

# Cato Policy Report

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## NATO: A Crisis of Will or Situation?

by Earl C. Ravenal

The title of a recent Senate Foreign Relations Committee hearing is "The Crisis of Will in the NATO Alliance." I have entitled my remarks "NATO: A Crisis of Will or Situation?" This is not a quibble. With due respect for the enlightening statistical researches of John Rielly's Chicago Council on Foreign Relations into the state of the American popular and elite mind regarding the integrity of our military commitments to various foreign countries, the fundamental problem in America's relation to NATO is not a matter of "opinion" or "will." It is not a matter of what Americans think of Europeans or the propriety of defending them. To consider the problem in those terms is to become fixated on surface phenomena.

That surface is composed of popular

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demonstrations in Europe, anti-nuclear and anti-American; recriminations by allied leaders over American expressions and declarations that are either too bellicose or too reticent; ruffled feathers over alleged failures of consultation; angry editorials in nationalistic journals on both sides of the Atlantic;

**"The commitment to Europe presents the United States with a choice between high costs and severe risks."**

the rage of American right-wing pundits over restrictions that Europeans would put on our military actions in pursuit of our own interests, and over our allies' attempts to cultivate the Soviets despite our exhortations to join in pressures and punishments.

All of this supposedly has led to a growing reluctance of Americans to intervene in the defense of common interests in Europe—a desire to return, if not precisely to some recognizable form of "isolationism," at least to a

characteristic American unilateralism, escaping from the trammels of coalition defense to a singular preoccupation with, say, the Persian Gulf, the sea lanes, and Central America.

These perceptions are not entirely false. But to describe them as a "crisis of will" is profoundly misleading. It invites remedies that are as superficial and fictitious as the causal metaphor. "Will" implies sheer voluntarism, pure intention; it is a subjective psychological phenomenon. Correspondingly, a "crisis of will" implies that America's problems with NATO, or NATO's with America, are attributable to a lack of desire or determination to do the things that everyone knows ought to be done, and can be done, in our own interest—and therefore not just a deplorable failure, but a gratuitous failure, a remediable failure. The implication is that all we need to do is to summon the requisite "political will" (that all-purpose solvent), or perhaps (a variant of the same thing) "leadership," usually "presidential leadership." More than that, to some—such as Norman Podhoretz, the editor of *Commentary*—the absence of the requisite will is tantamount to a "failure of nerve," the persistence of

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## Bennett and DiLorenzo Expose How Political Groups Use Tax Dollars

Every year federal, state, and local governments give hundreds of millions of taxpayer dollars to organizations that use the money for political advocacy—lobbying, campaigning, grass-roots organizing, and more.

The full story behind this abusive use of taxpayers' funds is detailed by James T. Bennett and Thomas J. DiLorenzo in a new Cato Institute book, *Destroying Democracy: How Govern-*

*ment Funds Partisan Politics.*

Sen. Orrin Hatch, chairman of the Judiciary Committee, calls the book "a devastating, appalling account of how Washington uses your tax dollars to subsidize the left, unions, and those opposed to the free-market system, and why it will be so hard to stop."

Bennett and DiLorenzo, economists at George Mason University and coauthors of *Underground Government:*

(Cont. on p. 13)

## Tax Reform vs. Tax Relief

Don't spit into the wind. Don't tug on Superman's cape. And don't trust politicians who say they're going to reform taxes. I remember when President Reagan first said that tax reform would be a major priority for his administration. Hold on to your wallets, America, I thought. The lifeblood of politicians is taxes, and whenever they have an opportunity to "reform" the system that generates them you can bet they're going to figure out some way to increase the flow of blood.



The contortions Congress has been going through the last few months have made it clear that those who are in control of the situation are seeking major new taxes—principally of the "value added" or VAT variety—and that the distortions of capital flows inherent in the current system are likely to be exacerbated.

Public support for tax reform was enthusiastic because people were led to believe that taxes would be simplified (via a flat-rate tax) and, most importantly, that they would be decreased. When Walter Mondale leered into the television camera and said he was going to increase our taxes, he removed any remote chance he may have had of getting elected. Most Americans fully believed Ronald Reagan represented a tax philosophy opposite to Walter Mondale's and that their tax burden would be lightened.

It is true that federal revenues as a percentage of Gross National Product have declined slightly since the Reagan tax cut of 1981 (but less than they would have if the president had not pushed through the big tax increase of 1982, TEFRA). Overall taxes, including state and local taxes, however, remain higher than they were as recently as 1975—a full decade after Lyndon Johnson began his inflationary spending spree that financed the war in Vietnam and his Great Society welfare programs. It's easy to lose perspective on what's happening with government spending as its inexorable upward ratcheting occurs. Spending at all levels is some 18 percent higher today as a percentage of GNP than it was during Eisenhower's second administration—a period with less poverty and more rapid economic growth than we are experiencing today.

I agree with Nobel laureate Milton Friedman that the true level of taxation on the American people is precisely the level of government spending. Current resources diverted from private to public use represent a tax, whether financed through direct taxation, or indirectly via money creation

(inflation), or through borrowing (the deficit). In my view we should attempt to cut these taxes in whatever manner they manifest themselves. A monetary rule may be the answer to the inflation tax. A balanced-budget amendment may put an end to the deficit tax. And a low flat-rate tax combined with the abolition of the double taxation of corporate income would effectively limit that source.

Those who claim a tax cut is wrong—even though they admit that taxes are too high—because it would lead automatically to an increase in the deficit, which they contend is an unjust burden on future generations, overlook three facts. First, Congress is composed of volitional individuals who are perfectly capable of taking a discreet step, cutting taxes, and then another, cutting spending. There is no law that says they must increase the deficit every time they cut taxes. Second, the real tax on future generations is the level of government spending. Third, deficits place a real constraint on the level of government spending for the simple reason that their absence is an inducement for voracious legislatures to indulge themselves.

But, you say, how can we cut all three forms of taxation without making difficult and painful cuts in spending? Easy. Once the revenue is cut off I predict we'll find our solons considerably more statesmanlike in their behavior. Do we really need to spend over \$100 billion a year to defend our Western European allies, who have the money and technology to defend themselves? Do we really need to subsidize (mostly) wealthy farmers to the tune of \$30 billion a year? Do we really need to pay current Social Security retirees tens of billions of dollars more than their payroll taxes would have earned at a market rate of return? And then, of course, do we really need thousands of programs that fund such projects as studying the sex life of South American frogs?

Don't let anyone delude you into thinking that we face a "bare bones" federal budget. We don't. Spending is too high, which means taxes are too high, which is what most Americans intuitively believe. Milton and Rose Friedman are correct in saying there is a tyranny of the status quo. To overcome that tyranny we need a tax revolt at the federal level, not tax increases in the name of "tax reform."

  
—Ed Crane

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## Niskanen Leads "Think Tank" Statement for Free Trade

Cato chairman William A. Niskanen organized representatives of three other major Washington public policy institutes to issue a joint statement opposing "the growing calls for trade protectionism."

Niskanen was joined in the statement by Herbert Stein of the American Enterprise Institute, Robert Crandall of the Brookings Institution, and Edward Hudgins of the Heritage Foundation.

The economists argued, "Trade restrictions save some jobs at the expense of others. Further, closed markets generally weaken the most dynamic, productive industries, thereby weakening the U.S. economy."

The statement warned that protectionist policies "might trigger retaliatory restrictions from abroad and increase international tension."

Niskanen explained that the statement was intended to remind policymakers of the overwhelming support of economists and international trade

analysts for free trade and thus to serve as a counterweight to the pressure of special-interest groups for protectionist

measures. The statement was widely covered in the news media, both within the United States and abroad. ■



Robert Crandall of the Brookings Institution addresses press conference on trade policy as William Niskanen and Herbert Stein listen.

### Joint Statement on Trade Policy

Today, as individuals associated with leading policy research organizations in Washington, we are joining together to express our concern over the growing calls for trade protectionism. We support the efforts of the president and all those within Congress who seek to maintain and expand international trade. We all share a common belief in the value of free and open trading arrangements among the nations of the world and oppose the "solutions" of the protectionists.

