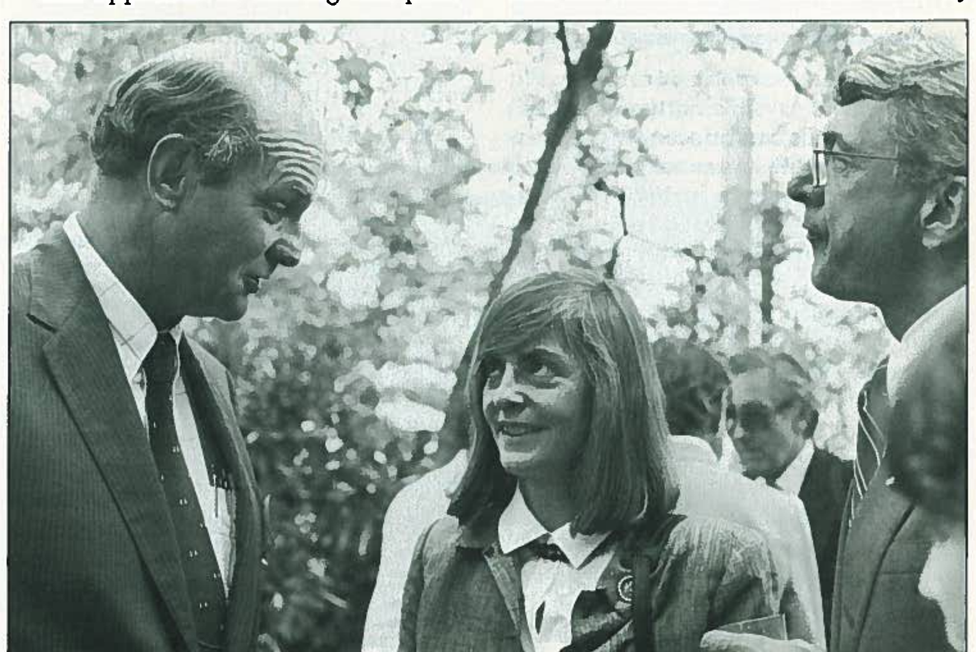
The rhetoric of this issue is that we have "lost control of our borders." Sen. Lawton Chiles says, "If we do not regain control of our borders, I think that within 10 years we will not recognize the United States." Gov. Richard Lamm says, "Unless we do something about the problem, we will have a legacy of strife, violence, and joblessness for our children." And so forth: "a rising tide," "a flood," "a startling surge."

The other part of the rhetoric is the enormity of the numbers: estimates of 6 to 12, sometimes 20, million illegal aliens residing in the United States. The Bureau of the Census and the National Academy of Sciences have seriously challenged these rather casual numbers, calling them "averaged out of the blue," and have provided some much more reasonable estimates. The Bureau estimates that there were 2.5 to 3.5 million illegal residents in the United States as of 1980, plus up to another million temporary workers at any given time. They estimate an increase of 100,000 to 300,000 a year in the resident population. We also know that the percentage of foreign-born residents in the United States increased between 1970 and 1980 from 4.8 percent to 6.2 percent of the population. It is, however, still far below what it was in many periods in our history.

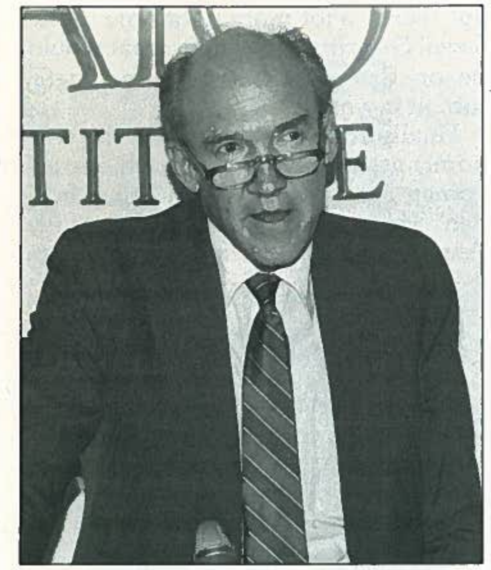
We also have an increase in legal immigration, from 2.5 million people in the 1950s to closer to, in my estimate, 5.7 million for the 1980s. In the 1950s, 28 percent of that immigration was Asian and Hispanic. In the 1980s, 77 percent will be Asian and Hispanic. We have, therefore, increases in legal immigration, but the focus of concern is on illegal immigration—as though solving that problem would solve the things we are concerned about in terms of, basically, our culture.

The approach to solving this problem embodied in current legislation is an admission that in fact we cannot control our borders. I find that a reasonable admission. I look at how difficult it was for the East Germans to control the border between East and West Berlin. *We* have a large border, and we are not willing to build fences and shoot people. (When Adam Smith said the first duty of the sovereign was protecting the society from the violence and invasion of other independent societies, he was talking about invading armies, not people crossing the border looking for work.) Therefore, the approach being considered is to establish employer sanctions: to make it illegal for an employer to hire someone who is not permitted by the government to work. Some people think that it is already illegal for an employer to hire someone who has entered the country illegally, or overstayed a visa. But in fact, it is not.

The employer-sanctions policy is really a triad. The second part of the triad is worker identification. If employers are subject to penalties if they hire an illegal alien, their first line of defense is to reject people who look or sound foreign. The legislation is therefore an incentive to discriminate by



Annelise Anderson talks with Commissioner Alan Nelson of the Immigration and Naturalization Service after her Policy Forum talk on employer sanctions.



