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Campaign "Reform": Monopolizing the Political Process

by Robert L. Corn

When members of the business community gather to establish rules purportedly intended to ensure "fair" or "equal" competition in the marketplace, it's usually called "restraint of trade"; when members of Congress do the same thing, it's called "campaign reform."

Congress is particularly reform-minded this year. The 100th Congress is less than a year old, and already approximately 30 bills ostensibly aimed at cleansing the political process have been introduced. The measures are diverse, ranging from proposals for campaign expenditure limits and public funding to requirements for free or reduced-rate political broadcast time and advertising formats. The one element common to virtually all of the plans is that they would tend to monopolize the political process, not cleanse it.

It should surprise no one that those who play the political game would seek to establish ground rules favorable to their cause. Indeed, the incentives for enacting campaign reform measures were recognized before the passage of the Federal Election Campaign Act of 1971 (FECA), the primary law regulating campaigns for federal office. Judge Ralph K. Winter, Jr., then of Yale Law School, noted at the time:

> We cannot always count on having men of good will and honest intent in office. Systematic regulation of political campaigns by Congress must inevitably lead to those in power regulating in favor of themselves. The reason the first amendment takes matters of political speech and political activity out of the legislative process is because we cannot rely on those in power to exercise that power in behalf of their political opponents.[1]

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Winter's predictions have proved strikingly accurate. They were true of FECA and its amendments; they are equally applicable to this session's legislative proposals. Some conspicuous examples:

- S. 2, the Senatorial Election Campaign Act of 1987, would amend FECA to provide public funding for Senate candidates who agreed to abide by restrictions on overall spending and personal expenditures. The size of the public contributions and the spending limits would be governed principally by the size of the voting-age population in each state. Candidates who agreed to accept the restrictions would also be entitled to favorable broadcast advertising rates and postal rates and would receive additional matching funds with which to combat independent political committees' expenditures. In addition, the bill would limit contributions by political action committees.
- H.R. 2464, the Campaign Cost Reduction Act of 1987, would amend FECA to establish "voluntary" spending limits for House of Representatives candidates. Qualifying candidates would agree to limit their expenditures of personal funds to $50,000 and their campaign expenditures to $200,000 per pri-

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Robert Crandall of the Brookings Institution discusses the Reagan administration's regulatory record at Cato's conference "Assessing the Reagan Years." James Gattuso of the Heritage Foundation, Catherine England of Cato, former Council of Economic Advisers chairman Murray Weidenbaum, and Robert L. Thompson of Purdue University listen.

The Politics of Black Monday

President's Message

Six years as a portfolio manager for two national investment firms instilled me with sufficient humility to avoid writing "I told you so" articles about the stock market that would not reach you, the reader, for another five weeks. My colleagues at the Cato Institute know that I've been bearish on the market for a long time. Indeed, I had to endure regular reminders of my bearishness as the Dow reached successively new highs.

As I write, the stock market is nervously trying to recover from the $500 billion beating it took on October 19—Black Monday, as the wags so cleverly dubbed it. By the time you read this issue of *Cato Policy Report*, the Dow may once again be reaching for the stars, or it may have plunged to such depths as to make Black Monday seem like the good ol' days. Meanwhile, the Cato Endowment Fund continues to sit serenely in certificates of deposit.

Regardless of where the Dow is now, however, the significance of a 22 percent one-day drop should not be underestimated. To begin with, there is a great danger that advocates of more state intervention in the economy will succeed in using the wild fluctuations in the Dow to advance their agenda.

Most of the cries from the left were demands for higher taxes to reduce the budget deficit and more protectionism to reverse our "dangerous" trade deficit. Even our friends on the right at the *Wall Street Journal* took the opportunity to push their curious obsession with returning to a Bretton Woods–type fixed-exchange-rate international monetary system. As Cato adjunct scholar Robert Higgs has documented in his book *Crisis and Leviathan* (Pacific Research Institute), government grows dramatically during times of crisis and uncertainty. There is an unfortunate tendency to look for government "solutions" at such times, and there is never a lack of proposals to extend government's control over society.

The irony is that government itself is almost invariably the source of the crisis. The recent case of stock market jitters reflects a growing skepticism about the nation's prospects for economic vitality. Rather than representing a "market failure," it is a warning that the U.S. economy is not well. And indeed it is not. Government expenditures at all levels account for 44 percent of national income. The huge budget deficit merely reflects the dramatic spending increases that have occurred during the Reagan administration. The threat of tax increases—of more hard-earned money being extracted from working Americans—hardly augurs well for the economy.

The trade deficit—a nonproblem—likely *will* be eliminated, by the recession that will surely come about if the protectionists and tax-and-spenders on Capitol Hill have their way. Americans won't have enough purchasing power to buy imports.

Further, it was not totally coincidental that the stock market crash occurred on a day when U.S. warships shelled Iranian oil rigs in the Persian Gulf, signifying an escalation of our bizarre presence in that theater. (We're not protecting U.S. oil, and if we're concerned about safeguarding Japanese access—they're not—why don't we end the mindless prohibition on selling them Alaskan oil?) It's becoming increasingly clear that the Pentagon has financially and militarily overextended us. From our 600-ship navy to our $140 billion-a-year commitment to NATO, American taxpayers are being forced to support a policy of extended deterrence that is wholly inappropriate given the realities of world politics today. It is a policy based on World War II geopolitics and one that is undermining America's ultimate defensive strength: its economic health.

The market crisis also underscores the importance of Cato's ongoing efforts to help bring about a rational alternative to the discretionary Federal Reserve regime. The erratic monetary policy of the past several years—a rapid increase in monetary aggregates during 1985–86 and an almost complete halt in money growth this January—played no small role in laying the groundwork for October's debacle.

A final reason for the stock market panic is the decline of President Reagan's moral authority to set the tone and direction of American public policy. The Iran-contra affair aside, Reagan's policy agenda is in shambles. Tax increases are likely, spending is out of control, privatization initiatives are going nowhere, reregulation of banking and transportation is in the offing, and his own administration is proposing federal jobs programs and increased Medicare coverage.

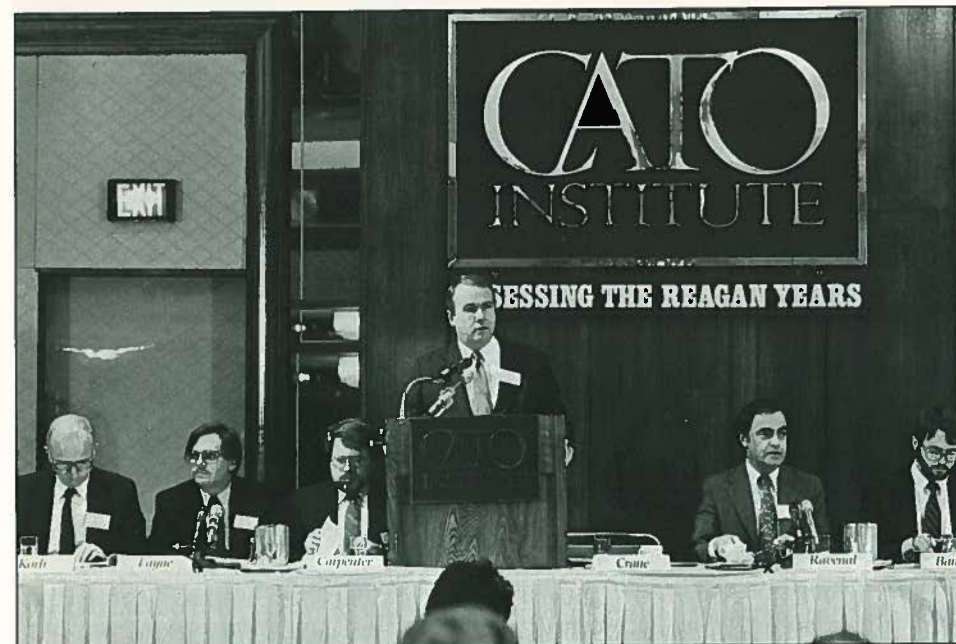
Ronald Reagan's management skills never were anything to write home about, but he was able to articulate a vision for America based on individual liberty and free enterprise that helped restore our confidence in both the basic goodness of our society and our prospects for the future. His inability to continue to provide such leadership has left a vacuum on the political scene. The leading Democratic and Republican candidates for president either totally lack a vision for America or espouse one based on an ever-growing role for government. Perhaps a 500-point drop in the Dow is not so surprising after all.