Support for free trade is almost universal among economists and others who have studied the issue. Yet, special-interest groups, finding themselves losing out in the marketplace, have been all too successful in their lobbying efforts, gaining special "protection" and thus limiting consumer choice. Such protectionist policies impose major costs on American consumers and unfairly restrict their ability to purchase those products they prefer. Rather than expanding employment, trade restrictions save some jobs at the expense of others. Further, closed markets gen-

erally weaken the most dynamic, productive industries, thereby weakening the U.S. economy. Finally, U.S. protectionist policies would not eliminate the trade deficit. They might trigger retaliatory restrictions from abroad and increase international tension.

The U.S. economy as a whole is not suffering because of imports, contrary to protectionist claims. Employment has increased by 8 million in the past five years. Unemployment is lower than in any year since 1979. Manufacturing production is at an all-time high. Total output in the United States has increased 13 percent since 1980 while we moved from a big trade surplus to a trade deficit.

It is true that other nations impose obstacles to imports from us. We also impose obstacles to imports from other countries. The proper remedy for this

is not to escalate a war of retaliatory protectionism. The remedy is to push for agreement on trade liberalization for all.

There are always some workers, firms, and industries hurt by competition, whether foreign or domestic. But this competition is healthful. Protecting every worker, every firm, and every industry from competition would stultify the American economy and diminish the incomes of the American people.

Our message today is a simple one. Congress should not repeat the mistakes of the past. As individuals associated with the American Enterprise Institute, the Brookings Institution, the Cato Institute, and the Heritage Foundation, we urge all within Congress and the administration to avoid protectionist policies and support expansion of international free trade.

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American Enterprise Institute

## Olson: "Collective Action" Reduces Economic Growth

Mancur Olson, professor of economics at the University of Maryland, criticized the economic policies of both left and right as the Cato Institute's fourth Distinguished Lecturer.

Olson entitled his lecture "Left and Right: Inadequate Ideologies." His discussion was based largely on his books *The Logic of Collective Action* and *The Rise and Decline of Nations*.

Olson argued that economic growth is not strongly correlated with low rates of taxation and government spending, as the right would suggest. Nor is it clear that a large role for government or more generous welfare-state programs would improve the living standards of the poor, as the left would have it. Thus, he said, there is something else involved in economic growth and improved living standards. "My candidate for the role of the 'something else' is the nature of collective action in society."

Olson urged that we focus our attention on the role of organizations and collusions that either lobby the government or combine in the marketplace to influence wages and prices—such groups as professional associations, labor unions, trade associations, and farm organizations. Historically, he argued, societies with fewer such organizations enjoyed faster economic growth. By contrast, "a society dense with organizations for collective action is like a china shop filled with wrestlers battling over the china and breaking far more than they carry away." These organizations produce little of value but attempt to get "a larger share of the pie" even at the expense of making the entire pie smaller.

Olson pointed out that most redistribution in democratic societies is not from rich to poor—the subject of so many left-right arguments—but from the unorganized to the organized. And the organized lobbies tend to represent big firms, upper-income people, professionals, and skilled workers—groups with higher-than-average incomes.

Olson argued, "A nation that redistributes income to its poor buys a civilized and humane society with a minuscule share of the national income and (mainly) a modest reduction in the sup-



Cato Distinguished Lecturer Mancur Olson elaborates on his argument at a reception following his lecture. Financial consultant Shane Chalke listens.

ply of cleaningwomen. A country that subsidizes workers in their prime working years sacrifices not a dust-free livingroom but the very muscle of the national economy." He claimed that tariffs, bailouts, and cartelization, which distort the efforts of the most productive people in society, dramatically reduce the efficiency of the entire economy.

Olson praised "the rhetoric of right-wing governments, which not only contains much that is true but is important because it counteracts the general ignorance of the advantages of markets." However, he was quite critical of the propensity of conservative governments to intervene in the market on behalf of their supporters, who tend to be businesses and upper-income individuals. ■



Cato vice president David Boaz (right) presents a copy of *Friedman and Hayek on Freedom*, the Cato Institute's Russian-language book, to Walter Polovchak, "the littlest defector," right after he was sworn in as an American citizen, ending a five-year battle to avoid being sent back to the Soviet Union.

## Bandow Study Criticizes UN Assault on Economic Freedom

In a Cato Institute study marking the 40th anniversary of the United Nations, senior fellow Doug Bandow argues that the UN is leading an assault on worldwide economic freedom. "The overriding UN ideology is one of international control of natural, financial, and informational resources, as well as the global regulation of economic and even cultural activities. . . . The impetus for global management has sprung not from the masses of people in the Third World, but from an international elite artificially created and nurtured by the UN."

Bandow urged that the United States be prepared to reduce its 25 percent contribution to the UN's budget, withdraw from hopelessly biased UN organizations, and refuse to acquiesce in such initiatives as the Law of the Sea Treaty. He argued that the U.S. government could best help poverty-stricken Third World nations by opening our markets to their products and "cutting military aid that underwrites brutal regimes." He also called for placing "the blame for poverty and stagnation where it primarily belongs—on ill-conceived, foolish indigenous economic policies."

Commenting on Bandow's thesis at a Cato policy forum was Walter Hoffman, executive vice president of the Campaign for UN Reform. Hoffman said that "the UN is vitally needed" and that the issue should not be whether it is worthwhile to remain in the UN but "how we can make it better."

Hoffman admitted that the "UN has been a failure" in creating a peaceful world and urged the formation of a UN "permanent standing peace-keeping force." Bandow disagreed, asking, "Do we really want the UN to have an army?"

One questioner likened U.S. threats to pull out of the UN to a "rich kid taking his basketball away and leaving the court after losing." Bandow said that the proper analogy is different: "We should stop paying thugs who are beating us up."

Bandow's paper, "Totalitarian Global Management: The UN's War on the Liberal International Economic Order," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■



Doug Bandow (left) talks with Walter Hoffman after Policy Forum on the United Nations.

## IRAs Would Avert Medicare Crisis

Allowing American workers to opt out of the Medicare system by investing amounts equal to the health-insurance portion of the payroll tax in private tax-exempt health plans would avert Medicare's looming financial crisis and give retirees better health care, according to a new Cato study.

Peter J. Ferrara, editor of *Social Security: Prospects for Real Reform*, writes that solving the "many problems of Medicare does not require imposing hardships on the elderly, through benefit cuts, or on the young, through further payroll tax increases. Rather, the answer lies in increasing the role of the private sector in providing and financing medical care for the elderly and in widening the range of consumer choice and genuine market competition and incentives."

Like existing IRAs, Health IRAs would allow workers to accumulate a tax-free fund that would be used for their medical expenses after retirement.

Not only would many workers be financing 80 percent or more of their retirement medical expenses on their own, but Health IRAs would bring a healthy dose of competition and market incentives to the medical-care industry.

Legislation to implement a Health IRA program has recently been introduced by Reps. French Slaughter (R-Va.), Philip Crane (R-Ill.), Mark Siljander (R-Mich.) and David Dreier (R-Calif.) as HR 3505.

Ferrara's study, "Averting the Medicare Crisis: Health IRAs," is part of the Cato Institute's Policy Analysis series and is available for \$2.00. ■



Cato scholars testified at opposite ends of the Capitol on September 19. Left, Catherine England discusses privatization of deposit insurance before the House Banking Committee. Right, Earl Ravenal urges the Senate Foreign Relations Committee to take a realistic look at the costs of NATO (see page 1 article).

## The Flawed Logic of Superfund

Every month the Cato Institute sponsors a Policy Forum at its Washington headquarters where distinguished analysts present their views to an audience drawn from government, the public policy community, and the media. A recent forum featured Fred Smith, president of the Competitive Enterprise Institute and a former economist for the Environmental Protection Agency. Commenting on Smith's talk was Eric Schaeffer of the Northeast-Midwest Institute.

**Fred Smith:** The task of criticizing Superfund is not an easy one. There is almost no discussion of the merits of the program; the fight is over the extent to which EPA powers should be extended and funded. The administration has proposed expanding the current \$1.6 billion budget to \$5.3 billion, the Senate wants a \$7.5 billion program, and the House is calling for \$10.1 billion.