Alan Simpson: "We ought to try the humane approach first, penalizing employers who knowingly hire illegal undocumented persons."

employers who do not now discriminate. In order to avoid discrimination, employers are required in the House bill to check the identification of every potential employee. So we face a dilemma of national identification cards or discrimination, a choice between two aspects of civil liberties. The Senate bill requires the president to monitor this system of "employment verification" to determine whether it is secure. If it is not, he has to recommend to Congress a secure ID system that is counterfeit-proof, tamper-proof, and non-transferable. The current legislation uses drivers' licenses, passports, Social Security cards—documents already in existence. This would be an opportunity to impose something else, to move to a presumably more secure system. It may well require a centralized birth and death registry and documents that we don't have now in the United States. Whether employer sanctions are possible without going to a national identity card is doubtful. And a national identity card or system concerns me very much, as a question of values.

Amnesty is the third part of the triad. We have to deal with the 2.5 to 3.5 million people who are here illegally. We have to adjust their status to a legal status, so they can continue to work. There really is no question of deporting them. It would be economically disruptive and unfair to them. But amnesty attracts other people to the country for the purpose of becoming legal resident aliens eligible for welfare benefits and ultimately citizens. It is also unfair to those who apply and wait patiently to get a legal visa to come to the United States. Illegal aliens have in fact violated our laws, and amnesty rewards them.

On the question of the economic problem created for U.S. citizens by immigration, when you look at it dynamically over time, the immigrants who "take jobs" also create jobs. Generally they are good for the economy. The General Accounting Office has a terrible time trying to demonstrate what Congress would like to have them demonstrate—that immigrants take jobs from Americans.

The final problem with employer sanctions is the very high likelihood that it simply would not work. We would still not control illegal entry into the United States, and we would get continuous pressure to have stricter identification, tougher employer sanctions, and so forth.

In contrast to this proposed legislation, the current system allows people to come and work here, depending on the U.S. need for labor and economic conditions in Mexico. If they are here illegally, they can be denied welfare, and they can be deported for criminal activity or vagrancy if they misbehave. They are here on the basis of an interest in the labor market, rather than the welfare market. And we can determine the terms on which they stay, which is that they contribute to the economy. And I find that preferable to an employer sanctions approach.

Ultimately, I would like to see us move toward open borders for the North American continent, where we permit anyone from Canada or Mexico to come to the United States—with, of course, reciprocal privileges—in order to work. We should have a unified market for capital, labor, and goods on the North American continent. This would strengthen our economic relations with Mexico, which is extraordinarily important to our long-term security.

Alan Simpson: Immigration reform always makes for a discussion that has diverse elements of emotion, fear, guilt, or racism. As we started the program, it was suggested that we are talking about the restriction of the flow of immigrants. We are not. This bill has nothing to do with legal immigration. We're talking about illegal, undocumented persons. It is old hat to say that the first duty of a sovereign nation is to control its border, but that is indeed the case. Illegal, undocumented persons depress U.S. wages and working conditions, and they encourage the flouting of other laws: drug and alien smuggling, documents and welfare fraud. We've made a gimmickry of many of our documents in America. You can get a document within four blocks of the Capitol for any purpose whatever.

This is a nation committed to equality under the law. Numerous public opinion polls show us that people say, do something about illegal immigration. And they say, do something even about legal immigration. I humbly suggest that unless we do something with illegal immigration we will indeed sour on our national heritage of legal immigration.

My middle name is Kooi. Yes, I can tell the same story as many of you. My grandfather came here as an orphan from Holland. But that is not the issue, for xenophobia is not my motivation. This national mood of antipathy to immigrants goes back a long way. In our history we've done a number on the Chinese, on the Germans, and on the Asians. That's our history too, a very unpleasant one, but it didn't come from illegal immigration—it came from legal immigration.

The toughest problem is that people don't make the distinction between legal and illegal immigration, or a permanent resident alien, or extended voluntary departee, or a special entrant, or even a refugee. They are all terribly and dramatically different—but they all (except refugees) come here for jobs.

It would be nice to say that if we just enforced existing law we could get this reform job done. But we have a law on the books called the Texas Proviso, which says that it's legal to hire an illegal but it's illegal for the illegal to work. Now that's the law of the United States of America—stupid. You harbor an illegal, and it's illegal to do that—but the word "harbor" does not include "employment." How do you en-

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Immigration (Cont. from p. 7)

force a law like that?

Fourteen of 16 members of the Select Commission on Immigration and Refugee Policy voted for employer sanctions. They also recommended the imposition of penalties against those who illegally and knowingly hire illegal undocumented persons. Nearly all western nations, including Canada and Mexico, have employer-sanction laws. There was a GAO report in 1982 which proved that sanctions are largely ineffective in other countries. We asked in 1985 for the GAO to follow that up—and they stated that the previously surveyed countries were getting the job done because they were enforcing employer sanctions, even in a multi-racial country like France.

We come now to the most sinister of all charges, the national ID card. That's not what we're up to. The Senate bill says that in no circumstances will there be a national ID card. It calls for the use of existing documents and says that if we do go to some more secure, more tamper-resistant new document, it has to be approved by both houses of Congress. There isn't any question that it would be a national ID card, but I know how that sits. It wouldn't sit very well with me at all. And if you're going to classify countries that have a national ID card as a totalitarian government, how do you describe France and Germany? Because they do. Those countries have admittedly nothing more than what they call a national ID card. And this immigration bill does not create one.

We are of the naive opinion, those of us who support the legislation, that we ought to try the humane approach first. The humane approach is penalizing employers who knowingly hire illegal undocumented persons. Then to protect the employer and the employee, we need some kind of a universal identifier which is presented only at the time of new employment. It is not carried on the person, it is not an internal passport, it is not used for law enforcement. It is presented at the time of new hire, and not just by people who look foreign, but by everyone. And it will say on it, I'm authorized to work in the United States of America—that's it. It doesn't say whether you are a citizen, permanent resident alien, extended voluntary departee, or special entrant. Someone suggested that on the back of that card would be the maiden name of that person's mother or the birthdate of that person. That may seem terribly intrusive. We never determined that. But there's a lot more right now in the Social Security banks than what would be on this card. That's unfortunate, too, in my mind.

