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Statism, Foreign Aid, and Poverty in India

by Shyam J. Kamath

It has long been an article of faith among development economists and policymakers that foreign aid is a necessary and central component of economic development. However, if one examines the record of Indian economic development since 1947, that view is belied rather conclusively.

India has received more aggregate aid than any other developing nation since the end of World War II. Yet it has had one of the slower rates of growth of all the developing countries and remains one of the poorest countries in the world. Foreign aid has played a significant role in financing central planning and control in India and has fueled the growth of one of the noncommunist world's largest and most inefficient public sectors.

In the early 1950s most observers thought that India, with its vast natural and human resources, had the best prospects of any of the developing nations for achieving accelerated and self-sustaining economic development. Now, after nearly 45 years of planned economic development, almost 40 percent of Indians live below the official (and rather meager by world standards) poverty line, and per capita income remains about $300 a year. The absolute number of Indians living below the poverty line increased sharply between the late 1950s and the mid-1980s.

India lags behind other developing nations on most indicators of the quality of life. While considerable progress has been made since independence, the 1981 census revealed that life expectancy at birth was 50.5 years and the adult literacy rate was 36 percent; it was estimated that less than 40 percent and 10 percent of the population had access, respectively, to safe drinking water and sanitation facilities.

As a result of India's centrally planned industrialization strategy, more than 60 percent of investment in the industrial sector in the postindependence period has been in the public sector. The private sector has been severely restricted by bans on private investment in major industries; a strict regime of industrial licensing; intrusive quantitative, price, and distribution controls; uneconomical preferences for cottage, village, and small industries; extensive labor-market and employment controls; and comprehensive controls on imports, exports, and foreign investment.

Over 20 million Indians are on the public payroll, and around 70 percent of all organized-sector employment is in the public sector. The government's wage bill is estimated to consume two-thirds of its annual revenues. Confiscatory tax rates combined with ever-escalating controls in the 1960s led to the growth of one of the largest and most thriving underground economies in the world; it

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Shyam J. Kamath is an associate professor of economics at California State University at Hayward. This article is based on a paper presented at the Cato Institute conference, "Multilateral Aid: Fostering Independence or Addiction?" in Washington, D.C., May 8, 1991.

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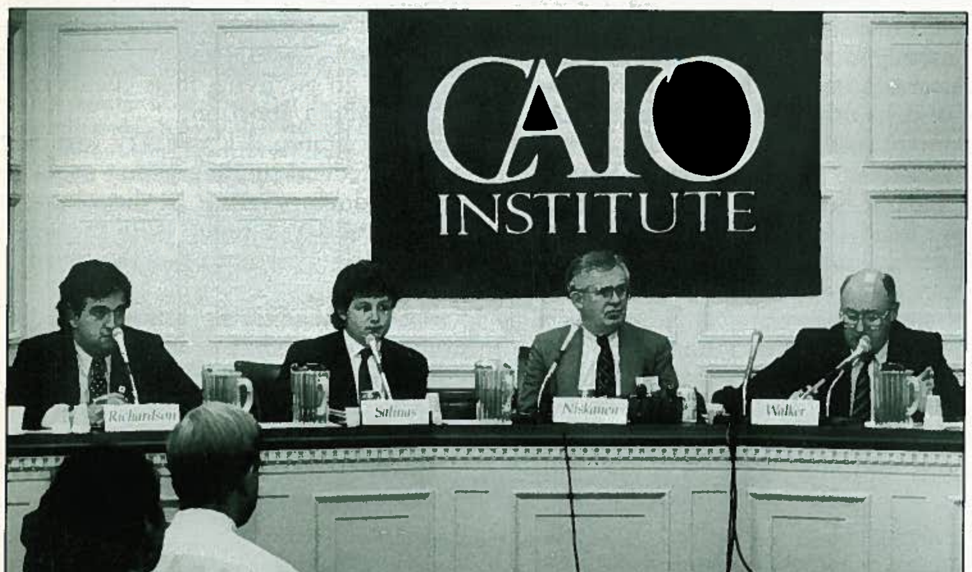

Michael Walker, president of the Fraser Institute in Vancouver, urges congressional approval of fast-track authority for the North American Free Trade Agreement at a Cato congressional briefing. Rep. Bill Richardson (D-N.M.), co-host of the event with Rep. Philip M. Crane (R-Ill.), listens along with Roberto Salinas of the Center for Free Enterprise Research in Mexico City and William A. Niskanen of Cato.