Ed Crane

—Edward H. Crane

Spending Growth Deplored

Conference Speakers Assess Reagan's Achievements



Cato president Edward H. Crane addresses the conference's opening session. Speakers pictured are Lawrence Korb, Christopher Layne, Ted Galen Carpenter, Earl Ravenal, and Doug Bandow.

Thirty-two distinguished speakers assessed the achievements and failures of the Reagan administration at a Cato Institute conference held at Washington's Vista International Hotel on October 1–2. Although some real successes, including the 1981 tax cut and the decontrol of oil prices, were cited, most of the speakers found major faults as well, particularly the administration's failure to reduce federal spending.

In a luncheon address, Cato chairman William A. Niskanen, author of the forthcoming *Reaganomics: An Insider's View*, offered six lessons that economic policymakers could draw from the Reagan experience. One was that "the growth of real federal spending proved to be very difficult to reduce." Unfortunately for those who would like to apply that lesson, Niskanen noted, the real problem is that "there are very few consistent advocates of spending restraint in the administration or in either party in Congress." Another of Niskanen's lessons was that "on such issues as regulation and trade, a good defense is not enough." An administration that fights every new regulation and trade barrier will win some fights and lose some, so the net result will be more regulations; only an aggressive strategy of deregulation and reduction of existing trade barriers offers any hope of net improvement.

In the concluding talk at the conference, Cato president Edward H. Crane called for political leaders "willing to challenge the status quo" in a way that the Reagan administration hasn't been. Unfortunately, "most people who want to be political leaders want to run other people's lives." Finding such leaders will be difficult, Crane admitted, but not impossible; "for all the entrenchment of systemic government growth that's occurred over the past few decades, it's really not that much compared to the centuries of government oppression that the leaders among our forefathers were able to overcome."

Other speakers assessed the Reagan record in areas ranging from tax policy to strategic defense, from agriculture to civil liberties. Cato foreign policy director Ted Galen Carpenter offered "two cheers for SDI" and suggested that a strategic defense system be recognized as a way of making the United States less dependent on far-flung military alliances. Mickey Levy of Fidelity Bank demonstrated that the increase in deficits in the 1980s "is largely a story about rising federal spending, as revenues as a percentage of GNP have not changed from recent decades." Kevin Hopkins of the Hudson Institute, a for-

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Forbes **deputy editor Steve Forbes talks about tax reform, free trade, and the world economy.**

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Regulation, Judicial Philosophy Explored at Forums

Cato Events

July 16: The Cato Institute hosted a book party for *Blood in the Streets: Investment Profits in a World Gone Mad.* James Dale Davidson, chairman of the National Taxpayers Union and coauthor of the book, with Sir William Rees-Mogg, discussed the dangers and opportunities he sees in the present investment climate.

July 23: **"Letting the BOCs Out of the Box: Competition in the Telephone Industry."** Henry Geller, director of Duke University's Washington Center for Public Policy Research and telecommunications chief during the Carter administration, argued that the Bell Operating Companies should be allowed to compete in the areas that were barred to them by the 1982 AT&T breakup agreement, including information services, equipment manufacturing, and long-distance service. Commenting were Herbert Marks, an attorney at Squire, Sanders and Dempsey, and Milton Mueller, 1987 AT&T Fellow in Telephone History and coauthor of the Cato Institute's 1983 book *Telecommunications in Crisis.*

August 12: **"How Government Grows."** Robert Higgs, the William E. Simon Professor of Political Economy at Lafayette College, discussed his new book, *Crisis and Leviathan: Critical Episodes in the Growth of American Government.* Higgs argued that 20th-century crises, mainly wars and depressions, have provided opportunities for federal officials to expand the powers of the federal government. After the crises pass, the increases in government power become permanent fixtures, and the public has grown to accept them.

Cato chairman William Niskanen presides as Rep. Charles Rangel (D-N.Y.) and author Arnold Trebach debate the war on drugs.

September 4: **"America's War on Drugs: Can We Win?"** Arnold Trebach, a professor of justice at American University and author of *The Great Drug War—and Radical Proposals That Could Make America Safe Again,* and Rep. Charles B. Rangel, chairman of the House Select Committee on Narcotics Abuse and Control, debated Trebach's contention that the highly publicized war on drugs is a fiasco and that policymakers should concentrate on developing programs that cure drug abusers and deemphasize the use of criminal law and the military.

September 14: **"The Confirmation of Judge Bork: Yea or Nay?"** Bruce Fein, Visiting Fellow in Constitutional Studies at the Heritage Foundation, and Morton Halperin, Washington director of the American Civil Liberties Union, debated whether the Senate should confirm Judge Robert Bork's nomination to the Supreme Court.

September 14: The George Mason University Law School hosted a book party for *Economic Liberties and the Judiciary,* just published by George Mason University Press for the Cato Institute. Speakers included the book's editors, James A. Dorn of Cato and Henry G. Manne, dean of the law school, as well as two of its authors, Doug Bandow of Cato and Roger Pilon of the Justice Department.

U.S. Circuit Judge Danny Boggs was among the guests at crowded reception for Henry G. Manne and James A. Dorn, editors of *Economic Liberties and the Judiciary.*

September 16: **"Airline Deregulation: Responding to the Critics."** Clifford Winston of the Brookings Institution, James Gattuso of the Heritage Foundation, and Fred Smith of the Competitive Enterprise Institute criticized the call for reregulation of the airlines and discussed the costs of a politically run air traffic control system, constraints on landing-slot sales, and the absence of peak-hour pricing as well as the perverse incentives created by restrictive regulation of computer reservations systems.

Haitian finance minister Leslie Delatour talks with participants at Cato Policy Forum.

September 23: **"U.S.-Japan Trade Relations."** At a small policy luncheon, William A. Niskanen, chairman of the Cato Institute, described the growing threat of world protectionism and steps that the United States and Japan could take to head it off.

September 28: **"Economic Reform in Haiti."** Leslie Delatour, minister of economics and finance of the Republic of Haiti, discussed his efforts to free up his country's beleaguered economy. His ministry has lowered marginal tax rates, abolished the government-granted monopolies held by Duvalier cronies, and slashed tariffs. He urged the United States to permit the free flow of both goods and labor between the two countries.

October 1–2: **"Assessing the Reagan Years."** Thirty-two speakers discussed the successes and failures of the Reagan administration at a major Cato policy conference, held at the Vista International Hotel. ■

Television cameras record ACLU director Morton Halperin's remarks at Cato debate on the confirmation of Judge Bork.

World Bank Funds Rights Abuses, Environmental Destruction

Most of the World Bank's lending "is still going into shoring up floundering state-owned enterprises, government credit institutions, and political and bureaucratic control of the economy," concludes a Cato Institute study released on the eve of the bank's annual meeting.

Policy analyst James Bovard cites dozens of World Bank studies, including confidential reports, to document repeated cases of the bank's funding projects that involved human rights abuses and environmental degradation.

World Bank loans have been used to finance such human rights atrocities as Ethiopia's resettlement program, Tanzania's villagization policy, Indonesia's transmigration program, and the brutal policies that forced hundreds of thousands of boat people to flee from Vietnam. "The institution is driven to meet its lending goals, even if that means bankrolling oppression," Bovard writes.