Finally I must comment on the economic argument. You've heard one argument, and that is for an "open border." There aren't over 3 percent of the American people who believe in an open border. It was suggested that this would produce "security" for us. How in God's name can an open border produce security for the United States of America with the marauding going on in the world today?

Annelise Anderson: "I would like to see us move toward open borders for the North American continent."

If more immigrants are needed to fuel the job market in the United States, let's have them here legally. But if they're only beneficial because they're illegal and exploitable, that really troubles me. Some seem to say that we are so dependent upon an illegal undocumented flow of human beings that if we don't have them we'll go broke. That ought to be the essence of the question to be asked, because if we are that dependent this is a pretty different country than I've imagined. We had something like that about 125 years ago; it was called slavery. You had "illegal undocumented" people that you used and exploited and they did not have the same status as others, and that's what illegal aliens are, people of a lesser status than others.

So there are some judicial and social aspects to this issue—respect for the law; protection for those who live here, citizens and aliens alike; a prerogative to choose who it is we admit from abroad like every other country; social, ethnic, and linguistic cohesiveness, a public culture, a common language, a common flag. I don't think it's naive to require that of people who come to this country. "Private culture," whatever that might be, is your own business—but we must also have a public culture. Maybe child labor would have been good for America economically, but the side effects socially and judicially and "American-wise" are so grotesque that most Americans would oppose it. And illegal alien employment is of the same character.

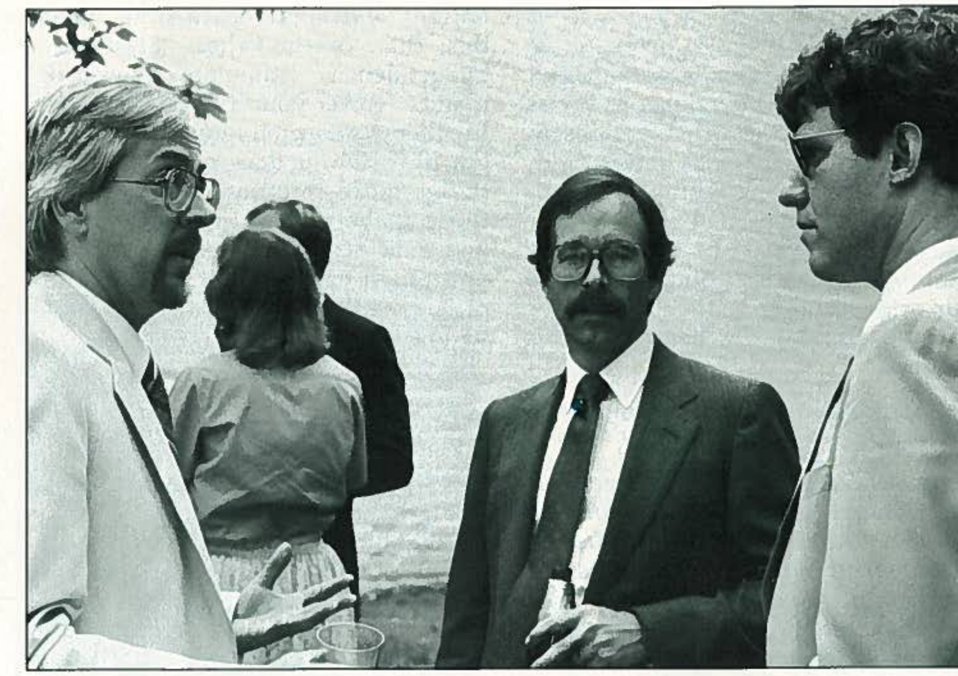
Illegal immigration will only get much worse if we do nothing. And then you won't have to worry about employer sanctions. If we do nothing, there will be more "busts" in the workplace, more intrusions into the fields and the shops. Finally, an employer who's been busted about six times will say, "I'm never going to hire anybody again who looks foreign." That is the ultimate discrimination. So let us try the humane approach first. I always say that if you don't like what we are proposing, give us an alternative—but no fair quoting from the Statue of Liberty. The statue doesn't say on it, "Send us everybody you've got, legally or illegally."

Curtis McClinton, deputy mayor for economic development of the District of Columbia, talks with Catherine England, director of Cato's Financial Deregulation Project. McClinton spoke at a luncheon for financial-services industry representatives.

Anderson: I agree with Sen. Simpson on the importance of the common culture and that English ought to be a requirement for citizenship. I'm not recommending that we let in anybody in the whole world. What I feel quite certain about is that we are probably limiting the number of people, because we do it politically, below the number that would be economically desirable. And the fact that we have an international labor market that is not politically controlled is a considerable benefit to the economy. We have a flow of labor that doesn't depend on politicians certifying that there is a need in this industry or that industry. So I'm suggesting only that we move toward negotiations for, and that we get something in exchange for, open borders with Mexico and Canada only. The flow of Mexicans and some other Latin Americans to this country is to a large extent inevitable, a development we can influence only marginally.

Eleven states, plus the city of Las Vegas, now have employer sanction laws. These laws are not being enforced; only about a dozen cases have been brought throughout the country. If California has a problem—with 50 percent of the illegal entrants in the United States—why doesn't it enforce its law? Why are we trying to get the federal government to do what states could do for themselves?

I have read the 1985 GAO report. I disagree with GAO's conclusions that employer sanctions are effective. In three countries (Austria, Denmark, and Sweden) whose officials claimed they were effective, powerful labor unions screen employees, and 80 percent of the labor force is unionized. So it's really the unions. Canada and Italy said employer sanctions have no effect. Hong Kong claims its employer sanctions are effective, but they were having trouble with fraudulent documents in 1981, and they have a rigorous national identification system now. France, Germany, and Spain are passing more laws.



Stephen Morrison of Northeastern University (center) and Clifford Winston of the Brookings Institution (right) talk with listeners after their Cato Policy Forum on the economic effects of airline deregulation.