Subsidies and Control

Editorial

The government forbids arts agencies funded by the National Endowment for the Arts to present any "obscene" art. Under pressure from the federal drug czar, Stanford University has fired an instructor who said he carried drugs in his backpack on campus. And now the Supreme Court has ruled that the federal government may prohibit federally funded family-planning clinics from giving their clients advice about abortion.

The chickens are coming home to roost.

For decades opponents of big government have warned that government funding would mean government control. That insight, of course, is part of our folk wisdom: "He who pays the piper calls the tune." As each new program was created, opponents warned that government money always comes with strings attached.

But as long as (welfare-state) liberals were in charge of both the funding and the regulations, they ignored the warnings. Government funding of everything under the sun was not only a way of redistributing wealth, it was a way of bringing everyone's actions under the control of progressive, fair-minded bureaucrats in Washington.

The laws sounded reasonable enough: Any college, or business, or hospital, or nonprofit agency that is a recipient of federal funds must abide by certain federal regulations. After all, it was reasoned, the federal government has a responsibility to monitor how taxpayers' money is spent. So firms that did business with the government became subject to affirmative action regulations, and health and safety regulations, and medical cost–containment rules, and drug-free workplace requirements.

Colleges that eagerly took the carrot of federal funding soon felt the stick of federal regulations. They faced myriad reporting requirements, especially to document compliance with anti-discrimination rules. Every member of Congress who had a good idea about how colleges should be run added an amendment to an appropriations bill: any college receiving federal funds shall do thus and so.

But soon it came to pass that almost every company in America was doing *some* business with the feds and every college was receiving federal aid. It became almost impossible to escape the tentacles of Leviathan. And still the liberals in Washington were not worried, because they were writing the regulations.

Then came the 1980 election, and suddenly there were conservatives staffing the all-powerful federal government and imposing *their* values on the recipients of federal aid. Addicted to the narcotic of taxpayers' money, most recipients felt they had no choice but to comply.

Conservatives had once opposed most federal grant-making programs—aid to education, and health care, and the arts, and family-planning clinics. They had said that taxpayers were already overburdened, that such programs belonged at the state or local level if anywhere, and that the freedom and diversity of our society would be threatened by the spread of federal aid and control. But now, finding themselves in control of the federal purse strings, they decided it would be easier to make the programs reflect conservative values than to abolish agencies and programs.

And so they did, and suddenly liberals discovered the danger of big government. They wailed that the federal government was censoring, stifling, restricting—as indeed it was, and had been doing for decades. Only now conservatives were doing the censoring and restricting.

Duke University law professor Walter Dellinger warned that such rules are "especially alarming in light of the growing role of government as subsidizer, landlord, employer and patron of the arts."

The only way to solve that problem is to reduce the government's role in society. We can't expect taxpayers to hand over $1.5 trillion a year to various agencies and interests without regulating how the money is spent. Their representatives think that those who are paying for the education, or the art, or the medical care have a right to say just what they will and will not pay for.

Fund recipients could thwart the government's intrusiveness by refusing to accept taxpayer funds, and a few are doing just that. Hillsdale College is raising an endowment to ensure that none of its students will have to take federal loans, thus freeing itself from the heavy hand of the Education Department. A Fund for Gay Artists is raising private support for those who can't get federal funding. Some family-planning clinics have announced that they will give up federal money in order to go on giving their clients the advice they think best, even about abortion.

But can we really imagine Stanford University turning down $260 million a year in federal funding just to protect its academic freedom? Will doctors refuse Medicare payments to avoid paperwork and red tape? Will the arts community turn down even the 7 percent of its total funding that it gets from government?

No, the reality is that as long as the government is handing out $1.5 trillion a year, most of us will be willing takers, and we will accept the controls that go with subsidies. If we want to preserve academic, artistic, economic, professional, and speech freedoms, our only hope is to take away the federal government's role as the biggest subsidizer, landlord, employer, and patron of the arts in our society.