The bank has funded such environmental debacles as Brazil's Polonoroeste project, which is razing the Amazon Basin; desertification in Botswana; a dam in India that will destroy much of the country's dwindling forest cover; and irrigation projects that have salinized much of the farmland in many countries.

The bank's latest panacea is the structural adjustment loan program, which is supposed to help countries reduce their budget deficits and move toward market-oriented economies. But only two countries substantially reduced their deficits in the first few years of their SALs, and one World Bank official says that SALs merely "postpone the day of reckoning."

"The bank financed and approved the massive expansion of government power throughout the Third World," Bovard writes. Almost all bank aid has gone to Third World governments or has been channeled through them.

"Loans to communist governments have been the fastest-growing part of the bank's portfolio in the 1980s. An aid agency desperate to find new recipients has found a gold mine in the worst-managed economies in the world."

Bovard argues that Western countries should stop providing funds to the World Bank and simultaneously abolish trade barriers against imports from the Third World, measures that would do far more good for Third World countries than encouraging them to depend on bank aid. The bank should be required to support itself from now on, by recycling its assets and existing on its own creditworthiness.

Bovard's study, "The World Bank vs. the World's Poor," is no. 92 in the Cato Institute's Policy Analysis series and is available from the Institute for $2.00. ■

DOLLARS, DEFICITS, AND TRADE: THE CHANGING WORLD ECONOMY

Sixth Annual Monetary Conference
Capital Hilton Hotel • Washington, D.C. February 25–26, 1988

Speakers include Federal Reserve Board vice chairman Manuel H. Johnson, Richard Cooper, Ronald I. McKinnon, William A. Niskanen, Anna J. Schwartz, Jacob A. Frenkel, Gottfried Haberler, Michael Darby, Michael Mussa, and Leo Melamed.

For more information, contact Sandra McCluskey, Director of Public Affairs, **Cato Institute, 224 Second St. S.E., Washington, D.C. 20003, (202) 546-0200.**

Airline Passengers Need Full Deregulation

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 Clifford Winston, a senior fellow at the Brookings Institution and the coauthor of The Economic Effects of Airline Deregulation; *James Gattuso, McKenna Senior Policy Analyst at the Heritage Foundation; and Fred Smith, president of the Competitive Enterprise Institute.*

Clifford Winston: My participation in this forum is a result of a book that I wrote with Steven Morrison: *The Economic Effects of Airline Deregulation*, published by Brookings in 1986. Although you may not know the book, it's the source of the famous $6 billion figure as the amount of savings due to deregulation. But first our names disappeared from media reports on the book's findings, then Brookings disappeared, and then the year to which that number of dollars applies—1977—disappeared. So now it's just "Airline travelers have saved $6 billion from deregulation."

That kind of reporting is typical of the whole debate on deregulation—a little misleading. Anyway, the major points that we made about deregulation a year and a half ago are just as valid today, if not more so. I want to examine three of them: that a counterfactual is needed, that the net benefits of deregulation are borne out by recent data on air travel, and that the performance of deregulation can be improved.

First, because deregulation and regulation have never occurred simultaneously, you have to construct a counterfactual. Otherwise you're going to be attributing certain effects to deregulation when they really are a function of, say, the macroeconomy and have nothing to do with regulatory policy. If airfares were to go up, for example, deregulation wouldn't necessarily be responsible; the same thing might have happened in a regulated environment. So you need to isolate what the policies are doing.

Second, we found that travelers had gained $6 billion in 1977 dollars—which would be about twice as much in 1987 dollars—and that carriers had also gained. We came up with that figure by analyzing fares, flight frequency, and travel time. Now, what's happened to fares? In nominal terms, from 1984 to mid-1987 fares continued to decline. I'm not saying that deregulation should get all the credit; after all, energy price decreases have played a role. But neither is it clear to me that occasional fare increases like the recent ones will erode the fare savings that have resulted from deregulation. Fares go up one month and all of a sudden the *New York Times* is worried about the effects of deregulation. I just haven't seen any evidence that there's a problem that can be unambiguously attributed to deregulation.

Clifford Winston: "There is simply no basis for claiming that safety has declined because of deregulation."

Flight frequency has gone up—I don't think there's any question about that—but so has travel time. Not all of that increase in travel time should be attributed to deregulation; weather is frequently a cause of delays. So if you look at fares, flight frequency, and travel time, you may not still see a net gain of $6 billion in 1977 dollars or $12 billion in 1987 dollars, but the sign is still positive.

What about safety? As we pointed out, air safety policy hasn't been deregulated. So to what extent is the existing deregulation responsible for eroding safety, if there in fact has been an erosion of safety? Unfortunately, the question is almost impossible to answer. I don't see how you can blame deregulation for a crash that occurred because an experienced pilot didn't put his flaps down.

We've analyzed the problem in two ways in our recent work. First, the people who are the most affected by adverse safety conditions due to regulatory policy are the insurers—they're the ones who have to pay for crashes. We correlated data by looking at insurance expenses as a function of departures, revenue passenger miles, settlements from fatalities (to account for the insurance crisis), and deregulation. Deregulation had no adverse effect. There was actually some indication that the insurers were lowering their rates in response to the change in regulatory policy. Lately we've been looking at actual crashes, and we have found no evidence that the characteristics of crashes have changed between the regulatory periods. There is simply no basis for claiming that safety has declined because of deregulation.

Finally, how can we improve the performance of deregulation? An obvious way is to improve the technology of the air traffic control system—we need an air traffic control system that is aligned with the heavy traffic volume over a hub and spoke network, as opposed to the lower amount of traffic over a linear network that existed under regulation. We should also adopt an airport pricing system in which users' charges are based on the amount of congestion they're creating, as opposed to the weight of the planes. That would reduce the demand during peak hours, help even out the traffic flow, and reduce congestion. Both of those steps would enhance the benefits of deregulation and might even focus the debate on ways of improving deregulation, not on whether regulation is superior to deregulation. There is just no way to make a sound case for that.

James Gattuso: Airline deregulation has clearly been a success; it has brought enormous benefits to the economy at large as well as to passengers. But conservatives have a tendency to simply say that because deregulation is a success, all the problems we've been seeing must not really exist. That's wrong—a lot of things still need to be done.

The solutions that are proposed most often—returning to rate regulation, passing consumer legislation to "protect" airline travelers—are not the direction we have to take. Our experience with deregulation has shown that letting consumers express their choices in the marketplace is the most efficient way to run an industry.

The problem is that we didn't go far enough. We deregulated the airline portion of the aviation industry, but we didn't deregulate the airports or the air traffic control system. Those two portions of the aviation industry not only are regulated but for the most part are owned and operated by the government. So the way to solve the problems we've been seeing is to open up those two portions of the industry to market incentives.

First, that means we have to find new ways to allocate the system's existing capacity. With the number of passengers increasing each year, an airport landing slot is becoming a more and more valuable resource. The problem is that we don't price that resource appropriately. We need to adopt realistic pricing for landing rights at airports. That involves raising the prices for private planes and corporate fliers. At Washington National Airport, for instance, a Lear jet is charged $8.70 for landing and $21 for parking, and that's the total price it pays to the airport.

In addition, we need to adopt a peak-pricing system. The airways have rush hours, just as highways do. The number of planes in the air during peak hours can differ from the nonpeak-hour number by a factor of 10. But planes that land at Dulles International Airport at midnight pay the same amount as planes that land at 4:00 in the afternoon. We need to adjust the prices so that they reflect supply and demand.

Another way of allocating the existing capacity more efficiently is to expand the system of landing slot sales. That means treating the right to land at an airport as we do other valuable property rights—assigning it to the individual or company that values it the most and allowing those parties to trade the rights among themselves, thereby getting it into the hands of the people who can use it the most effectively. The Department of Transportation has a buy/sell rule, which is a limited form of that sort of plan, in effect at four major airports. It needs to be extended to more airports.