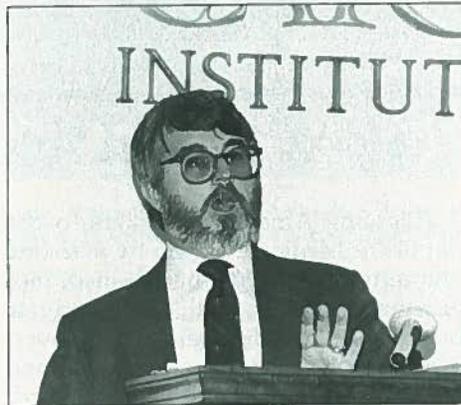
In truth, Superfund is little more than the traditional pork-barrel public works program cloaked in environmental green. The program is poorly designed and preempts a range of superior alternatives.

In making this case, I will, first, examine the design of Superfund and the consequent incentive problems that pose a threat to rational environmental policy. Second, I will clarify the risks addressed by Superfund and attempt to place them in perspective. Third, I will criticize the "market failure" basis of current environmental policy and suggest that an extension of property rights and a renewed commitment to the "polluter pays" principle will yield positive results. Finally, I will discuss policy alternatives that offer a more effective way of enhancing environmental quality and protecting human health.

Superfund is a pork-barrel program. It has no well-defined starting or stopping rules in selecting sites and determining appropriate cleanup strategies. Almost any site can be considered hazardous, and there is no easy answer to the question, how clean is clean? Under Superfund, hazards are any materials that are flammable (charcoal lighter,

for example), toxic (insecticides), corrosive (Clorox or Easy-Off), or reactive (Drano)—or any other substances that EPA designates as hazardous. Consequently, almost anyone is a potential Superfund client.

Furthermore, the how-clean-is-clean question is especially troublesome in the case of Superfund because the contaminants are extremely difficult to locate and remedy, and the concern of Superfund—hazardous materials—is an



Fred Smith: "Maintaining the quality of our environment is too important to freeze ourselves into the rigidities of bureaucratic approaches."

### Policy Forum

emotional one. Consequently, the EPA official who must defend a cleanup recommendation before a public hearing is inclined to err on the side of the more elaborate. Indeed, local citizens have no reason not to request maximum cleanup: under Superfund, they pay nothing for the higher-cost program. The federal government pays 90 percent and the state the rest, even though the "benefits" of Superfund are captured almost totally by local citizens. To the local citizenry, then, Superfund is a "free good" and, like other such goods, it is overconsumed.

Superfund was thus designed to grow rapidly, and it has. The number of sites "needing" attention has increased from the initial 400 priority sites to EPA's current estimate of some 2,000 sites. Some believe that 10,000 sites will eventually be included. There is literally

no limit to the amounts of revenues that might be absorbed by Superfund. The Office of Technology Assessment estimates that some \$100 billion will be necessary to begin to solve the problem.

Superfund relies on bad liability law. The Superfund Act requires EPA to identify those parties "responsible" for creating a hazardous-waste problem and make them pay for the cleanup. But how feasible is the task of finding those responsible for what are, after all, supposed to be abandoned sites?

Superfund resolves these difficult questions by simply eliminating any normal usage of the term "responsibility" from the decision about who must pay for a cleanup. Under Superfund, a responsible party is anyone having any economic connection with the dump site. The results make a mockery of justice. In a recent hearing, an EPA enforcement lawyer noted that the legal responsibility standards now prevailing under Superfund have largely eliminated all arguments about guilt and innocence. Thus, Superfund abandons the long-established polluter-pays principle in favor of a deep-pocket theory of justice. This approach weakens the incentives against future pollution. Why be careful if your financial responsibility is determined largely by the acts of others?

Firms within the oil and gas industries often become the villains or usual suspects, regardless of the specific crime. *Culture* made a telling observation: "In fourteenth century Europe, wells often became contaminated with severe health consequences; however, that did not become a public policy concern until it became possible to blame Jews for poisoning these wells." If one substitutes "the petrochemical industry" for "Jews" in this phrase, the spirit of Superfund funding is captured. Indeed, as Superfund is designed to deal with "abandoned" sites, i.e., sites for which no one can be held responsible, there is no logic in singling out any one specific group to pay. General revenues are the logical solution. Thus, there has been a move to consider other tax sources.

The most troublesome of these is the value-added tax. Enacting a VAT in

today's deficit climate would be akin to introducing a tactical nuclear weapon into a conventional war. VATs constitute a qualitatively different form of taxation. Once introduced, they could and almost certainly would increase rapidly. Senator Cranston of California has already proposed a major VAT increase, but the Senate has yet to approve the initial proposal. Other measures being proposed to solve Superfund's financial difficulties are only marginally better. Their primary advantage is that their potential for escalation is more limited.

What is the evidence for the risks addressed by Superfund? Congressional hearings have discussed dump sites, the materials contained in them, and mechanisms whereby the wastes might migrate into the groundwater. Evidence that such migration is actually damaging human health is difficult to produce, however.

Cancer accounts for about one-fourth of all deaths in the United States. Of cancer deaths, the primary causes are smoking, dietary factors, sunlight, and lifestyles. The fraction of cancers that can be attributed to chemicals is perhaps 6 percent, and this number includes all occupational as well as pollution effects. Since dosages are likely to be far higher in occupational settings, the percentage of cancers traceable to pollution is likely to be in the range of 1 percent. This figure includes all forms of pollution-induced cancer—airborne carcinogens, surface water and groundwater contaminants, food additives, pesticide residuals, and so forth. Groundwater contamination accounts for only a fraction of those risks. Thus, Superfund addresses a very small part of the American cancer problem. Moreover, contaminated groundwater indicates significant bacterial and viral contamination, not chemical wastes. Even in the United States, bacterial contamination creates far more health problems than chemical contamination. Hazardous wastes are hazardous, but there are far more serious risks from other sources, and Superfund should be considered in light of these other threats to human health.

Even if human health is not endangered, it is argued, water is an increasingly valuable natural resource, and care should be taken to safeguard water supplies.



Ed Crane (left) talks with environmental consultant R. J. Smith and Ted Harris of the Department of Energy after Superfund debate.

Here again a sense of perspective is desirable. Water shortages stem primarily from misguided public policies rather than from waste sites. We rarely price water—ground or surface—and thus we overuse it. Groundwater, in particular, is “owned” only to the extent that the owner of the land above the aquifer may use it. This creates the “tragedy of the commons” problem so often encountered in natural resource policy.

In brief, there is little evidence that Superfund should be expanded for either health or resource-conservation reasons. The popularity of Superfund reflects pork-barrel politics, not rational public policy. But more is at stake than simply wasted money. By preempting the field, Superfund discourages alternatives that offer a superior way of addressing the problems that do exist with hazardous wastes.

The popular view is that environmental problems emerge from a failure of the market and that the only corrective option, therefore, is a command-and-control regulatory program. In contrast, there is a view that sees the environmental problem as a failure to allow markets to exist. Where applicable, the solution requires the gradual incorporation of environmental resources into the market framework of property rights, liability, and such market risk-management strategies as insurance. Even if one accepts the premise and general structure of Superfund, it would be worthwhile to redesign the incentive structure to select those sites and remedies most likely to yield real benefits.

One of the major problems of the Superfund program is the fact that it is “free” for the local groups clamoring for cleanups. Seeing only benefits and no costs, local activists have no reason to seek efficiency. Furthermore, the states receiving the most Superfund revenues to date—New Jersey, New York, California, and Missouri—are wealthier than most of the nation. There is little reason to rob the poor to aid the wealthy. Thus, a shift toward greater local financial participation would be extremely valuable.

The aquifer-protection problem arises in part because current property rights do not encourage anyone to consider the value of the aquifer as an entity. The owner of a waste site over one end of an aquifer and the owner of a drinking well over the other end will interact only when damage actually occurs. Lack of clear ownership also encourages excessive depletion, which can contribute to contamination via saltwater and other intrusions. The alternative is to develop more appropriate ownership patterns for these water sources. The petroleum industry has developed a system of ownership patterns that deserves consideration for groundwater resources as well.

Under unitization as developed by the petroleum industry, the underground resource is managed by one party much like a condominium. The original owners transfer their rights to a management association, which then operates the resource as a single entity. Each user is charged for any extractions and provides a share of any revenues. This procedure is not easy. Defining

(Cont. on p. 8)

## Superfund (Cont. from p. 7)

property rights is an extremely complex task, but it offers the promise of bringing thousands of aquifer owners into the groundwater protection fight and greatly augmenting the resources available to EPA or any central management agency.