David Boaz

—David Boaz

Is the Globe Warming?

Environmental Myths Debated, Debunked at Conference

The top scientific debunkers of environmental catastrophe gathered in Washington, D.C., on June 5 and 6 for a Cato Institute conference on "Global Environmental Crises: Science or Politics?"

Nearly 200 people attended the conference, which was unique in featuring climatologists, meteorologists, and other environmental scientists (as well as economists) who are almost routinely excluded from congressional hearings, public television, and other forums because they are skeptical about apocalyptic claims of global warming, anthropogenic causes of the thinning of the ozone layer, "sustainable development," acid rain, and air toxics.

The topic that excited the most interest was global warming, or the greenhouse effect. Challenging the claims that industrial production of carbon dioxide and other gases is causing the earth to heat up were Patrick J. Michaels of the University of Virginia, Robert C. Balling, Jr., of Arizona State University, Richard S. Lindzen of the Massachusetts Institute of Technology, and Andrew Solow of the Woods Hole Oceanographic Institution. They argued that the proponents of global warming have not shown that the earth's temperature has been rising or that carbon dioxide causes warming.

Cato's director of environmental studies, Robert J. Smith, makes a point to former French industry minister Alain Madelin at Cato's conference on global environmental issues.

Michaels said that although nights are slightly warmer (with offsetting cooler days), there has been no net warming. That, he added, is good news because warmer nights create a longer growing season that contributes to more food production. Bert G. Drake of the Smithsonian Environmental Research Center noted that increased carbon dioxide in the atmosphere would boost plant growth and crop production and increase the efficiency with which most plants use water.

The scientists criticized the environmental movement for using flawed climate models to make dubious predictions and then proposing costly government programs and massive economic restructuring to head off unlikely catastrophes. Daniel A. Lashof of the Natural Resources Defense Council defended the global-warming position.

Global warming was also the subject of a debate at the end of the conference between Michaels and Christopher Flavin of the Worldwatch Institute.

Christopher Flavin of the Worldwatch Institute looks on as Patrick J. Michaels of the University of Virginia positions his model of the earth before their debate on global warming.

S. Fred Singer of the Washington Institute for Values in Public Policy and Hugh W. Ellsaesser of the Lawrence Livermore National Laboratory criticized the claims that manmade substances have thinned the atmosphere's protective ozone layer, letting in unhealthy amounts of ultraviolet rays from the sun. Singer said that the hypothesis has many defects and that the changes in the ozone layer seem to correlate with sun-spot activity. Ellsaesser added that there would be benefits from a thinning of the ozone layer.

Other speakers challenged the advocates of "sustainable development," who contend that the large-scale industrial way of life cannot continue indefinitely and that states must intervene to ensure a sustainable way of life. Arguing that

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"Yes to Private Property"

Second Moscow Conference Draws Worldwide Attention

In addition to the packed press conference, the stirring speeches from radical Soviet free marketeers, and the broad coverage by major U.S. newspapers, perhaps the most inspiring part of the Cato Institute's latest Moscow conference, "All the President's Men: Perestroika Yesterday, Today, Tomorrow," was a cabdriver in a Philadelphia Phillies cap.

Asked by Cato's president Ed Crane whether revolution was brewing, the grey-haired driver answered with an unequivocal "Yes, Yeltsin!" From the seat next to him, the driver picked up an article in Russian and pointed to the name of the author, Boris Brutzkus, a Russian critic of socialism who agreed with the Mises-Hayek analysis of the knowledge problem endemic to socialism. The driver then announced in broken English, "Capitalism, good. Socialism . . . slavery," before dropping the Cato group at their destination.

Moscow mayor Gavriil Popov and 500-Day Plan coauthors Grigori Yavlinsky and Stanislav Shatalin were just a few of the old cabdriver's daring countrymen who attended the conference held April 20–21 and cosponsored by *Komsomolskaya Pravda*, a newspaper with a circulation of 18 million, and the Independent University.