More feasible than an expansion of the slot sales system—in which the slots sold actually represent property rights—is a slot leasing system. That way the slots would be opened up to new entrants, and to airlines that are expanding their operations, on a regular basis. The reason for a leasing system is probably political as much as anything else. Most of the opposition to landing slot sales stems from the fear that one airline will monopolize all the slots in an airport. That's not an economically rational motivation—airlines wouldn't want to put all their resources into buying up slots they couldn't use. But if we used a system in which leases to the slots were auctioned off once every year or two, we could achieve many of the same benefits but also eliminate the perceived danger of a monopoly.

James Gattuso: "We didn't deregulate the airports or the air traffic control system."

Eventually we ought to look at applying either property rights or peak pricing to the airspace itself. In addition to charging fees for landing at airports, we would charge fees for using the air traffic control system.

The proposals mentioned so far have to do with improving the allocation of the existing airport and airway capacity. A second and, in the long run, more important step is to expand that capacity. That would require us to expand the airport system, and there's no easy way to do that. We need more airports, more runways, and more taxiways, but a lot of things are blocking the construction and expansion of airports—environmental and noise concerns, for instance. People don't want an airport next door. However, we could spur the needed expansion by coming up with better ways to fund it. Some of the monies that would be coming in from slot auctions and peak pricing could be used for that purpose. We could also spur airport expansion by eliminating the federal ban on airports' imposition of user fees on passengers.

Moreover, we need to expand the capacity of the air traffic control system. Ownership by the Federal Aviation Administration, a government agency, has denied that system the flexibility and the incentive that it needs to keep pace with the expansion of the aviation industry. Deregulation has allowed airlines to increase their business; they have been taking in more passengers every year. The air traffic control system has not been able to keep up.

One of the inflexibilities involves the air traffic controllers. Because they're part of the civil service system, it is, for instance, very difficult to assign them to the airports where they're needed most and to base their salaries and bonuses on the traffic volume or desirability of a particular location. The controllers suffer as a result of that inflexibility. A lot of the complaints from air traffic controllers don't have to do with wanting a higher salary. They want more responsive and less rigid management, which is very difficult, if not impossible, to achieve under the federal civil service system. For that reason, the leaders of both PATCO and the new controllers' union—the National Air Traffic Controllers Association (NATCA)—have supported taking the system away from the FAA and making it independent.

There are two ways to do that. Last year the Air Transport Association, the airline-industry trade association, proposed the creation of a government-owned air traffic control corporation that would be independent of the FAA. It would be operated as much as possible as a private corporation but would be under the control of a director ap-

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Deregulation (Cont. from p. 7)

pointed by the president. Bills to create such a corporation have been introduced in Congress by Sens. Daniel Inouye (D-Hawaii) and Ted Stevens (R-Alaska).

That plan would solve a lot of problems; it would give the system a flexibility that it doesn't have now. I would go even further, though, and privatize the system entirely. Robert Poole, president of the Reason Foundation, has proposed to turn the air traffic control system over to a cooperative that would be jointly owned by the users—airlines, private pilots, and perhaps the air traffic controllers themselves. It would be a not-for-profit corporation, so it would have no incentive to just drain the system of all the money it could but rather would have an incentive to get the most efficient use out of the system. That sort of solution would not only reduce the rigidities of the system but also provide the incentives needed to expand the system and enable it to keep up with increasing traffic levels.

In short, what we need to do is not to go back to the past and reregulate airlines but to improve deregulation by employing market incentives in the rest of the aviation system.

Fred Smith: My remarks reflect the frustration I've experienced over the last six or seven years in dealing with Reagan's Department of Transportation. This administration has yet to realize that "deregulate" is not a passive verb. The partial deregulation of the air travel system required DOT to make major changes. It didn't make them.

It is important to realize that the air travel system was not completely deregulated. We partially deregulated the airline sector but left the other two components of the system—the airports and the airways (the highways in the sky linking the airports)—under rigid government control. Freeing up one gear while leaving the others rustbound creates problems. When slavery was abolished in Kansas in 1850, it didn't solve all our civil rights problems; it merely shifted them to Missouri. The recent flurry of air travel problems—delays, labor unrest, reduced service quality — reflects the administration's failure to complete the deregulation job. The Reagan DOT has not done its job.

A recent cartoon showed two groups labeled Libyan terrorists and FAA bureaucrats. The caption read: "Which of the above two groups is the most hazardous to air travelers?" Nuts occasionally capture an airplane and delay a few hundred people for a number of hours. The FAA does that every day as a matter of policy.

The result of DOT's failure is that the benefits of deregulation haven't been fully realized. The people that have experienced perhaps the fewest benefits are the frequent fliers. They have been particularly hurt because they fly a lot. Although they are often upgraded to first class, they still don't take off and land any earlier than everyone else. Deregulation would enable airports to use market allocation schemes, permitting a range of air travel price and quality options—for example, some flights would cost more but receive priority on takeoffs and landings.

Fred Smith: "CRS regulations create an incentive to be smart but not too smart."

Former Virginia governor Charles Robb talks with Cato vice presidents Cathi Smith and David Boaz at reception following a Policy Forum.

Logan International Airport in Boston is now experimenting with such ideas. It has criticized the traditional "first come, first served" traffic management rules and is considering changes that would involve differentiating among flights based on their passenger loads.

Three carriers have attempted to create luxury-class airlines: Regent Air, Air One, and now MGM Grand. The first two failed, in part because although they could provide beautiful airplanes, gourmet food, and limousine pickup and drop-off service, their planes were too often delayed on the tarmac along with everyone else. Without a more market-oriented airport and air traffic control system, the airlines can't do their job. Under the current rules, politicians first create scarcity, then misallocate it!

Let me now focus on the part of the airline sector that wasn't deregulated: the computer reservations systems. CRS systems, as they're called in the trade, are the dominant air-ticket marketing tools. They function in a world in which ticket prices change continually, in which almost every passenger is traveling at a different fare, and in which very bright "yield managers" manipulate ticket portfolios up to the time

the airplane takes off. Deregulation has created tremendous changes, and that information flow can only be handled through computer reservations systems.

Airlines originally hoped to develop a joint CRS system, but the Department of Justice ruled that out as being collusion. So several airlines spent hundreds of millions of dollars to develop independent CRS systems. The systems didn't make much money before deregulation. They were too costly and too complex, and they didn't have enough market value. But with deregulation, CRS systems became "essential" facilities. Every airline "had to" be listed on each system.

The airlines that had computer reservations systems—the CRS vendors, as they came to be called—finally made money from their systems. They did so by leasing the systems to travel agents and by selling their own tickets, other airlines' tickets, and advertising space on the systems. Some noted that flight listings were "biased"—that airlines actually favored their own products or marketing systems. Of course, most CRS vendors sold cohost status, creating equal advertising billings, but they charged for it.

That "problem" called forth the chief desire of every government agency: to regulate. In its dying months, the Civil Aeronautics Board reached out to regulate that innovative part of the airline system. The CAB ruled that CRS vendors would no longer be allowed to sell advertising space. Only "objective" information would be allowed. "Objectivity" was interpreted to mean that 8:00 a.m. flights must be listed before 8:01 a.m. flights, direct flights before continuation flights, and so on. That encouraged airlines to schedule flights on the hour, since customers generally ask for flights that way.

Much of the talk about airlines' "deceptive" practices results from CRS regulations. Airlines found that the only way to get prominent display space on the computer screen was to schedule a plane to leave at 8:00 a.m., even though only some of the flights scheduled for that time would actually take off then. They could not schedule a takeoff time of 8:15 and then buy advertising space to say, "We leave at 8:15, but we leave on time!" That would be "biased." But that view is wrong. The CRS systems are comparable to the Yellow Pages. The listings are alphabetical—"objective"—but advertisers can (and often do) buy display space at the beginning of a listing. If CRS-type regs applied, firms would all be named AAA-Abco. As more airplane seats are sold through CRS systems, and as the travel agents' job becomes more complicated, those prohibitions on the transmission of electronic information become more serious.