Simpson: I don't see how you can back the concept of "open borders" and then look for the "ideal" numbers of immigrants. Nobody can tell you the ideal number of human beings in the United States which would be sound for us, environmentally and socially. No one, believe it or not, in this government or in private organizations even, can tell you how many footprints should be on the United States.

The issue of "amnesty" also creates a lot of pain. People say, "Why do you want to reward the guy who's here illegally, when millions of people are standing in line to get in legally?" Well, we have this group of people in the United States, many of them have children who are U.S. citizens, they've been here for years, they're working. What is the alternative to amnesty, which is the setting of a date when they would have legal status? Now I didn't say "citizenship"—we're going to let them *work* toward permanent resident alien status and then to citizenship. The alternative to that is deportation and the hunt.

Now the reason employer sanctions don't work in those 11 states is that it's cream-puff legislation and has no penalties—$200, that's a cost of doing business. We shall have $2,000, $5,000, $10,000 in civil penalties on the first three offenses, and on the fourth offense you can close up the operation. That's called teeth, and you won't ever have employer sanctions if you don't have teeth. ■

Playing Games (Cont. from p. 1)

It is as unrealistic for Baker as it was for Carter to expect other nations to solve our problems (trade deficit, budget deficit, sluggish economy). The Japanese and Germans will go along for awhile, but it would be self-deluding to think that they are going to sacrifice their price stability or their exports or anything else for the benefit of this country.

Sound and Fury at the Summit

The May economic summit fell in the same illusory category. Reagan administration officials returned from the May 5-6 meeting of seven industrial nations trumpeting their success in reaching an agreement with our major trading partners to coordinate economic policies and stabilize exchange rates.

"I don't think it's meaningless," one economic policy adviser to the president responded to a skeptical reporter's question. "I think it's marvelous."

Much of the economic press corps hyped the agreement as well. The *Washington Post* called it "the most significant attempt in more than 13 years by the world's leading non-communist nations to achieve international economic coordination."

One hates to dash cold water in the faces of all these celebrants, but really, what's all the fuss about?

About the best that can be said of the summit agreement is that it was *designed* to dampen protectionist sentiment in the United States—presumably by buffaloing Congress into believing that we've got the Japanese and the Europeans and their exports on the run.

But the agreement is truly a slim reed. It's not a system of "target zones" (where currencies would be allowed to fluctuate within some allowable band and become subject to central bank buying or selling if they got outside the "zone"). It's not even a system of "objective indicators" (Baker's proposal for using various economic measures to automatically trigger joint review sessions if one or more economies deviated from some preordained norm).

It's . . . well, it's a lot of talk: endless meetings, where officials of the seven nations will enjoin each other to do this, that, or the other: "Slash your budget deficit," "stimulate domestic demand," "lower your interest rates," etc. In other words, pretty much what we've got now. Oh, it does mean one more thing: more international travel for those globetrotting finance ministers and their eager deputies (the debt set, you might call them). Come to think of it, perhaps that was the real motivation.

What They Said

For the record, the relevant part of the summit communiqué says that a new "Group of Seven" finance ministers (from the United States, Germany, Japan, Great Britain, France, Italy, and Canada) will: "work together more closely and more frequently in the periods between the annual summit meetings [and] . . . review their individual economic objectives and forecasts collectively at least once a year." The communiqué goes on to state that, in order to achieve "greater stability in exchange rates" and other worthy objectives, officials of the seven nations will "cooperate with the IMF in strengthening multilateral surveillance" of their currencies. The summit nations are to review each other's economic forecasts, "taking into account indicators such as GNP growth rates, inflation rates, interest rates, unemployment rates, fiscal deficit ratios, current account and trade balances, monetary growth rates, reserves and exchange rates."

Finally the summiteers agreed to "invite the finance ministers and central bankers in conducting multilateral surveillance to make their best efforts to reach an understanding on appropriate remedial measures whenever there are significant deviations from an intended course; and recommend that remedial efforts focus first and foremost on underlying policy fundamentals, while reaffirming the 1983 Williamsburg commitment to intervene in exchange markets when to do so would be helpful."

Now that the summit has receded from the headlines, what if any practical significance does the ballyhooed summit agreement have?

Volcker: "I'm All in Favor of Consultation"

When I put that very question to Federal Reserve Chairman Paul Volcker, who carries out foreign exchange intervention in collaboration with the Treasury, he was curiously noncommittal. "Tokyo is a long way away," he remarked. He said he was "all in favor

Interstate Commerce Commission chairman Heather Gradison talks with Cato chairman William Niskanen before speaking at a Cato luncheon on transportation issues.

of consultation," but said the agreement won't affect the conduct of U.S. monetary policy. "We'll conduct monetary policy as we see fit," he told reporters.

Not exactly a ringing endorsement.

H. Robert Heller, the Bank of America international economist whom President Reagan plans to appoint to the Fed board of governors, sounded more upbeat in a post-summit interview. "Essentially, it means you have a new set of players in there, on a more consistent and regular basis than before," he said. The agreement could "give an element of stability in the sense that excesses that are perceived as excesses will be avoided.

"You won't get perfect stability [such that] whatever happens to be the exchange rate at a given moment will prevail until eternity," Heller went on. But "extreme and erratic swings will lead to agreed-upon intervention, and that will work towards stability."

Finally, I asked Dr. Doom himself—Salomon Brothers chief economist Henry Kaufman—what he thought the significance of the agreement was. He called it "a step in the right direction" but said flatly that it "will not work unless countries are willing to give up some sovereignty." He advocated just that, suggesting the creation of a new international agency with power to not only monitor but control capital flows and exchange rates.

All of these people are being much too kind. The reality is that these sovereign nations—each with their own distinct and competing if not conflicting national interests—will only cooperate and coordinate to the extent that it is in their interest to do so.

In fact, the key players have ample opportunity to consult and cooperate now, if they are of a mind to. Aside from the annual summits, the leading finance ministers and central bankers see each other at regular G-5 meetings, IMF-World Bank meetings, and other occasions.