Another market alternative is insurance. The initially risky steam-boiler and elevator industries were made less risky as the insurance industry insisted on more safety checks and stricter maintenance standards. The insurance industry might well play an equally important role in Superfund. For that to occur, however, insurance firms must be able to write contracts that can be enforced and cancel contracts with firms that disregard safety requirements. Moreover, insurers must not be viewed as the responsible parties when risks entailed were explicitly ruled out of a contract between the insured and the insurer.

EPA might also mandate that an "identifier" be introduced into all waste sites to clarify subsequent responsibilities for contamination. Consider the difference between the EPA approach to waste management and that taken in managing the much greater risk associated with natural gas use in the home. Natural gas is "branded" with an odorant to ensure that even slight traces of the gas signal its presence. Merely realizing that the concern of Superfund is trespass would do much to improve the management of hazardous wastes.

Superfund, in conclusion, is a deeply flawed approach to a significant but relatively small environmental problem. Superfund will waste many billions of dollars to achieve almost no identifiable improvement in the quality of the environment and almost no reduction in the risk to human health. Those concerned with environmental quality should consider carefully the wisdom of the current approach and begin investigating the problems limiting market approaches. Those favoring regulation need not abandon their preferences to consider the supplemental value of market alternatives. Maintaining the quality of our environment is too important to freeze ourselves into the

rigidities of bureaucratic approaches.

**Eric Schaeffer:** I agree that the basic assumptions of environmental policy need to be constantly challenged and reevaluated. The environmental movement is only 15 years old, and a lot of policies have been developed on an ad hoc basis. Similarly, there is no question that Superfund is becoming a major public works program, and, consequently, it deserves all the scrutiny it



**Eric Schaeffer:** "The longer we wait to deal with hazardous wastes, the more expensive it becomes to clean up a given site."

can get. Furthermore, the VAT tax does create problems both in confusing the relationship between who pays taxes and who contributes to Superfund as well as in setting a strange precedent for tax policy that needs to be carefully considered. Despite these areas of agreement, there are some fundamental differences in our approaches.

The first question concerns whether or not you think the hazardous-waste cleanup problem is real. If you do not view hazardous-waste dumps as a serious public problem, then in talking about the means used to clean them up, you are likely to be critical of any significant funding devoted to the remedies.

We admittedly do not know enough to design especially effective solutions. That raises the second question: Do we wait until all the facts are in? Will we ever have all the facts? What are the risks associated with that approach? If you believe the problem is not particularly serious, then the fact that policymakers lack complete information and may never have all the relevant data will lead you to conclude that any effort to expand Superfund is simply a monstrous waste of money.

In thinking about how bad the problem is, it is easy to get lost in statistics, and there are some ridiculous examples of places that may be eligible to become Superfund sites. However, there is a selection process that attempts to focus cleanup on the worst problems. For example, there is a hazard-ranking system that considers the population that is exposed, among other factors. As a result, individuals in rural areas with badly contaminated wells are generally not covered under Superfund because not enough people are affected. So there are some limits to the program.

Furthermore, when EPA personnel go in to do a cleanup, they must take account of how much money is in the fund and the competing demands of other sites. It is worthwhile to examine Superfund's national priority list and take a look at some of the sites with which the program is trying to deal. In 1978, for example, a fire broke out at a disposal site in Chester, Pennsylvania, where several thousand deteriorating drums of toxic chemicals were being stored. The site continues to pose a threat of explosion, fire, and toxic fumes to nearby residents. This is not an isolated example.

Fred assumes that we do not know enough about the hazardous-waste problem to take effective action. In general, we are dealing with substances that we know threaten human health, but we are not always sure what levels of concentration are hazardous. Should we wait until we find out? What about effects that do not show up for decades? The longer we wait, the further a situation might deteriorate and the more expensive it becomes to clean up a given site. In the case of many existing Superfund sites, there is widespread agreement that if we had known more a few years ago and taken some preventive action, we would not face huge cleanup expenses now.

In general, we have a "better safe than sorry" approach to risk management. But it is tough to come up with a better alternative. While Fred argues that we need to focus on the most serious parts of the problem and not waste money, trying to define the "worst part" of the problem is pretty difficult.

There are some factors that make it just about impossible to put a price tag on Superfund. For example, there are

often no standards to determine when to end a Superfund cleanup. If the problem is contaminated surface water, the Clean Water Act can provide some basic guidelines. But there are no federal standards for contaminated soil or groundwater. Such uncertainty makes it impossible to quantify cleanup costs. More attention to standards would help to narrow the range of cost estimates for cleanup.

Sometimes the program is criticized for inefficiency because so much money has been spent and so few cleanups have been completed. This is not entirely fair. In fact, EPA has had to take emergency remedial action at hundreds of dumpsites to take care of immediate problems, such as the removal of explosive or flammable materials. These removal actions do not count as permanent cleanups, but they are dangerous and expensive, and are one of the agency's most important responsibilities.

Regarding Fred's point about the inadequacy of state and local cost sharing, the General Accounting Office estimates that there are 25,000 hazardous-waste sites nationwide. The federal Superfund is expected to reach 2,500, or only 10 percent of the total. Responsibility for the rest will fall to state and local governments and communities. In fact, Superfund was established to allow the federal government to step in and take care of the worst sites. In conducting these cleanups, federal authorities are expected to raise the level of information and provide state and local governments with the standards to do the 90 percent of the sites that lie outside the Superfund system.

In the final analysis, it may be difficult to rationalize expenditures for Superfund because the program must confront so many unknowns. Joel Hirschorn at the Office of Technology Assessment has suggested one approach, which would be to concentrate in the immediate future on the emergency removal actions needed to protect public health, while taking more time to conduct long-term cleanups at each site. But Joel points out that this approach may be more expensive in the long run, since permanent remedies may cost more than short-term cleanups.

Fred mentioned a couple of private-sector solutions. While intriguing, they may not be applicable to the Superfund



Fred Smith talks with Anne Brunsdale, managing editor of *Regulation* magazine and a nominee to the International Trade Commission, after Policy Forum.

situation, however. When a steam boiler explodes and a worker is injured, the tort remedies are fairly obvious. Lines of responsibility and the extent of injury are apparent. But what if you live next to a Superfund site? Your groundwater is contaminated and the playground dirt is contaminated. While you cannot readily identify the hazard, you don't really want your kids playing there. What's your remedy under Superfund? Would the site have to explode before you had a liability? The steam-boiler situation is a classic tort circumstance, but hazardous wastes are not.

The suggestion to develop private-property rights to groundwater leaves me even more lost. There is an important distinction between different "types" of water. Industry sometimes needs clean water, and sometimes it does not. People need clean water to drink. Suppose an industry buys an aquifer on which a small town currently relies for drinking water. The company finds the aquifer a convenient disposal site. As the owners of the aquifer, the company markets the contaminated water to the neighboring town, and the town's people complain. But the cost of cleaning up the water is too expensive for the company, and it shuts off the water to the town. What's the town supposed to do? Go shopping for another aquifer in the free market?

Fred has covered the problems of various tax proposals, so I'll touch on some alternatives. A waste-end tax can play a constructive role, and it can raise money for Superfund. According to the Treasury Department and the

Congressional Budget Office, it is administratively feasible and can provide an incentive to proper waste management. We are certainly not going to raise \$7.5-10 billion over five years with a waste-end tax alone.

Another alternative is a petroleum excise tax. Right now, the petroleum excise tax is eight-tenths of a cent per barrel. It raises \$42 million a year for Superfund. Increasing that tax to 10 cents a barrel would raise \$500 million a year. While presenting some problems, the petroleum excise tax has some advantages over a waste-end tax. The petroleum excise tax is small—much smaller than existing state severance taxes—and could be raised very easily. Its impact on the chemical industry would be pretty slight; at 10 cents a barrel, the chemical industry's share would be about \$30 million annually. That compares favorably with the \$300 million the industry is already paying through the feed-stock tax. The administration of the tax would be relatively simple: the tax is already in place, collected from 200 refiners at a few points of entry for imported crude-oil products. It is fair because petroleum is the ultimate source of the organic chemicals and waste oils found at Superfund sites. In the final analysis, however, any effort to raise \$10 billion through taxes is going to run into the problem of who pays and who are the truly responsible parties.