CRS regulations also threaten free speech. They control commercial speech — or advertising — an always-risky course and one that may well be illegal.

The United States is involved in a very competitive international marketplace. We have a tremendous lead in electronic marketing systems such as CRS systems. By regulating such innovations, we're hurting our ability to be more competitive and productive in the world marketplace. The logic of the CRS regs is, "Innovate all you like, but if you create a system that is so valuable that everyone must use it, you will be regulated." The incentive is to be smart but not too smart—to innovate but to make sure your innovation is marginal rather than dramatic. How foolish. The Steve Wozniaks of the CRS world should be encouraged to use their creative talents. Allowing them that freedom would produce a more user-friendly airline system.

Finally, DOT has no business providing consumer information. DOT is the least likely party to have timely information on flight availability and service quality. Most service-quality criticisms go directly to the airlines, which have spent millions of dollars persuading people to fly on their planes. The last thing airlines want to do is abuse those newly attracted customers. Sometimes they do, as we all know, but they pay for such lapses. Airlines seek feedback that will allow them to do a better job. If an information and complaint clearinghouse is needed, the logical agency would be a joint venture of travel agents or airlines. Those groups are on the front lines of the criticism. They are the ones best able to assimilate and display service-quality information.

The new transportation secretary can and should improve the performance of the air travel system in America and change the Reagan DOT's image from the "gang that can't deregulate straight." Airline deregulation is too important to be lost to DOT malfeasance. ■

Several Cato Institute books were displayed at the sixth Moscow International Book Fair, held September 6–14. More than 2,000 Soviet citizens a day came to look over books from American and other foreign publishers. The centerpiece of Cato's display was *National Economic Planning: What Is Left?* by Don Lavoie, a devastating critique of socialism and central planning. Other books, intended to give Moscow readers a thorough introduction to Cato's ideas, included *Social Security: Prospects for Real Reform; The New Right v. the Constitution; Making America Poorer: The Cost of Labor Law; Plant Closings: Public or Private Choices?;* and *Balanced Budgets, Fiscal Responsibility, and the Constitution.*

Campaign Reform (Cont. from p. 1)

mary or general election and $100,000 per runoff. In exchange for accepting the limits, candidates would receive a 30 percent cut in the rates for broadcast advertising time plus a 50 percent cut in the mailing rates for campaign material. By contrast, letters sent by an independent political committee within 30 days of an election that commented on a candidate's views, positions, or character would be charged the full first-class rate unless the candidate was supplied with an advance copy.

• S. 593, the Informed Electorate Act of 1987, would amend FECA to force broadcasters to provide free airtime to House and Senate candidates during the last two months before an election. The bill would require every television station in the United States to donate two hours of prime time to major-party election committees, which would dole out the free time to the candidates. Minor parties would qualify if they had received 5 percent of the vote in the previous general election or obtained the equivalent number of signatures. Campaign coverage by a station's news and public affairs programs would not count toward the amount of time required to be donated.

• H.R. 166, the Campaign Reform Act of 1987, would, among other things, require television stations and cable operators to provide free response time to federal candidates who were attacked (or whose opponents were endorsed) by independent organizations such as PACs.

Such measures are presumably intended to ensure fair elections. But as with many other political provisions, what seems fair depends on where one is sitting.

The Federal Election Campaign Act of 1971

FECA was ostensibly designed to prevent corruption—and the appearance of corruption—in campaigns for federal office. But even before its passage some legislators realized that it had built-in advantages for those already in power and privately referred to it as the "Incumbent Preservation Act." Congress adopted FECA by a wide margin.

The act limited the amount that a candidate could contribute to his or her own presidential, senatorial, or congressional campaign and established elaborate requirements for reporting campaign donations and expenditures. It also limited the amount that could be spent on advertisements in the broadcast media during a given campaign.

After the 1972 elections and the Watergate scandal, Congress reevaluated the campaign finance system. In 1974 it adopted amendments to FECA that, among other things,

• limited the amount an individual could contribute to any candidate to $1,000 per election,

> "Some legislators privately referred to the Federal Election Campaign Act as the Incumbent Preservation Act."

• limited the amount a PAC could contribute to any candidate to $5,000 per election,

• limited the amount an individual could contribute to political campaigns to $25,000 per year,

• imposed overall expenditure limits on candidates seeking federal office,

• imposed limits on expenditures by individuals or groups on behalf of, or in opposition to, clearly identified candidates, and

• established public funding for presidential nominating conventions, primary campaigns, and general-election campaigns.

The FECA amendments were challenged on constitutional grounds, and in 1976 the Supreme Court, in *Buckley v. Valeo*, upheld some of their provisions, ruling that Congress could set contribution limits and could publicly fund presidential conventions and campaigns. But the Court struck down Congress's right to impose limits on candidates' campaign spending and use of personal funds and on PACs' independent expenditures. As the Court proclaimed, "The concept that government may restrict the speech of some elements of our society in order to enhance the relative voice of others is wholly foreign to the First Amendment."

Buckley was the primary catalyst for the current round of reform proposals. By freeing PACs from independent campaign expenditure limits, the decision contributed to their growth and importance. Much of the legislation now under consideration is intended to diminish PAC influence. Many of the proposals would reimpose the campaign spending ceilings that the Court invalidated, and most are designed to avoid a constitutional conflict resolved in *Buckley* by tying candidates' acceptance of voluntary spending limits to such benefits as public funding and free or reduced-rate broadcast advertising.

The abundance of legislative packages raises a number of questions. Are such measures necessary to prevent special interests from dominating the electoral process? Would they ensure fair elections or skew the results? Would restrictions on independent contributions permit sufficient public participation in campaigns?

Campaign reforms generally protect incumbents and stifle new political movements. Supposedly neutral limits on spending prevent challengers from mounting campaigns that are sufficiently visible to overcome officeholders' significant advantages. Public funding of campaigns institutionalizes established political parties by erecting burdensome barriers to entry for newcomers. Limitations on the campaign speech of independent committees allow candidates' staffs to control the flow of political discourse and thus to monopolize the debate. Controls on broadcasters have the same effect.

Expenditure Limits and Public Funding

Much has been written about the spiraling cost of political campaigns. Federal Election Commission data indicate that the 810 House and Senate candidates in 1986 spent $450 million on primary and general-election campaigns. In contrast, the expenditure total was $374.1 million in 1984, $342.4 million in 1982, $239 million in 1980, and $194.8 million in 1978.

Undeniably dramatic as that increase is, more alarm over it has been generated by political hyperbole and media hype than is warranted by the actual costs. Much of the increase is attributable to inflation. Nevertheless, the most frequently proposed campaign reforms are those aimed at restricting candidates' spending. As exemplified by S. 2 and H.R. 2464, that generally means public funding or "voluntary" expenditure limits.

Legislators who advocate such proposals often invoke the image of a moneyed candidate buying a congressional seat. Public funding or campaign spending limits, they say, would make elections more fair by placing all candidates on an equal footing. But some candidates, to paraphrase George Orwell, are more equal than others. Incumbents, for example, already enjoy "brand name familiarity" among voters and need not spend money to gain name recognition at the outset of a campaign. Moreover, the staffs, offices, travel funds, and communications allowances provided to members of Congress help them maintain that built-in advantage. Over a two-year House term, the value of those benefits plus salary has been conservatively estimated to amount to $1 million, none of which would be affected by the proposed spending limits.[2]

Along with inflation-driven campaign costs, the advantages of incumbency have been on the rise. The combined personal staffs of House members doubled between 1960 and the mid-1970s, as did the percentage of staff assigned to home-district offices. The number of taxpayer-subsidized trips to the home district permitted to representatives rose from 3 in 1960 to 33 in 1977, and in 1978 all limits on the number of trips were removed. By 1983 senators were allowed 50 home-district trips compliments of the U.S. Treasury.