Kaufman's call for a super-agency that would usurp central banks' authority is not very realistic, but he's basically right: voluntary, "cooperative" efforts to stabilize exchange rates won't work—unless of course economic fundamentals and national self-interests coincide to make them work, in which case what's the need for a new layer of "multilateral surveillance"?

EMS Realignments Don't Augur Well

Even more hard-nosed "target zone" type schemes tend to fall apart when divergent economic policies dictate currency movement outside the prescribed bands of allowable fluctuation. Even

> "The administration talk about international cooperation is self-serving chatter designed to get the Japanese and the Europeans to solve our problems for us."

the relatively successful European Monetary System, which works as well as it does in large part because it's an integral part of the European Community's free trade zone, has experienced periodic realignments since it was established in 1979. There have been three major realignments in the last four years—the latest occurring barely a month before the summit, when the deutsche mark was revalued by 3 percent and the French franc was devalued by 3 percent.

A perfect illustration of the ephemeral nature of economic policy "coordination" occurred less than three weeks prior to the summit. The Federal Reserve cut its discount rate April 18, followed the next day by the Bank of Japan. But, despite a great deal of U.S. pressure, the Bundesbank refused to go along, as it had with the previous round of discount rate cuts in early March.

Heller explained the Bundesbank's recalcitrance by noting that the deutsche mark had just recently been revalued against the franc within the EMS, which had the effect of temporarily putting the mark at the bottom of the system's fluctuation band and the franc at the top. This gave currency speculators a field day. They moved funds out of the mark and into the franc, knowing that, for the time being, the franc was a safe place to earn high interest rates. The Bundesbank didn't want to fuel the fire by lowering yields on mark instruments.

Heller's point is well taken, but at the same time his explanation for why the Bundesbank didn't coordinate interest rate cuts with the United States and Japan misses the point. Or perhaps it proves the point—namely, that there will always be ample excuses for our trade partners not to take the kind of action that we would like them to take in the purported spirit of international cooperation.

The Case of the Backfiring Locomotive

The Germans, of course, have been burnt once too often. Inherently fearful of inflation, they nevertheless bowed to pressure from the Carter administration in the late seventies to be an economic "locomotive." What they got for their trouble was increased inflation (*cum* recession) and later a steep depreciation of their currency.

Much of the administration talk about international cooperation now falls in the same vein as that of the Carter administration. Namely, it is self-serving chatter designed to get the Japanese and the Europeans to solve our problems (trade deficit, budget deficit, sluggish economy) for us.

The Japanese and Europeans will go along for awhile, but it would be self-deluding to think that they are going to sacrifice their price stability, their exports, or anything else for the benefit of this country—particularly when we ourselves have been less than cooperative. Where was the spirit of cooperation when the rapid rise of the yen was scaring the bejesus out of Tokyo? Nowhere to be found. Indeed the attitude, as expressed by a top aide to White House Chief of Staff Donald Regan, was a smug "now the shoe is on the other foot."

The Reagan administration has repeatedly rejected Japanese appeals for help in stemming a decline in its currency that, by any standard, meets the long-stated U.S. definition of "disruptive" movements in exchange rates that are deemed to merit intervention. In the process, the United States has embarrassed Prime Minister Nakasone and

(Cont. on p. 12)

Cambridge Student Wins Foreign Policy Essay Contest

David M. Hart

David M. Hart, a history student at Cambridge University, won first prize in the Cato Institute's Foreign Policy Essay Contest. In his paper Hart argued that Sen. Robert A. Taft's "noninterventionist principles of neutrality, peaceful trade, and strong territorial defense are still valid in today's more complex world."

This fall Hart will begin teaching at the University of Adelaide in his native Australia. He attended the Cato Institute's 1978 Summer Seminar in Political Economy. First prize in the essay contest is $3000 and publication of the winning essay in an upcoming issue of the *Cato Journal*.

The contest was designed to encourage young scholars to consider the relevance of the noninterventionist viewpoint, particularly as enunciated by Taft, to today's foreign policy issues. Cato foreign policy analyst Ted Galen Carpenter expressed pleasure at the number of outstanding essays submitted by graduate students from schools across the United States and in other countries.

Eric R. Alterman, an international relations student at Yale University, won the second prize of $1,500 for his essay, "Alternative to Globalism: A New Direction for American Foreign Policy." Alterman has written for *Harper's* and *Le Monde Diplomatique* and formerly worked for Business Executives for National Security.

The third prize of $1,000 was awarded to Gary Geipel, a graduate student in international relations at Columbia University, for his essay, "Reflections on Making Foreign Policy by Example."

Jennifer Weeks, an M.A.-Ph.D. candidate in international relations at the University of North Carolina, won the fourth prize of $500 for her essay titled "Costs and Commitments in Foreign Policy: An Assessment of the Reagan Doctrine."

Besides Carpenter, judges for the contest were Earl C. Ravenal, professor of international relations at Georgetown University and senior fellow of Cato, and Leonard P. Liggio, president of the Institute for Humane Studies at George Mason University. ■

Playing Games (Cont. from p. 11)

possibly imperiled him politically.

The timing of the U.S. call for exchange rate stability is itself self-serving. It comes after the dollar has "enjoyed" a sustained depreciation of more than 30 percent against the yen in less than a year and even greater falls against other currencies. This depreciation promises to do wonders for the long-suffering U.S. merchandise trade account.

Baker et al. would like to keep it that way. In effect, they're saying, "Okay, now that we've got the dollar down around where we like it (and your currency up around where we like it), let's keep it there. Let's 'stabilize' things right about here." Would Baker have been so anxious to discourage "exchange rate volatility" back when the dollar was at its peak?