**Fred Smith:** Society faces many risks, and as a society gets wealthier there is a tendency to be more concerned about limiting risk. But what causes us to identify as especially dangerous a particular subcategory of risks, like man-made chemicals? Why aren't we equally concerned about population movements that shift people to California or Florida, where they run massive risks of skin cancer? We cannot make the world a safer place by being biased against certain kinds of risks at the expense of others. All products involve risks, and yet throughout the current, politicized management-of-risk philosophy runs the implicit argument that we will accept a new product only if it is totally safe. Thus, because we are waiting for a purely safe society to be possible, we often deny ourselves the potential of moving in a safer direction. ■

## NATO (Cont. from p. 1)

that overworked diagnosis, "Vietnam Syndrome"; indeed, it is evidence of a deeper moral decay, ominously reminiscent of the late 1930s, and in turn attributable to America's infatuation with libertarianism and libertinism.

But "will," as applied not to a single individual but to a complex polity, society, and economy, functioning as a decision-making system, has no meaning. In this context, "will"—if you even want to call it that—must represent the capacity of a political-social-economic system to generate resources and allow an administration to place them on the altar of extended deterrence and foreign intervention. These are objective and tangible determinations, not subjective psychological quirks, and they tell whether an American administration can credibly extend our military protection to other countries and wield the threat of military intervention in far-off parts of the world.

### Looking at Costs and Risks

Nor does the probability of our providing this material and political support rest on "public opinion" as such, however meticulously sounded and sampled. For plumbing American support for NATO is not a matter of asking "first-order" questions, such as: "Do you want to continue to defend Europe?" It is not the first-order effects of alliance that will bring about its rejection. Rather, it is the second-order effects of our commitment to an alliance, particularly a critical and significant alliance such as NATO, that matter: such effects as—on the cost side of the ledger—taxes, conscription, inflation, high interest rates, and big and intrusive government, and—on the risk side of the ledger—nuclear confrontations and other crises of intervention. These second-order effects—especially those of cost—are often only tenuously associated, or not at all associated, with the alliance, though they are objectively caused by it. Yet it is these second-order effects of our foreign and military policy that may be rejected by our society; and, because the effects are entailed by our assumption of alliance, their rejection may indirectly bring the continuance of alliance into doubt.

What is important, therefore, in the disposition of large and momentous relationships such as NATO is not what people think or say they would like to see happen, but how our system works. So the appropriate task, for scholars and for legislators, is not to ask a sample of Americans whether they "want" to continue to support NATO, but rather to identify what is entailed by our commitment—what we have to do to implement the alliance, what its consequences are for our economy, society, and polity—and then to ask whether

**"The defense of Western Europe still rests on the proposition that an American president will invite the destruction of our cities to resist a Soviet ultimatum in Europe."**

our system can incur, and is going to incur, those costs and consequences.

Some would say that NATO not only depends on, but virtually consists of, the defensive guarantee—including the threat of nuclear escalation—provided by its principal guarantor, the United States. That is perhaps an exaggeration, but it suggests that NATO will stand or fall according to whether the American political-social-economic system can and will bear the costs and risks inherent in the American defensive guarantee to Europe.

For the commitment to Europe presents the United States with a choice between high costs, associated with the confident defense of Europe with conventional forces, and severe risks, attributable to reliance on the earlier use of nuclear weapons. The direction in which this tension is resolved, by any particular American administration, is not rigidly determined; to some extent cost can be transmuted into additional risk, and risk can be transformed into mere cost. (That is what is meant by "raising" or "lowering" the nuclear threshold.) But as long as the United States is

committed to Europe, the choice itself is inescapable.

At the very least, cost and risk are inevitable components of any assessment of America's role in the defense of Europe, and they are the most formidable reasons that could be presented for American withdrawal from Europe. In other words, it is in terms of the entailments of alliance and the requisites of alliance (the things we have to do—or try to do—to cope with those entailments) that NATO will survive or dissolve. Ironically, even if we meet the requisites of alliance, we incur irreducible danger and expense to ourselves; and, to the extent that we escape the danger and the expense, we unmistakably convey the implausibility of our protection of Europe.

### How We Defend Europe

What do we have to do to defend Europe?

Thirty-six years after the foundation of NATO, the defense of Western Europe still rests on the proposition that an American president will invite the destruction of our cities and the incineration of 100 million of our citizens to repel a Soviet incursion or resist a Soviet ultimatum in Western Europe. On its face, America's war plan is the first use of nuclear weapons, if necessary, to defend Europe.

What we are talking about is extended deterrence. In turn, extended deterrence entails the strategic defense initiative and counterforce; and yet, our extended deterrence is widely distrusted because it is inherently incredible. The root of the problem is that America, the alliance guarantor, hoping to escape the destruction of nuclear war, will seek to put time between the outbreak of war in Europe and the decision to escalate to nuclear weapons and will take whatever advantage it can of its distance from Europe.

Europeans already suspect this. Virtually every American strategic move—up, down, or sideways—has evoked the specter of decoupling in one or another of its forms: either the avoidance of a nuclear response altogether or the attempt to confine even a nuclear conflict to the European theater. This is not something that began suddenly when President Reagan said: "I could see where you could have the exchange of

tactical weapons against troops in the field without it bringing either one of the major powers to pushing the button."<sup>1</sup> The doubts had been sown long before that, in a series of American moves: the MLF, flexible response, the Schlesinger doctrine, "mini-nukes" such as the neutron bomb, even the introduction of intermediate-range nuclear weapons in Europe. More recently, President Reagan's Strategic Defense Initiative (SDI), a design to protect American society from Soviet missiles, has stirred European concern that the United States could afford a "Fortress America" mentality and ignore forward defense in Europe.

These matters, though they rest on abstract and contingent calculations, are not in the realm of theory or theology. Future hypothetical events affect present military dispositions, the nerve of contestants in crises, the course of diplomacy within the alliance, and the coherence of the Atlantic strategic community. In both logic and fact, the United States has already, implicitly, decoupled from the defense of Europe, in those contingencies that the alliance was established to meet. Thus NATO has already ceased to function wholly for both parties, America and Europe, and it has ceased to function in the same essential ways for both. Europe's interest, at the center, is to avoid being caught in a quarrel between the superpowers. America's interest, at the periphery, is to avoid being drawn integrally into a conflict that could otherwise be localized in Europe. To the Americans, Europe is an early warning of Soviet intentions in the world, and a temporary barrier; but to the Europeans, of course, it is all there is. These facts represent an inevitable and objective divergence of perspective and attitude between the United States and Europe.

Henry Kissinger was clear and prescient about these matters when he addressed a private gathering of American and European strategists in Brussels in September 1979. In a remark that has since gained wide currency, he permitted himself some pessimistic reflections on the validity of the American nuclear guarantee:

Perhaps even today, but surely in the 1980s, the United States will no longer be in a strategic position to reduce a

Soviet counterblow against the United States to tolerable levels. . . . If my analysis is correct, we must face the fact that it is absurd to base the strategy of the West on the credibility of the threat of mutual suicide. . . . And therefore, I would say, which I might not say in office, that European allies should not keep asking us to multiply strategic assurances that we cannot possibly mean or if we do mean, we should not want to execute because if we execute, we risk the destruction of civilization.<sup>2</sup>

And yet, "the destruction of civilization"—certainly of our own home-

**"Out of the \$314 billion defense budget, NATO accounts for \$134 billion, 42½ percent of the entire defense budget."**

land—is exactly what we have undertaken to do in defense of the alliance.

#### The Logic of Extended Deterrence

The American guarantee to defend Western Europe can scarcely be evaluated without examining the logic of extended deterrence. Extended deterrence (as opposed to central, or primary, deterrence) is the attempt to discourage attacks or pressures against nations and peoples other than ourselves by threatening the use of our nuclear weapons.