Members of Congress are also provided with unique access to the media. Their most obvious benefit is the franking privilege, which enables them to blanket their home districts with free, unsolicited mass mailings. There was more than a thirteenfold increase in franked mail between 1954 and 1982, and the cost of free computerized mail was estimated to be more than $117,000 per congressman in 1976–77.[3] Although explicitly campaign-oriented material is not allowed, the amount of franked mail always mushrooms in the months preceding an election. In 1977 Congress added unlimited WATS line service to the list of benefits for its members. Additionally, it provides them with free facilities for producing broadcast tapes.

It is small wonder, then, that, as one commentator concluded, the 1974 FECA amendments and their spending limits would "generally create a legally closed incumbents' monopoly."[4] Econometric studies have indicated that in order to overcome the advantages of incumbency, challengers would have had to spend more on their campaigns than was allowed under FECA.[5] In *Buckley* the Supreme Court precluded the gathering of empirical data on that phenomenon by striking down the spending ceilings.

> "Supposedly neutral limits on spending prevent challengers from mounting campaigns that are sufficiently visible to overcome office-holders' significant advantages."

Still, the advantages of incumbency are demonstrable and appear to be increasing. Between 1946 and 1982, House incumbents won reelection more than 90 percent of the time, while Senate incumbents won about 80 percent of their races. In 1982, 92.7 percent of the House incumbents won reelection, as did 93.3 percent of the Senate incumbents. That experience contrasts sharply with the record of congressional turnover in the 19th and the early 20th centuries, when it was common for 40 to 50 percent of the incumbents to be replaced. Even as late as the first third of this century the *average* House turnover ranged from one-fourth to one-third of the total membership.[6] Such large turnovers are unlikely to recur, given the institutionalization of incumbency benefits.

The adoption of campaign spending limits, whether voluntary or not, would very probably hasten the trend toward permanent congressional government. The same would be true of public funding, especially if it was combined with expenditure limits, as provided in S. 2. A primary effect of that combination would be to discourage the emergence of new political parties.

The public financing of presidential campaigns under FECA illustrates the problem. Partial subsidization is provided to parties whose candidates received at least 5 percent of the vote in the previous election. Parties mounting their first campaigns qualify for funding *after* the election if their candidates win at least 5 percent of the vote. Dissenting from the *Buckley* majority opinion, which upheld those provisions, Chief Justice Burger pointed out that they have the effect of "freezing the status quo of the present major parties at the expense of . . . future political movements." The current proposals for public financing of congressional elections include the same types of restrictions.

Broadcasting Requirements

Congressional concern over the high cost of elections has prompted the introduction of several proposals designed to reduce candidates' media costs. Some political observers have estimated that Senate candidates have devoted between 60 and 80 percent of their budgets—or a total of up to $151 million—to television advertising. Others have estimated that a number of congressional candidates in 1982 spent 60 to 70 percent of their campaign budgets on mass-media ads.[7] Hence, H.R. 2464 would cut the cost of candidates' broadcast advertisements by a straight 30 percent; S. 593 would require television stations to set aside blocks of prime airtime, which would be doled out by party committees; and H.R. 166 would force broadcasters and cable operators to provide candidates with free response time.

One problem with those proposals is that their effectiveness has been demonstrated by anecdote rather than by

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evidence. An analysis of Federal Election Commission data indicates that candidates for both houses of Congress used 24.3 percent of their reported campaign budgets to purchase television and radio time—about one-third of the estimate frequently cited by members of Congress. Senate candidates spent more for media buys than their House counterparts, presumably because Senate campaigns have a larger geographic range. On the average, Senate candidates spent 34 percent of their reported campaign budgets on broadcast advertising and House candidates spent 15.8 percent.

Of course, such figures fail to tell the whole story. Just as there is a difference between Senate and House campaign objectives, some campaigns are more broadcast-dependent than others. The high television advertising rates in major metropolitan markets sometimes make TV airtime purchases there difficult to justify; for that reason, congressional candidates in Los Angeles, for example, tend to make greater use of direct mail. Also, broadcast media buys are often particularly low in districts occupied by long-term incumbents. Nevertheless, the percentage of the average campaign budget devoted to broadcasting appears to be substantially lower than the figure being cited by members of Congress.

But reducing campaign expenses may not be the only or even the primary goal of the current reform proposals. Requiring broadcast stations to provide reduced advertising rates, free response time, or blocks of prime airtime would allow a candidate to address the voters without the inconvenience of being challenged immediately by an opponent or a news commentator. In other words, those measures would give candidates greater control over the media coverage of their campaigns.

If cost reduction were an overriding concern of House and Senate candidates, it would be sensible for them to take advantage of every opportunity to acquire free or inexpensive media exposure. However, the evidence does not support that straightforward proposition. Many candidates avoid broadcast appearances when they cannot control the image they project.

In 1986, for example, 56 percent of the nation's television stations offered to sponsor debates, according to a recent survey. But 45 percent of the stations reported having had to cancel debates because at least one of the major-party candidates had declined to participate.[8] A 1984 survey yielded virtually identical results.[9]

Restrictions on Independent Expenditures

Candidates' aversion to media appearances they cannot manage may also help to explain their dislike of independent campaign activities. During the past nine years PACs have become synonymous with special-interest pleading and negative campaign advertising, and many of the current legislative proposals are designed to diminish PAC influence. Of course, the result of such measures would be to increase the influence of candidates and their official campaign committees.

> "In the 19th and early 20th centuries it was common for 40 to 50 percent of the congressional incumbents to be replaced in one election."

There is no doubt that the number of PACs has expanded or that their campaign spending has grown. Between 1976 and mid-1987 the number of PACs increased from 608 to 4,211. The current roster of PACs represents all shades of the political spectrum, from the Nuclear Weapons Freeze Voting Power PAC to the Life Amendment PAC, Inc. Despite their rapid growth, PACs began to receive national attention only after they became associated with negative campaign tactics. PACs began to oppose specific candidates in 1978; the trend reached its peak in 1980, when the National Conservative Political Action Committee (NCPAC) targeted six Democratic senators, four of whom failed to win reelection.

As a result of such episodes, many members of Congress view PACs as a threat to the political process. Since 1980, however, the power of PACs has largely been overestimated. NCPAC attempted in 1982 to repeat its 1980 election coup, but of the dozen senators it slated for defeat, all but one were reelected.

Nor do PACs' contributions to candidates subvert the system. Such donations accounted for only 33 percent of the House candidates' campaign budgets and 20 percent of the Senate candidates' campaign budgets in 1986. Moreover, studies have concluded that PAC money has little influence on congressional voting patterns.[10]

Congress's real problem with PACs is that their proliferation has expanded the opportunities for citizens to become politically active. PACs have been compared to employee pension funds because they pool the resources of a large number of small contributors, thus allowing a wide circle of people to have a voice in national politics. But that phenomenon is accompanied by a decrease in the influence of the major parties.

The typical response in Congress has been to treat limits on independent political activity as a means of combating negative political activity. Of course, whether a tactic or an ad is negative is largely a matter of perspective. An independent committee might be for a certain set of philosophical ideals and therefore against a given candidate. However, any political activity by a PAC that affects his or her bid for office is apt to be considered negative by a candidate. Such a normative construct has no place in the marketplace of political ideas.

Most of the current campaign reform proposals appear to have a common goal: the reduction of political discourse. They seek to decrease overall spending, individual contributions, and activity by independent political groups. The only thing the major proposals would increase is free or reduced-rate broadcasting time for established candidates. It is difficult to reconcile such measures with a First Amendment that guarantees wide-open and robust debate on public issues. ■

Footnotes

[1]Howard R. Penniman and Ralph K. Winter, Jr., *Campaign Finances: Two Views of the Political and Constitutional Implications* (Washington: American Enterprise Institute, 1971), p. 23.