The "Spirit of Cooperation"

As if we needed another reminder of how flimsy our ties to our allies are, take the recent spat with the European Community over agricultural trade. These trans-Atlantic trade tensions have been building for years and are second only to our running trade tensions have been building for years and are second only to our running trade war with Japan (though in reality Japan has been much more forthcoming about liberalizing its trade policies).

The most recent shot fired was our imposition of retaliatory quotas against

> "If there is the political will to abide by a gold-backed system, then you don't really need it."

exports of everything from white wine to pear juice from the EC. We were retaliating against new EC quotas on U.S. grain and soybean exports to Portugal and for European tariffs on feed grain shipments to Spain.

So much for the spirit of cooperation. We and our allies have stretched our "hands across the water" all right, but, alas, they seem to be clutching at each other's throats.

If the summiteers want to get serious, they should move back in the direction of the gold standard or some other commodity standard. Putting such a "governor" on the U.S. monetary engine, then hitching the other major currencies to the dollar (as under the Bretton-Woods scheme) would force *real* economic coordination and real economic policy discipline.

Ideally, such a system should be more than symbolic and call for full convertibility of the dollar and other currencies. Then outflows of gold from one central bank to another would force a return to more sensible fiscal and monetary policies. We'd have a self-enforcing, self-correcting mechanism.

But that's not likely to happen, and it would be futile, not to say politically impossible, to try to impose a gold standard on an unwilling government or governments. As ultimately happened under Bretton Woods, the system worked only so long as there was the political will to abide by it. Further, one could argue, if there is the political will to abide by a gold-backed system, then you don't really need it. ■

Steven K. Beckner is a correspondent for Market News Service.

Private-Sector Options Offered

Cato Co-sponsors Conference on Health Care

The Cato Institute co-sponsored a conference on private-sector health-care alternatives on July 28. Cato joined the National Chamber Foundation, the Heritage Foundation, and the National Center for Policy Analysis in discussing the findings of the National Chamber Foundation's Private Sector Task Force on Catastrophic and Long-Term Health Care Alternatives.

The task force was created to present private sector alternatives to the White House and to HHS Secretary Otis Bowen as he prepares the catastrophic illness study requested by the president in January.

Twenty-one different groups, representing the elderly, doctors, insurers, small and large business, and policy foundations participated in the task force. A broad range of alternative policy options were developed, each one relying on the private sector to meet the needs of a burgeoning elderly population and a financially insecure Medicare system.

The 160 conference attendees were testimony to the emerging consensus that private sector solutions be seriously considered at this critical juncture in program re-evaluation. The all-day session delved into the 29 different policy options developed by the task force. The recommendations ranged from health care savings accounts to Medicare vouchers to elderly care credits.

Rep. D. French Slaughter (R-Va.) argued that health care savings accounts "would be a substantial step towards the goal of protecting our senior citizens in the future from catastrophic health care costs—both in the hospital and in nursing homes—while also meeting our overall goal of reducing government involvement—and, therefore, Federal expenditures—in areas that can better be addressed by the private sector."

Other participants in the conference included Richard Rahn of the National Chamber Foundation, Sen. Orrin Hatch, Jack O'Day of the Insurance Economics Society of America, Peter Shapland of Mutual of Omaha, Peter Ferrara of Cato, Stuart Butler of the Heritage Foundation, and Curt Clinkscales of the National Alliance of Senior Citizens.

Rep. D. French Slaughter (R-Va.), sponsor of a bill to establish Health IRAs, talks with Cato president Edward H. Crane at a conference on private-sector health-care alterntives co-sponsored by the Cato Institute and other groups. In background, conference director Terree Alverson of the National Chamber Foundation prepares to open the session.

The task force report is available from the National Chamber Foundation of the Chamber of Commerce in Washington. ■

Reagan Doctrine Could Be Expensive And Dangerous, Carpenter Warns

"The Reagan Doctrine [of U.S. support for anti-Soviet movements around the world] . . . threatens to become a limitless series of expensive and dangerous political or military entanglements," warns Cato foreign policy analyst Ted Galen Carpenter in a new study.

While agreeing that Americans have an interest in encouraging the spread of democratic capitalism and reducing Soviet influence in the world, Carpenter finds flaws in the three basic arguments for the Reagan Doctrine:

It would not bolster U.S. security. "Most Third World struggles take place in arenas and involve issues far removed from legitimate U.S. security needs. U.S. involvement in such conflicts expands the republic's already overextended commitments without achieving any significant prospective gains."

"Implementation of the Reagan Doctrine promises to be a costly undertaking. The sums now being discussed are no more than a down payment on a long-term policy."

"The prospects for the Reagan Doctrine promoting democracy in the Third World are no more promising. . . . The Reagan Doctrine threatens to become a corollary to America's longstanding policy of supporting 'friendly' autocratic regimes."

"Privatizing the Reagan Doctrine is the most attractive and feasible alternative to existing policy," Carpenter writes. "Individuals who believe that the various insurgencies represent a laudable anti-Soviet uprising and that the rebels truly are freedom fighters should be free to assist their chosen ideological cause without government restriction or harassment."

Carpenter's paper, "U.S. Aid to Anti-communist Rebel Movements: The 'Reagan Doctrine' and Its Pitfalls," is part of the Cato Institute's Policy Analysis series and is available for $2.00. ■

With Volunteer Army Working, Who Needs a Draft?

Policy Report Reviews

Citizens and Soldiers: The Dilemmas of Military Service, *by Eliot Cohen (Ithaca, N.Y.: Cornell University Press, 1985), 227 pp., $22.50.*

The All-Volunteer Force after a Decade, *ed. William Bowman, Roger Little, and G. Thomas Sicilia (Washington: Pergamon-Brassey, 1986), 352 pp., $32.50.*

As long as there are wars—and young men are expected to fight them—there will be advocates of conscription. In *Citizens and Soldiers: The Dilemmas of Military Service,* Eliot Cohen, an assistant professor of government at Harvard University and a proponent of the draft, has produced a thorough study of the many political and institutional issues surrounding military conscription as well as its historical and foreign record.