What are the requisites of extended deterrence? It can be argued that to validate extended deterrence requires the practical invulnerability of our own society to Soviet attack. (I say "practical," since absolute invulnerability is beyond anyone's reach.) This is so an American president can persuade others that he would risk an attack on our homeland in the act of spreading America's protective mantle over Western Europe and other parts of the world. If we were to seek societal invulnerability, we would have to work through both our defensive and our offensive strategic systems. First, we would have to achieve a strategic defense, with all its costs and technical uncertainties. As a second condition, we would need

a redundancy of weapons after any of the earlier stages of a protracted nuclear exchange. And finally, we would have to acquire a nuclear counterforce capability, specifically "hard target kill," to enable us to execute a damage-limiting strike against the Soviets' "time urgent" nuclear forces, primarily their missiles in silos.

Thus America's drift to counterforce is not perverse or accidental, as some critics would represent it. Ultimately counterforce, just like strategic defense and a redundancy of offensive nuclear weapons, proceeds from our adherence to alliance commitments. Two inevitable liabilities of counterforce are that it is open-ended, and it is unstable. Indeed, counterforce, to have its intended effect, must be preemptive. Counterforce and first nuclear strike are mutually dependent. A first strike implies counterforce targeting, since the only initial attack that makes sense is a damage-limiting strike, the destruction of as much of the enemy's nuclear force as possible. In return, counterforce targeting implies a first strike, a preemptive attack, because a second strike against the enemy's missiles is useless to the extent that our missiles would hit empty holes.

Why would the United States have opted for this demanding and destabilizing strategy? The compelling motive for counterforce, as well as strategic defense, is damage limitation—that is, limiting the damage to the United States from a nuclear war. And this motive in turn springs from the requirements of extended deterrence. To list, and demonstrate, the requisites of alliance is not to argue for any of these implementing measures. Quite the contrary, it is to show how our weapons and our strategic doctrines, far from being mindless, are closely dictated by our alliance responsibilities. Conversely, our willingness to protect allies rises and falls generally with our ability to protect our own society from nuclear attack and, more specifically, with the prospective viability of counterforce. To the extent that there is any explicit doubt—technical, economic, political—that we will achieve that invulnerability or that we should pursue counterforce (and I believe there is such doubt), there is an implicit doubt that our extensive nuclear commitments,

(Cont. on p. 12)

## NATO (Cont. from p. 11)

especially to Western Europe, can survive.

The risks that stem from our extended deterrence inspire attempts to avoid the contingent nuclear destruction of our homeland. Such an attempt is the case against the first use of nuclear weapons, of which the most notable statement in recent times is the 1982 article by McGeorge Bundy, George F. Kennan, Robert S. McNamara, and Gerard Smith, "Nuclear Weapons and the Atlantic Alliance."<sup>3</sup> But if one is committed, as are Bundy and his fellow authors, both to defend Europe and to avoid the extension of conflict to our homeland, one must try to reconcile these awkward objectives. Thus, crucial in the Bundy-Kennan-McNamara-Smith proposal is that its apparent renunciation of the first use of nuclear weapons is conditioned on the acquisition of an adequate conventional defense. But those who opt reflexively for conventional defense cannot mean just any conventional effort. They must mean the high confidence defense of Europe with conventional arms. And they cannot just exhort or prescribe that the United States and its allies "must" do more to guarantee the integrity of Western Europe; they have the further burden of predicting that this will happen.

### The U.S. Bill for NATO

In order to determine the feasibility—and hence the predictive probability—of the conventional defense option, we must have a bill of costs. In terms of forces, out of a total of 21 active ground divisions requested by the Reagan administration for FY 1986, NATO/Europe takes 11<sup>2</sup>/<sub>3</sub>. In budgetary terms, out of the \$314 billion of originally requested budget authority, NATO/Europe accounts for \$134 billion. This is 42½ percent of the entire defense budget. The appropriate question is whether even those resources will be forthcoming, let alone the greater ones required for self-sufficient conventional defense.

Moreover, comparing the relative burdens of the United States and its allies is not the point, and so even adjusting these burdens would not be the solution. The question has always been

whether the United States is getting its own money's worth out of its forward strategy, and would be getting its money's worth even after some putative redistribution of burdens. It is a question of the economy of alliance.

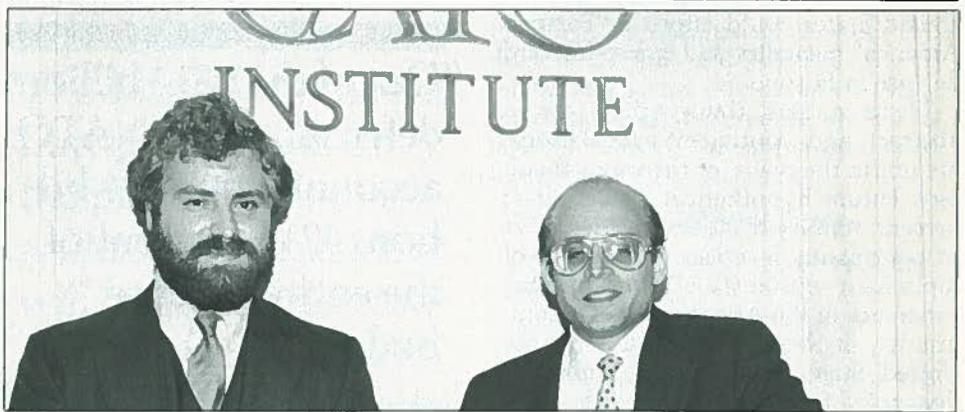
Thus, the "crisis of NATO" resides not in our "will" but in our situation. If we would resolve this crisis, and if we would eliminate or sharply curtail the risks and costs to us, we must do much more than tinker with the modalities of alliance, the mechanisms of consul-

tation, a few wonder weapons, the manipulation of the nuclear threshold. We must consider the progressive attenuation of our alliance support and commitment. We must come to terms with a Europe without America, and an America without Europe. ■

<sup>1</sup>Interview with out-of-town editors at the White House, October 17, 1981.

<sup>2</sup>Quoted in Kenneth A. Myers, ed., *NATO: The Next Thirty Years* (Boulder, Colo.: Westview Press, 1980).

<sup>3</sup>*Foreign Affairs* (Spring 1982).



Peter Ferrara (right) talks with Philip Longman after Policy Forum on Social Security reform.

## Ferrara, Longman Debate Super IRA

Peter J. Ferrara, editor of *Social Security: Prospects for Real Reform*, recently outlined his Super IRA proposal at a Cato Policy Forum. Ferrara discussed the need to privatize the program while pointing out the poor return young workers will receive from Social Security. Under Ferrara's plan returns would be higher for all income groups. Furthermore, the Super IRA would strengthen the economy by tens of billions of dollars a year—real savings needed for capital formation, technological innovation, and economic growth.

Philip Longman, research director of Americans for Generational Equity, agreed with Ferrara's "analysis on what's wrong with Social Security, but not with his proposal." Longman said that "the central problem with the Ferrara plan is that it adds to the federal deficit." He argued that the national debt is a much "greater danger to baby boomers than is Social Security."

Longman claimed that the best approach to Social Security is to simply cut payments. Ferrara dismissed that

idea as politically unfeasible.

In regard to the deficit, Ferrara argued that Social Security's unfunded liability is equivalent to the national debt and that his proposal would not really increase the deficit but merely bring government liabilities into the open. He pointed out that the amount of the increased nominal deficit could be varied by how the phase-in was scheduled.

In the question-and-answer session, one participant asked who the losers would be under the Super IRA plan. Ferrara responded by saying that the proposal was specifically designed so that "there are no losers"; otherwise, it would have little chance politically.

Another audience member felt that the proposal assumes too much financial sophistication of average Americans. Ferrara strongly disagreed, saying that her attitude implied that "Americans are too dumb for capitalism. Everything we have in America today was created by those 'dumb people' who don't know how to participate in the market." ■

## Can We Reform The Income Tax?

John Mueller, chief economic counsel to Rep. Jack Kemp, said at a recent Cato Policy Forum that the Kemp-Kasten tax bill was written on the premise that "marginal tax rates influence people's behavior."

The Kemp-Kasten bill has a "fairly flat" marginal tax rate of 24 percent. Mueller argued that a pure flat tax would be both "unfair" and "politically unfeasible" because it would close some important loopholes. For example, if alimony could not be deducted, the payment would be taxed both as original income and as alimony income. Furthermore, because the bill is "pro-family," it is important that deductions remain for children.