[2]Gary C. Jacobson, *The Politics of Congressional Elections*, 2d ed. (Boston: Little, Brown, 1987), p. 37.

[3]Joel L. Fleishman and Pope McCorkle, "Level-Up Rather Than Level-Down: Towards a New Theory of Campaign Finance Reform," *Journal of Law and Politics* 1 (1984): 252.

[4]Sam Kazman, "The Economics of the 1974 Federal Election Campaign Act Amendments," *Buffalo Law Review* 25 (1976): 519, 538.

[5]See William P. Welch, "The Economics of Campaign Funds," *Public Choice* 20 (Winter 1974); and Gary C. Jacobson, "Practical Consequences of Campaign Finance Reform: An Incumbent Protection Act?" *Public Policy* 24 (Winter 1976).

[6]Morris Fiorina, David W. Rohde, and Peter Wissel, "Historical Change in House Turnover," in *Congress in Change: Evolution and Reform*, ed. Gary C. Jacobson (New York: Praeger, 1975).

[7]Christopher Arterton, *Communications Technology and Political Campaigns in 1982: Assessing the Implications*, Roosevelt Center for American Policy Studies Working Paper no. 1 (Washington, 1983), p. 12.

[8]National Association of Broadcasters, news release (Washington, November 20, 1986). These figures are based on a random sampling of 303 television stations conducted by National Research, Inc. during the week of November 10, 1986.

[9]National Association of Broadcasters, *The Role of Broadcasters in the Political Election Process*, NAB White Paper (Washington, 1986), p. 3.

[10]William C. Oldaker and Donald S. Picard, "Broadcasters' Rights: Whether to Air Independent Political Action Committee Advertisements," *Hastings Constitutional Law Quarterly* 10 (1983): 649, 662.

Interns Needed

The Cato Institute seeks interns for spring and summer 1988. Please contact David Boaz for more information.

Bork Defied 'Libertarian Bent' of U.S.?

Judges Must Safeguard Rights, Cato Says in Debate over Court

President Reagan's nomination of Judge Robert Bork to the Supreme Court heightened the debate on how the Constitution ought to be interpreted, and the Cato Institute was actively involved in that debate.

Cato president Edward H. Crane wrote in the *Wall Street Journal* that free-market conservatives' support for Bork "reveals a surprising corrosion of the limited-government ideology within the conservative movement." Bork's philosophy of judicial restraint, Crane noted, "is a majoritarian approach that plays down the importance of individual rights" and thus flies in the face of what the Framers of the Constitution intended. Crane concluded, "Robert Bork's palpable deference to legislatures and majorities reveals the soul of a congressman, not a high-court justice."

Crane's article, along with Cato's other activities involving the Bork nomination, served to clarify the terms of the debate on judicial philosophy and widen its scope. Cato scholars tried to make it clear that Americans are not limited to a choice between a judicial restraint that gives free rein to legislative majorities and a judicial activism that allows judges to make law on the basis of their own preferences. A proper understanding of the Constitution would lead us to charge judges with the responsibility to vigorously safeguard individual rights and invalidate laws that infringe on those rights—"to strike down legislation, but never to pass it," in the words of Richard Epstein.

As syndicated columnist Stephen Chapman wrote after Bork's defeat was clearly imminent, "By nominating Bork, President Reagan hoped to mobilize popular sentiment behind his drive for 'judicial restraint.' Instead, he only dramatized the increasingly libertarian bent of the electorate. In their desire to preserve cherished rights—including, perhaps most important, what Justice Louis Brandeis called the 'right to be left alone'—most Americans regard the Supreme Court as a crucial ally." Americans, Chapman argued, are not "sympathetic to readings of the Constitution that give no protection to what they regard as basic rights."

Crane's article was not Cato's only form of participation in the national debate. Shortly before the Senate confirmation hearings began, Cato adjunct scholar Stephen Macedo of Harvard University discussed Bork's philosophy and the whole concept of original intent at an American Enterprise Institute conference. Macedo identified several problems with the notion of original intent: Whose intent counts, that of all 55 Framers in Philadelphia, all 1,600 delegates to constitutional ratifying conventions, or some other group? What counts as evidence of intent? And why read the Constitution in the light of specific historical intentions when the Framers chose to use general language and published no record of their debates?

Macedo also accused Bork of moral skepticism because of his view that all moral claims involve merely a "choice between the gratifications of two groups"—an approach very different from the Framers' commitment to natural rights. Other speakers on the AEI panel included Charles Cooper of the Justice Department, Walter Dellinger of Duke University, and Gary McDowell of the Center for Judicial Studies. Macedo was also featured on an "NBC Nightly News" report on Bork's philosophy.

The day before the hearings opened, the Cato Institute sponsored a debate between Morton Halperin of the American Civil Liberties Union and Bruce Fein of the Heritage Foundation. Halperin criticized Bork for his reluctance to protect such civil liberties as freedom of speech and the right to privacy and maintained that it stems from his rejection of natural rights and from his commitment to judicial restraint, which gives carte blanche to majoritarian legislative decision making. Fein defended Bork on the basis of his constitutional scholarship and his philosophy of judicial restraint, saying that it showed due respect for the fundamentally democratic nature of the American political process. ■

P. T. Bauer Honored in *Cato Journal* Development Issue

Secure property rights and free markets are the key to economic development, scholars from four continents write in the Spring/Summer 1987 issue of the *Cato Journal*.

This issue of the *Journal*, titled "Development Economics after 40 Years: Essays in Honor of Peter Bauer," includes papers presented at a 1986 Cato conference. The highlight of the issue is an important article by Bauer, an economics professor emeritus at the London School of Economics and a long-time critic of the conventional wisdom on development, who inquires why social scientists persist in believing theories that are "in obvious conflict with simple reality."

As an example, he cites the theory of the vicious circle of poverty, which holds that "poor people generally and poor countries or societies in particular are trapped in their poverty and cannot generate sufficient savings to escape from the trap." That assertion, he observes, is "a cornerstone of mainstream development economics" and "the signature tune of the advocates of foreign aid in the 1950s." Yet it is obviously untrue: "Throughout history innumerable individuals, families, groups, societies, and countries—both in the West and in the Third World—have moved from poverty to prosperity without external donations. All developed countries began as underdeveloped. If the notion of the vicious circle were valid, mankind would still be in the Stone Age at best."

In other essays, Deepak Lal notes that in formulating grand designs for development, members of the ruling elite in the Third World have too often ignored the realities of self-interested political behavior and the impossibility of duplicating the wealth-creating properties of competitive markets without establishing property rights. Mancur Olson writes that contrary to a theory that many development economists advance, the proper role of bureaucracy is smaller and that of markets is larger in poor countries than in rich ones.

Alan Rufus Waters argues that countries with well-defined and secure property rights have tended to outperform those adhering to state planning. Alvin Rabushka finds that less-developed countries with high tax thresholds and low marginal tax rates have had the best records of economic growth and often the best records of protecting political and civil liberties.

Karl Brunner examines the difficulties with the end-state concept of social justice exhibited in the demand for economic equality, arguing that imposing an arbitrary, politically determined definition of equality on a spontaneous market order tends to destroy the wealth-creating properties of that order.

Julian Simon finds no evidence that population growth is a drag on economic growth and maintains that high population density in fact facilitates economic growth. George B. N. Ayittey, a native of Ghana, condemns the rulers of independent Africa for engaging in political brutality and perpetrating economic disaster and notes that free markets and free trade "have always been part of black African traditions." Paul Craig Roberts writes that orthodox development strategy, which emphasizes social investment planning and debt financing, has contributed to the Third World debt crisis. Only through market-oriented policies can the developing countries generate enough wealth to pay off their debts.