Cohen rightly recognizes that the size and type of military a nation requires is determined by each nation's geopolitical role. The U.S. predicament over how to recruit military personnel—which has led to a recruitment system that "changes constantly," complains Cohen—is a result of America's acceptance of "a host of new and wholly unprecedented commitments to foreign states in all corners of the globe" after World War II. For that global role requires a large standing army.

As a result, America's individualistic philosophical tradition and internationalist foreign policy come into conflict. Cohen notes that "the United States found itself able to alleviate this dilemma temporarily by creating a large but all-volunteer force in the 1970's." However, he adds, "either a serious deterioration in the American military establishment (with concomitant effects on American foreign policy) or a disruptive and difficult debate about a return to some form of conscription" is inevitable. And Cohen, of course, prefers to debate the draft rather than America's foreign policy commitments.

Cohen sees only two alternatives to his recommended universal militia draft. One would be to reduce the size of the U.S. military, creating a truly professional force, an option he rejects without comment. The other possibility is "to maintain a fragile AVF." But Cohen dislikes voluntary service for numerous reasons, arguing that "eventually demographics, strategic necessity, and economic recovery will conspire to force a return to a draft."

Most of the participants in a conference held at the U.S. Naval Academy, the proceedings of which are contained in *The All-Volunteer Force after a Decade,* disagree. Defense Secretary Caspar Weinberger opened the conference by declaring that "the experiment is over. We know that an All-Volunteer Force can succeed, and we know what it takes to make it succeed. We need have only the will, the perseverance and the commitment to quality."

The other conference participants present a wealth of evidence to back up Weinberger's optimism. The percentage of new recruits who are high-school graduates has been climbing steadily this decade, reaching record levels; the results for the two years since the conference have been even better. By this standard, the quality of new enlistees exceeds that of the youth population generally. Moreover, as measured by military entrance tests, the mental aptitude of recruits has also steadily improved: overall, newly enlisted servicemen are brighter than their civilian counterparts.

Retention of these well-qualified volunteers is rising as well. In 1975, only 20 percent of Army first-termers reenlisted; 43.8 percent did so in 1982. The other services have also made dramatic progress in retaining well-qualified volunteers. The result is both lower training costs and a more experienced military.

At the same time, it turns out that the AVF is more representative of society than was the draft army. The proportion of blacks is falling; enlisted recruits come from roughly the same socioeconomic background as the employed youth population.

The All-Volunteer Force also provides useful insights on the factors that have the greatest impact on enlistment, the role of women and minorities in the AVF, the relationship between manpower and technology, and trends among the career force.

Where do we go from here? "As we look back on the first decade of the All-Volunteer Force, I feel that we have learned how to make it work," says Army Vice Chief of Staff Maxwell Thurman. There will be challenges, particularly as the pool of 18-year-olds shrinks, but, argues former assistant secretary of defense Lawrence Korb, "returning to conscription is not a viable option."

Cohen and like-minded AVF critics will continue to argue for the draft, as much on social as military grounds. But the Defense Department, at least for now, considers the manpower debate closed. Weinberger concludes, "From today it will not be the policy of the Department of Defense to speak about our military as the all-volunteer armed forces. From today, that can go without saying. Our men and women in uniform . . . are simply the armed forces, and the finest armed forces this country has ever known."

—Doug Bandow

The Rhetoric of Economics, *by Donald N. McCloskey (Madison: University of Wisconsin Press, 1985), 209 pp., $21.50.*

Economist and historian Donald McCloskey has written a book that may secure him an appointment in the philosophy department. *The Rhetoric of Economics* investigates how economics is done and how it should be done. Yes, yet another book on the methodology of economics.

But this book is different—really. In contrast to the many vague and cranky works on the subject, *The Rhetoric of Economics* is witty, friendly, and original. Although economics is generally understood to be (at least potentially) an objective science working systematically toward the Truth, let's back up,

says McCloskey, because this notion has led to all sorts of official methodological babble that few people actually respect. Let's say instead that the economics profession engages merely in conversation. McCloskey persuasively argues that this is a better way to understand the situation.

If economics is just conversation, good economics is good conversation. Good conversation, we realize, now that McCloskey has had us stop and think about it, is intelligent reasoning in support of a position. The aim is to persuade the listener. The appropriate techniques for any given economic conversation, then, depend on the subject matter and on those involved in the conversation. No methodologist is in a position to legislate the guidelines for good economics.

McCloskey follows his metaphor of economics as simple conversation to fruitful conclusions. He applies the study of argumentation—rhetoric—to economic writings. By viewing economics as one of the rhetorical arts, McCloskey does not mean to degrade economics, as the common usage of the term "rhetoric" might suggest. Indeed, he emphasizes that economics is necessarily rhetorical, as is conversation in all fields, even mathematics. The elements of rhetoric—such as analogy, metaphor, symmetry, appeal to authority, example giving, thought experiments, and introspection—are marshalled in hopes of making convincing points.

We utilize these elements in ordinary conversation every day, and McCloskey shows with fascinating literary analysis that the economics profession's finest (e.g., Paul Samuelson, Milton Friedman, Gary Becker, and John Muth) do likewise in their discussions of economics. The model economies that theorists construct, for example, are metaphors for real-world phenomena. The theorist says, "The real world is like this model. See what happens in the model when the money supply follows such-and-such a growth path. That might happen to us." More than half the book is devoted to detailed literary investigation. Two chapters scrutinize the rhetoric involved in economic quantification and the econometrician's significance test.

What concrete advice does the rhetoric methodology offer? First of all, "Rhetoric is not a new methodology. It is antimethodology." McCloskey presents a helpful scheme for understanding methodology: "At the bottom [of the economics hierarchy] is method with a small *m*, ever humble and helpful," which is made up of the tools of the trade: economic theory, statistical theory and practice, principles of accounting, writing and rhetorical techniques, a background in history, etc. These tools are not a matter of dispute.