Commenting on Mueller's talk was Charls Walker, chairman of the Washington consulting firm of Charls E. Walker and Associates. Walker agreed that there is a great "need for fundamental tax reform," but he did not "think that the income tax system is all that reformable." Walker stated that the Kemp-Kasten bill is "much better" than the Treasury Department proposals and is "monumentally better" than Rep. Dan Rostenkowski's tax plan. However, the Kemp-Kasten bill is "not as good as the current law."



William Niskanen, Charls E. Walker, Ed Crane, and John Mueller talk after Policy Forum on tax reform.

Walker expressed concern about Kemp-Kasten's import on U.S. firms in the "international market." The U.S. economic future lies in "maximum investment in state-of-the-art equipment and machinery if we are to offset the wage advantages that they have abroad." The present law allows the United States to have the "third-best capital cost recovery system" in the world.

Mueller replied by stating that "capital cost recovery is not the only answer." After all, American depreciation rates

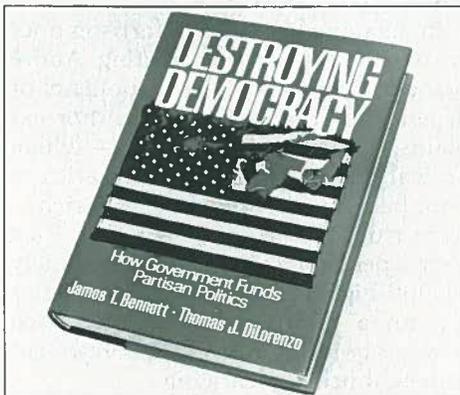
are higher than those in Japan. Walker responded that Japan's lower interest rates and lower taxes on spending and capital gains "swamp the fact that their capital depreciation rate is lower."

The two speakers also disagreed on the merits of a value-added tax or consumption tax. Walker favored such a tax, but Mueller pointed out that it is "not an option for many years," and that the experience of Western Europe shows that a VAT offers more opportunities for increased government spending. ■

### Tax Dollars (Cont. from p. 1)

*The Off-Budget Public Sector and Labor Unions and the State*, demonstrate that taxpayers' funds provide a large part of the funding for such groups as Tom Hayden's Campaign for Economic Democracy, Jesse Jackson's PUSH, Ralph Nader's Public Interest Research Groups, the National Council of Senior Citizens, Americans for Democratic Action, the National Organization for Women, and the AFL-CIO. In effect, taxpayers are forced to contribute money to political causes they may disagree with—something Thomas Jefferson called "sinful and tyrannical."

Bennett and DiLorenzo track down which agencies the money comes from, where it goes, and how it is used. Although Congress has prohibited the use of federal funds for political activities



and lobbying, the authors demonstrate that abuses of the law are widespread and flagrant.

Not all government money goes to groups on the left side of the political spectrum, and Bennett and DiLorenzo expose—and deplore—government grants to business and conservative

groups as well. In the Reagan administration such agencies as the U.S. Information Agency and the National Endowment for the Humanities have been enthusiastic funders of conservative projects, while the National Endowment for Democracy heavily funds institutes associated with the Chamber of Commerce and the Republican party, as well as the AFL-CIO and the Democratic party.

*Destroying Democracy* exposes activities that will shock any taxpayer. As Sen. Dan Quayle writes, "This book documents the unfortunate consequences that result when taxpayers are coerced into supporting partisan causes that many of them oppose. It should be read by all who are concerned about the future of representative democracy."

*Destroying Democracy* is available for \$24.95 in cloth and \$11.95 in paper. ■

## The Cultural Basis of Economic Development

**Underdevelopment Is a State of Mind: The Latin American Case**, by Lawrence E. Harrison (Lanham, Md.: University Press of America, 1985), 192 pp., \$16.95.

An intriguing but flawed new book argues that Latin America's underdevelopment is due not to capitalist exploitation, but to Hispanic culture. Lawrence E. Harrison, author of *Underdevelopment Is a State of Mind: The Latin American Case*, is a former official of the U.S. Agency for International Development and a past visiting scholar at Harvard University's Center for International Affairs.

Harrison takes up the case made earlier by Max Weber, Gunnar Myrdal, Michael Novak, Carlos Rangel, and others who have observed a link between culture and economic development. The author argues that while there are many factors influencing development in Latin America—geography, resources, government policies, to name a few—the greatest impediment to the region's growth derives from its culture.

The parallels between Spanish and Latin American cultures are outlined with special attention to the traditional Spanish distaste for manual labor and to the Spanish cult of machismo, which, according to Harrison, leads to authoritarianism and paternalism. He argues that a Spanish affinity for violence makes construction of the environment necessary for economic growth impossible and that a traditional Spanish belief that "one's position depends on one's birth" is not exactly an engine for economic development.

Harrison sharply distinguishes between race and culture. He states, "Racism implies genetic superiority/inferiority, a concept that is unproven, that I reject, and that is repugnant to me." Harrison carefully points out the vital difference between the two: cultures can change, but genes cannot.

Several of the book's chapters highlight this point by demonstrating that people of the same race often have very different cultures. For example, "the blacks of Haiti and the blacks of Barbados both have their roots in West

Africa. Both came to this hemisphere as slaves. But whereas Haiti is today still basically an African country, contemporary Barbadians are much closer to being Englishmen than Africans."

Harrison contrasts the goals of the North American and the Latin American settlers. The British, he states, came to North America to colonize, start families, and build. Diametrically op-

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posed were the Spanish, who came to the New World "to conquer and kill, to extract and exploit."

Harrison contends that two of the most unfortunate legacies of Spanish rule in terms of development were slavery and Catholicism. Slavery debilitated Latin economies, for it strengthened the Spanish aversion to manual labor. Catholicism, along with Haitian voodoo, was likewise a stagnating force, Harrison argues. He sees Catholicism as having led to a fatalistic view of the world as a place where one cannot control one's destiny, and to an atmosphere in which "faith substituted for intellectual curiosity."

In detailing his theory, Harrison does an outstanding job of refuting André Gunder Frank and other exponents of dependency theory. As the author explains, if dependency theory—which basically states that Latin America is poor because the United States is rich—were true, then why does Costa Rica have a per capita income approximately \$1,000 higher than Nicaragua's? After all, on a relative basis, Costa Rica receives twice as much U.S. investment as neighboring Nicaragua.

Harrison writes that the United States and Latin America were roughly equal in economic development at the beginning of the nineteenth century. Disagreeing with most contemporary development economists, he asserts that the United States, Canada, and Australia were able to grow as exporters of primary products. Development oc-

curred there because the culture was conducive to it and because these countries welcomed, rather than spurned, foreign trade and investment.

Unfortunately, the thesis of *Underdevelopment Is a State of Mind* contradicts the economic success stories of East Asia. According to Harrison, strong extended families, authoritarian fathers, and over-indulgence of (especially male) children are obstacles to development. But these three practices have frequently been cited as characteristic of the Japanese and Chinese. To many Asian observers, these practices have been crucial to creating Asia's greatest resource—an obedient, disciplined work force. Until Harrison can fit Confucian ethics into his theory, we will be left with an important but imperfect work.

**The Suburban Squeeze: Land Conversion and Regulation in the San Francisco Bay Area**, by David E. Dowall (Berkeley: University of California Press, 1984), 248 pp., \$24.50.

Can the soaring housing costs of the past 15 years be attributed solely to the sorry state of the overall economy? David E. Dowall does not think so, and in *The Suburban Squeeze* he puts his finger on specific government restrictions that are contributing to this trend.

In the wake of the suburban sprawl of the fifties and sixties came a land-use regulation sprawl, which, says Dowall, is "shattering what can best be described as the American dream." Rather than using broad-based evidence and generalities, Dowall attacks this issue with an in-depth investigation of the suburban area surrounding San Francisco. In great detail, he describes the area's increasing land regulation and its causes and effects.