Other contributors to this issue of the *Journal* include Alan Walters, Donald McCloskey, Gabriel Roth, Peter Kilby, and Basil Yamey. The *Journal*, edited by James A. Dorn, is available from the Cato Institute for $6.00 an issue or $18.00 a year. ■

U.S. Trade Laws Are Arbitrary

Our laws that penalize foreign exporters for unfair trade practices "are far more arbitrary and far more punitive" than our trading partners' laws, says a study by Cato's newest associate policy analyst, James Bovard.

Bovard writes, "In the kangaroo court system of trade investigations held in the United States, foreign businesses are almost certain to be convicted of some offense." Yet even though our current trade law is "simply a lynch law for foreign businesses," Congress seems resolved to make it even worse—"to create a perfect Star Wars trade law capable of shooting down all incoming imports before American consumers can buy them."

According to Bovard, the Commerce Department uses several methods to determine whether a foreign firm is selling goods here at "less than fair value": First, it always assumes an 8 percent profit—so any lesser profit will automatically convict a firm of dumping. In addition, Commerce tries to calculate the actual production cost of foreign merchandise, including everything from plant overhead to pension costs to freight and marine insurance. If it can't get actual cost data, it "reconstructs" them. For merchandise from nonmarket countries, it does so by computing the cost of production in a market country judged to be at a comparable level of economic development—even though the market country is in fact likely to be at a higher level of development and to have very different costs and labor practices. Finally, Commerce uses unrealistic exchange rates.

Commerce calculates subsidies by foreign governments in amounts as small as 0.0004 percent. Between 1980 and 1985 over 90 percent of the countervailing-duty convictions for South Korean exports had margins of unfair trade of less than 1 percent. It's little wonder that a State Department trade analyst told Bovard, "I think the Commerce Department can prove illegal dumping against any import it chooses."

Bovard accuses Congress of "trying to crucify American consumers on a cross of 'fairness'" and maintains that to Commerce, "the best trade law is that which makes it easiest to convict foreigners of unfair trade practices."

Bovard's study, "Our Trade Laws Are a National Disgrace," is part of the Cato Institute's Policy Analysis series and is available from the Institute for $2.00. ■

Reagan Conference (Cont. from p. 3)

mer White House aide, criticized the administration for not directly challenging the Great Society welfare system and proposed a new policy: eliminating direct-aid welfare programs and having the federal government serve as an employer of last resort for those who could not find other jobs.

Cato vice president David Boaz criticized the administration for the "schizophrenia" in its education policy, which has been torn between decentralist ideas, such as abolition of the Education Department and tuition tax credits, and centralist ones, such as official school prayer and Secretary William J. Bennett's recent moves in the direction of a national curriculum. Randy Barnett of the Illinois Institute of Technology, Chicago-Kent College of Law praised the Reagan administration's emphasis on "interpretivism"—"taking the Constitution and its underlying principles of limited government seriously"—in constitutional jurisprudence but criticized its support for judicial restraint, which he said constitutes an "abdication by the judiciary of its role in restricting the scope of governmental powers." Barry Lynn of the American Civil Liberties Union reviewed the administration's record in such areas as political speech, pornography, abortion laws, defendants' rights, and federal surveillance of personal data and found "little sensitivity to the notion of a restrained government that needs compelling justification to abridge the freedom of the people."

EEOC chairman Clarence Thomas discusses civil rights at Cato conference on the Reagan years.

Other speakers at the conference included Murray Weidenbaum on trade, Robert Crandall on regulation, Clarence Thomas on civil rights, Lawrence Korb on the defense budget, Earl Ravenal on U.S.-Soviet relations, Peter Ferrara on Social Security, Robert Thompson on agriculture, Norman Ture on tax reform, and Paul Craig Roberts on Washington policymaking.

Several of the conference sessions were nationally televised by C-SPAN. Papers from the conference will be published in book form early in 1988. ■

Catherine England listens as former Council of Economic Advisers chairman Murray Weidenbaum discusses trade policy.

Service Economy Is Not a Problem

The emergence of a "service economy" in the United States is not a cause for concern, says a new Cato Institute study.

Economist Richard B. McKenzie of Clemson University, a Cato adjunct scholar, writes, "The U.S. economy is evolving naturally in response to a host of factors, not the least of which are changes in consumer preferences, opportunity costs, and production technologies. The nation's economy has always adjusted, and it can be expected to continue to adjust. But no one should expect the process to be painless."

McKenzie points out that the economy is not readily divided into "goods" and "service" sectors and that statistics on such categories should be greeted with skepticism. For instance, "a truck driver is a manufacturing worker if he transfers intermediate products between a firm's plants but is a service worker if he operates an independent business and contracts with the same firm to make the same deliveries." Besides, McKenzie notes, manufacturing output has remained steady at close to 23 percent of GNP for the past 40 years.

Critics of an expanded service sector warn that "we are becoming a nation of hamburger cooks" and suggest that services are somehow less "basic" or valuable than goods—but consumers are buying more services, so they must find services valuable.

The growth in the service sector primarily reflects the increased demand for services in a more affluent, more complex economy. In addition, improvements in communications and other technologies have made it possible for more services to be produced outside manufacturing firms, so firms have been increasingly contracting out services that were formerly supplied internally. Union wage and work-rule demands have caused capital to move from the union to the nonunion sector, and goods production is more heavily unionized than services production.

McKenzie's study, "The Emergence of the Service Economy: Fact or Artifact?", is no. 93 in the Cato Institute's Policy Analysis series. ■

"To be governed..."

Budget cutting, Washington style

For the last century, American military personnel have been paid on the last day of the month. This month, thanks to a bit of Congressional budget-cutting sleight of hand, the 2.1 million men and women on active duty will have to wait an extra day. . . .

Instead of being paid on Sept. 30, members of the armed forces will have to wait until Oct. 1.

Those two dates happen to mark the end of the Government's fiscal year 1987 and the start of the fiscal year 1988. . . .

By ordering the change to become effective this month, Congress was able to shift the nearly $3 billion in Pentagon expenses from one fiscal year to the next, thereby providing a relatively painless means of cutting the Pentagon's budget request without really cutting it.

—*New York Times*, Sept. 3, 1987

Our kind of socialism

Roy Hattersley, deputy Labor Party leader . . . said voters perceived that Labor would nationalize every industry in Britain. He proposed what he called "social ownership" under which employees of privatized corporations would be majority shareholders with a strong voice in the management of the companies.

—*Washington Times*, Sept. 28, 1987

Killing them with kindness

[Republican presidential candidate Alexander Haig] said he'd like to see a system of "universal service, in or out of uniform."

"I think it was a mistake to do away with national service," elaborated Haig, but he said before trying anything of the sort again it would be necessary to consult "those who would be the victims of the policy."

—*St. Johnsbury* (Vt.) *Caledonian-Record*, Sept. 14, 1987

George Orwell, please call home

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—Ad in the *Washington Post*, Sept. 13, 1987

Rationing and socialism were made for each other

Said Sandinista leader Bayardo Arce, "Just as we rationed rice and sugar, we also rationed freedom of expression so the mercenaries couldn't use those liberties to develop a front inside Nicaragua against us."

—*Washington Post*, Sept. 27, 1987

The red blood of the Gulag—that sort of thing

Selwa Roosevelt, chief of protocol for the State Department, sent a positive diplomatic signal when she wore a red dress to greet the Soviet Foreign Minister. . . .

Mrs. Roosevelt told a reporter that she thought of the color red in "political terms," associating it with Red Square and the red flag of the Soviet Union.

—*New York Times*, Sept. 18, 1987

Minimum standards

Anne B. Kincaid, Virginia director of Americans for Robertson, said her boss would not consider [running for the U.S. Senate] because "Pat is a viable national candidate. But he said just this morning that Ollie North would be a great candidate if he is not indicted."

—*Washington Post*, Sept. 22, 1987

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