Some 250 journalists were present at the Oktyabrskaya Hotel, home to meetings of the Central Committee of the Communist party, to hear free marketeers, liberal activists, and staunch socialists discuss solutions to the Soviet Union's current economic crisis. Cato's role in gathering the great players of the democratic movement was reported in the *Wall Street Journal*, the *New York Times*, the *International Herald Tribune*, and *Pravda*, among other newspapers.

Crane set the mood of the conference when he said in his welcoming speech, "Today, with the exception of Mikhail Gorbachev and a handful of others, virtually everyone recognizes that in the great debate over how to secure human liberty and economic prosperity, Hayek and Friedman were right, Marx and Engels were wrong."

Alexei Yemelyanov, member of the Supreme Soviet and a professor of economics at Moscow State University, declared, "We swerved from the natural road in 1917 . . . [when] we robbed the peasants of their land."

Cato president Edward H. Crane talks with Soviet émigré Vladimir Bukovsky at Cato's second conference in Moscow.

Stanislav Shatalin, coauthor of the 500-Day Plan for economic reform, is interviewed at the Cato conference.

Arguing that "we must de-ideologize the economy," Shatalin announced, "I say an unequivocal yes to private property."

Nikolai Petrokov, former chief economic adviser to Gorbachev, declared: "I am opposed to economic dictatorship. I support economic freedom."

Roger Pilon, director of Cato's Center for Constitutional Studies, explained that if Soviet citizens are to move to a free society, they must first articulate a vision of individual liberty, private property, and free economic exchange and then secure that vision through a constitution that authorizes, separates, and limits legal power.

Drawing on Ludwig von Mises and F. A. Hayek, Cato senior editor Sheldon Richman noted that the central economic flaw in socialism is its inability to make accurate calculations and, thus, intelligently plan economic action. Prices, he argued, require exchange, and exchange requires private ownership of all means of production.

Other speakers included James A. Dorn, Cato's vice president for academic affairs; Yegor Ligachev, former adviser to Gorbachev; Vadim Bakatin, member of the Presidential Council and former minister of internal affairs; Edward D. Lozansky, president of the Independent University; Alexander V. Afanasyev, special correspondent for *Komsomolskaya Pravda;* Ruslan Khazbulatov, first deputy to Russian president Boris Yeltsin; Larisa Piyasheva, senior researcher at the Institute of International Labour Movement and Cato adjunct scholar; and Konstantin F. Zatoulin, vice president and chief officer of the USSR Association of Chief Executives and president of the Moscow Commodity Exchange.

Cameras record Moscow mayor Gavriil Popov's remarks at Cato's April 1991 conference in Moscow, cosponsored with the Independent University and *Komsomolskaya Pravda*.

The day after the conference Crane and the other representatives from Cato met with the editorial staff of *Komsomolskaya Pravda*. The group discussed the need to clearly spell out the economic and constitutional implications of moving to a market economy and arranged for the Cato Institute to contribute a regular column of analysis to the paper.

By the time the Cato group was ready to fly home on April 23, Muscovites everywhere—even the maids at the Oktyabrskaya Hotel—were wearing red-and-white buttons imprinted with the Cato Institute logo and ringed with the Russian words for private property and capitalism. Imagine what the Central Committee members thought when they arrived at the hotel for an important meeting later that week. ■

Are Third World Countries Hooked on Foreign Aid?

The problems of aid addiction and its cure—removing barriers to private investment, production, and trade—attracted an international audience of journalists, scholars, economists, and policymakers to the historic Willard Hotel for the recent Cato Institute conference, "Multilateral Aid: Fostering Independence or Addiction?"

Held May 8, the conference was sponsored by the Institute's Project on Global Economic Liberty and featured speakers from around the world.

Foreign aid has so "contributed to the encouragement of corruption, rent seeking, and graft in the Indian economy," that only the "dismantling of the overbearing and nihilistic central planning system" and establishment of private property offer the "means for India to break the vise of its current underdevelopment," argued Shyam J. Kamath, a former consultant to the Planning Commission of India and an associate professor of economics at California State University at Hayward.

"The whole African aid program reeks of scandal," declared George B. N. Ayittey, a Ghanaian economist and associate professor of economics at American University, in his talk detailing the effects of foreign aid on black Africa in the last several decades.