"Far above method with a small *m*, at the peak of scholarly enterprise, stand the conversational norms of civilization." McCloskey digs up a German word, *Sprachethik*, to summarize these norms: "Don't lie; pay attention; don't sneer; cooperate; don't shout; let other people talk; be open-minded; explain yourself when asked." These are the commonsensical ground rules for good conversation.

"Below the cool majesty of sprachethik and above the workaday utility of method with a small *m*, stands Methodology." This methodology, whether positivist, Austrian, Marxist, or institutionalist, is dispensable, says McCloskey. It is a comical middle manager that occasionally misinterprets what sprachethik decides in the boardroom or obstructs the day's business on the shoproom floor. When methodological pretensions infest an economic work, as in Muth's seminal but poorly written article on rational expectations, we criticize it for violating sprachethik or mishandling the tools, not for using the wrong methodology.

Now, what concrete advice does the rhetoric *view* offer? Very little, for despite the official teaching of the positivist (and other) methodology that many economists indifferently adopt in word, in practice, McCloskey claims, economists know instinctively to jettison the silly canons when appropriate and to simply follow their intuition and common sense. The workaday economist will probably find McCloskey's book a fascinating articulation of the views he implicitly held all along. Only the small minority in the profession who see themselves as true believers in a particular methodology will disagree with McCloskey's analysis.

The Rhetoric of Economics is an important work. It has great potential to promote better economics by clearing up methodological confusion and encouraging a more candid economic conversation.

—Daniel Klein
New York University

Profit-Making Schools Could Improve Education, Scholar Says

Real improvements in education can be brought about by bringing market forces to bear upon our nation's schools, according to a new Cato Policy Analysis by Myron Lieberman.

Lieberman, professor of education at the University of Pennsylvania and author of *Beyond Public Education,* writes, "Family-choice measures (like vouchers and tax credits) are not the only way that competition can be introduced into public education. One alternative is to encourage profit-making private schools; another is to encourage districts to contract out instructional as well as non-instructional services to private contractors, preferably profit-making ones."

Lieberman urges that voucher and tax credit proposals allow the participation of profit-making schools. Pointing out that children are already served by entrepreneurial doctors and dentists, Lieberman asks why they can not be served by entrepreneurial schools as well. These proposals would bypass the worst obstacles to educational reform: legal and union-imposed restraints that prevent public schools from maintaining proper discipline, developing coherent curricula, and ensuring competent instruction. Moreover, if educators are provided with the extra motivation of the profit-system, he argues, they will be more likely to promote pupil achievement and well-being.

Lieberman's study, "Market Solutions to the Education Crisis," is part of the Cato Institute's Policy Analysis series and is available for $2.00.

"To be governed..."

The "disengaged" Senate

When the 17 candidates for U.S. senator from Maryland showed up last week for what they thought would be standard news interviews at a Baltimore television station, little did they know they were going to be featured as contestants in a quiz show that would reveal most of them as ignorant of current events.

Seventeen of the 19 registered candidates . . . were asked five questions ranging from specifying the cause of the U.S. bombing of Libya to naming the prime minister of Israel and defining Stinger missiles.

Among the worst scores posted were those of the three major Democratic candidates: Rep. Michael D. Barnes, a subcommittee chairman on the House Foreign Affairs Committee who has promoted himself as a leader on foreign policy; Rep. Barbara A. Mikulski . . . , and Gov. Harry Hughes. . . .

—*Washington Post*, July 25, 1986

In everybody's pocket

Lawmakers aren't exactly selling their votes [for campaign contributions, Rep. Tony] Coelho says. "I think that the *process* buys you out. But I don't think that you *individually* have been bought out, or that you sell out. I think there's a big difference there. . . . One is morally wrong, in effect. The other is legally wrong. There's a big difference."

—*Wall Street Journal*, July 18, 1986

Couldn't do it without you

In 1981 . . . [software wizard Bill Gates] made more than $1 million and paid $500,000 in taxes. Says Gates, who was too busy running his company to bother about sheltering his income: "I got a letter from Reagan thanking me for paying all that money."

—*Money*, July 1986

Life is a cabaret

Sexual liaisons between supervisors and employes, frequent parties and long periods during the work day when employes went drinking together were common at the Washington regional enforcement office of the Securities and Exchange Commission, according to a decision issued by the commission's own equal employment opportunity office.

—*Washington Post*, July 3, 1986

They can check the rules as they pocket the money

Mayor Marion Barry summoned his cabinet and other top aides to an extraordinary meeting in the D.C. Council chamber yesterday, where he unveiled anticorruption measures. . . .

300 D.C. officials . . . received wallet-sized cards spelling out "District of Columbia Government Integrity Standards."

—*Washington Post*, June 27, 1986

Paging Howard Roark

Are we now to see, a few miles south of us, this gross proud tower, this arrogant building, go up for no purpose save to draw attention to itself and away from the dignity and sovereignty of the American Capitol?

—Sen. Daniel P. Moynihan in the *Congressional Record*, June 10, 1986

Repeat after me: the budget can't be cut any more

Between 29 percent and 50 percent of long distance phone calls made by federal employees at five agencies were for personal rather than business reasons, according to preliminary results of a government-wide survey.

—*Washington Post*, June 21, 1986

Business is business

The American Comedy Network . . . which distributes material to 143 radio stations, has scored with "Hyundai, Hyundai," a satiric thrashing of imported cars (sung to the tune of "Monday, Monday," the 1960s Mamas and Papas hit). . . .

Andrew Goodman, president of . . . American Comedy Network, says his group simply found "the jingoistic path" the funniest. But . . . Mr. Goodman isn't exactly the U.S. auto industry's Rambo. He drives a Toyota Corolla. "Personally, I'd rather buy a foreign car," he says. "They're better quality, I think."

—*Wall Street Journal*, June 24, 1986

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