The ever-growing demand for suburban accommodation around San Francisco is confronting expanding regulation, which, effectively, cuts back the supply of housing. Local governments control land use through purchases, zoning ordinances, municipal planning, and land condemnation. In addition,

they add to the cost of land development by frequently demanding excessive subdivision improvements, such as unnecessarily wide streets, sidewalks and curbs in rural areas, overdesigned sewerage systems, and landscaping. Fees paid for planning and building review and for water and sewerage hookup are rising as well. Finally, the delays involved in approving building applications can alone add 4–10 percent to the expense of furnishing new homes. The combined effect of all these interventions, Dowall estimates, is a cost increase of between 18 percent and 34 percent.

Perhaps the most interesting discussion in the book is its theorizing as to why local governments are launching this assault. The wish to preserve the status quo, Dowall argues, is particularly strong just outside large cities. "Close enough to be able to enjoy the cultural attractions of a major city, along with its business and financial services and transportation facilities, these communities also want to retain the benefits of small town living." Thus, the "haves" are pitted against the "have-nots," but it is the former—as well as another group that opposes growth, the environmentalists—who hold sway over governmental decision making. In consequence, land controls proliferate.

Unfortunately, Dowall's treatment of land-use regulation is not as critical as it should be. For example, in enumerating what he considers to be the benefits of land-use controls, he praises building regulations that "protect the housing consumer from shoddy construction and unsafe development practices." But there is good reason to believe that the forces of the market could take the place of such building requirements and probably serve more satisfactorily and less expensively. Dowall also seems to lament Proposition 13 for increasing housing costs by shifting certain expenses from the government to the builder. But if the government's—i.e., the average taxpayer's—expense is included in the figuring of total building costs, this shift probably results in lower total costs because private builders tend to be more cost-efficient than the government. Moreover, the burden of the general taxpayer is no less important than that of the house shopper.

Despite such flaws, *The Suburban*

*Squeeze* is an insightful and important study.

**International Debt: Systemic Risk and Policy Response**, by William R. Cline (*Washington: Institute for International Economics, 1984*), 320 pp., \$25.00.

The international debt crisis has been less critical in the past year, but it is unclear whether this situation corresponds to the calm after a storm or the eye of a hurricane. William R. Cline does not feel that the storm is entirely over, but argues that fairer weather can be realistically hoped for. The debt problem, he suggests in *International Debt: Systemic Risk and Policy Response*, should be understood primarily as a problem of liquidity rather than solvency.

The source of the crisis, says Cline, has been global depression, not irresponsible bank lending. Thus, past difficulties can be reversed if the world economy improves. Assuming that the major debtor countries can return to annual growth rates of 3 percent through 1986, Cline anticipates a world recovery along the same lines as the present U.S. recovery. He backs up this assumption with a forecast-generating model that yields the promising result.

The "solution" to the debt crisis, therefore, is mainly one of simply waiting until the debtor economies stabilize. In the meantime, debt rescheduling should continue, IMF quotas should be increased, and protectionist measures in industrial countries should be curbed.

Cline's optimism is unjustified. Basic political economy, not statistical extrapolation, is the proper tool for an analysis of the international economy. While non-oil developing countries grew annually at 5 percent between 1973 and 1980, the rate fell to 2.4 percent in 1981 and 0.9 percent in 1982. Debt-concentrated Latin America experienced a -1 percent growth in 1982 and -3.3 percent in 1983. A swift turnaround to 3 percent for 1985 and 1986 is hardly likely.

Further, the conditions that led to the American recovery do not hold for the developing world. The U.S. recovery must be partially attributed to its relatively free markets and perhaps even to the anticipation of increasing eco-

nomics freedom; swift recovery is impossible in heavily controlled economies. In addition, the United States has not been saddled with enormous debt-payment responsibilities, which produce not only fiscal strain but also psychological malaise. Finally, all evidence points to increasing trade restrictions on the part of the industrialized world, making export-led growth for the debtor nations unlikely.

The book's methodological shortcomings and overoptimistic conclusions limit its value, but its discussion is thought-provoking and contains much useful information.

**Who Paid the Taxes, 1966–1985?** by Joseph Pechman (*Washington: Brookings Institution, 1985*), 84 pp., \$22.95/\$8.95.

Taxes paid to federal, state, and local governments in 1980 amounted to more than \$700 billion—over 25 percent of total family income. The tremendous tax burden in the United States has led to increased interest in the question of tax incidence, or who actually bears the burden of taxes.

In many cases, the findings have been most surprising: a tax is not always borne by the party that pays it. A shift in factor prices and quantities can alter the incidence of the tax in an extraordinarily complicated fashion.

*Who Paid the Taxes?* applies existing theoretical models to estimating tax incidence over the last 20 years, and concludes that it has not changed much during that time. Due to the rapid rise in payroll tax rates relative to corporate-income and property tax rates, the tax burden is, however, somewhat less progressive. The individual and corporate tax cuts of 1981 also contributed to making the tax system less progressive. Pechman notes, "The distribution of income before taxes was virtually the same in 1985 as it was in 1966. As a result of the decline in the progressivity of the tax system, the distribution of income after taxes was more unequal in 1985."

Pechman's conclusions are supported by a considerable amount of statistical research, but his book remains clear and comprehensible, even for readers with no technical background in economics. ■

# "To be governed..."

## The new jingoism

[As a courtesy to the prime minister of Singapore, who addressed a joint session of Congress,] House Speaker Thomas P. O'Neill Jr. immediately postponed consideration until today of a bill to lower textile imports sharply. . . .

Some proponents of the textile bill criticized the delay. "I don't have any Singapore people who vote for me. I'm not concerned about their jobs. . . ." Rep. Butler Derrick (D-S.C.) said.

—*Washington Post*, Oct. 10, 1985

## It's official: she's wrong on everything

[Jane Fonda] becomes even more intense when discussing pornography. . . . "That kind of hedonism is what destroyed the Roman Empire, and I see it growing here," she says firmly. "Did you know there are more child pornography films being made than almost any other kind? Billions of dollars are made on that pernicious stuff, and there is no censorship." Reminded that censorship is a dirty word to the civil liberties advocates she usually agrees with, Jane protests, "But the Ten Commandments are a form of censorship. . . . We must censor pornography. . . . A top priority in this country must be tracking down the money-makers and prosecuting them from here to kingdom come. Otherwise, we'll see the collapse of this nation!"

—*Ladies Home Journal*, October 1985

## Wait a minute—we didn't get our ballot

[Former budget director David] Stockman told the country and his fellow Republicans what is palpably the case. . . . "We've had a referendum on what we want in the budget, and what we don't. What's left, most of the people want. And we're going to have to raise taxes to pay for it."

—David Broder in the *Washington Post*, Oct. 6, 1985

## Reagan's war on the poor

Richard Lucas, chairman of the Young Democrats at Georgetown University, said he saw ardent Reagan supporters tear Reagan-Bush stickers off their doors on campus when the administration proposed cutting off federal subsidies to students from families with more than \$32,500 in annual income.

—*Washington Times*, Oct. 8, 1985

## No kidding

The [Soviet] government today spelled out a program to nearly double the amount of consumer goods in Soviet stores in the next 15 years, marking one of the most sweeping Kremlin promises since the early 1960s, when leader Nikita Khrushchev pledged that Soviet citizens would enjoy the highest standard of living in the world by 1980. . . .

Fulfilling the program will pose a daunting task for the Soviet leadership.

—*Washington Post*, Oct. 10, 1985

## The war on crime

Maryland law enforcement officials, conducting a special aerial investigation of Montgomery County parkland, yesterday located 16 marijuana plants, some of them five feet high, growing in a family's vegetable garden.

—*Washington Post*, Sept. 26, 1985

## Relax, Paul, that's defacing, not debasing

One of the largest percentage increases in federal crime in 1985 has been in the category of defacing money.

—Bob Levey in the *Washington Post*, Nov. 7, 1985

## The Ayatollah works in mysterious ways

Last year, too, Americans purchased about 23 million pounds of Iran's pistachio nuts at about \$1.70 a pound wholesale, totaling \$39 million. Therein lies the complaint of the pistachio growers in this country. . . .

"What we need," says Larry Knowles of the Pistachio Producers of California, "is some help from Washington—an import duty." . . .

In 12 years, pistachio cultivation in the U.S. has grown from 3000 to 48,000 acres and developed into a \$300 million industry. The Ayatollah Khomeini no doubt would like to see this fledgling industry go broke.

—*Parade Magazine*, Oct. 27, 1985

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