Participants talk during a break in the conference on foreign aid.

Unfortunately, "foreign private bankers and investors have not found black Africa an attractive place to extend credit or invest and have been retreating," Ayittey stated. He argued that Africa's leaders must learn that "the most effective way of attracting foreign investment is by attracting domestic investment," which is currently "discouraged by all sorts of odious regulations, arbitrary seizures of commercial properties, political instability, and the waging of senseless and endless civil wars."

National Review's Washington bureau chief William McGurn announced that it was time for the Philippines to choose between the multinationals and the multilaterals—to decide whether to open their borders to foreign investment, as countries around the globe are doing, or continue to depend on the World Bank, the International Monetary Fund, and other multilateral institutions, with their perverse incentives and inevitable corruption.

Ted Galen Carpenter, director of Cato's foreign policy studies, argued that "the U.S.-orchestrated drug war in Latin America illustrates the harmful unintended consequences that invariably arise from Washington's foreign aid programs."

Tracing the history of the International Monetary Fund, Cato Institute senior fellow Doug Bandow noted that the IMF "has been subsidizing the world's economic basket cases for years, without apparent effect." Bandow said that "at times it would appear that the more perverse the policies, the more generous the IMF," pointing to India, Mexico, Kenya, and the many other countries that have for decades pursued Soviet-style industrialization or African socialism while regular customers of the IMF.

Cato president Edward H. Crane greets Sen. Don Nickles (R-Okla.), luncheon speaker at the conference "Multilateral Aid: Fostering Independence or Addiction?"

Roland Vaubel of the University of Mannheim in Germany and Marc A. Miles of H.C. Wainwright & Co., Economics, Inc., examined the failure of the IMF as well. Vaubel's public choice analysis revealed that in the first two years after each quinquennial adjustment of member countries' contributions to the IMF, the fund's average extension of credit to borrowing nations decreases 9 and 15 percent, respectively. In the third year, lending increases an average of 26 percent, and in the fourth year, it jumps an average

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"Grand Bargain" Would Be Great Mistake

On May 29, 1991, as Gorbachev's advisers and Harvard economists stepped up their campaign for a $150 billion Western bailout of the collapsing Soviet economy, the Cato Institute convened representatives of six Washington policy institutes to oppose the bailout. The statements below were presented at a media briefing directed by Melanie Tammen, director of Cato's Project on Global Economic Liberty.

Joint Statement

The Soviet Union's leaders need no help from American taxpayers to do what is in the best interests of their economy and their people. A program of official grants and loans from the United States, whether provided directly or through the multilateral lending institutions, would be a disservice to U.S. taxpayers and Soviet citizens alike. For all the rhetoric of "making perestroika work," government-to-government aid would permit the Soviet central authorities to further postpone the hard choices inherent in radical reform and encourage them to "re-bureaucratize" the economy by channeling valuable investment resources through countless government bureaus. That is not just a Western assessment. As one Soviet magazine editor told ABC News last week, "Half of the aid would go to government corruption, and the other half would be wasted on government enterprises that are not producing anything of value."

Leading Soviet officials and political figures, as well as several American professors, are promoting a "grand bargain" of massive-scale Western aid in exchange for economic reform in the Soviet Union. Soviet president Mikhail Gorbachev has joined that effort to convince Western leaders that a transition to a market-oriented economy in the Soviet Union cannot be achieved without a large-scale program of grants and credits from the governments of the United States and other industrial (Group of 7) nations. While Gorbachev has yet to transmit to the G-7 governments a formal request, with a specific aid level, one Harvard University economist working on a Gorbachev-sanctioned proposal for "aid-for-reform" has called for $150 billion over five years. Top Soviet officials reportedly are seeking now to present that proposal to President Bush.

By all indications, the aid-for-reform coalition has become fixated on determining the level of Western aid that it believes is necessary to "ensure" political reform and a market economy. Although the transition from communism will be difficult and fraught with setbacks, Soviet leaders already know that they enjoy ready access to America's economic specialists, many of whom

Cato adjunct scholar Alan Tonelson criticizes aid to the Soviet Union as Nicholas Eberstadt, Melanie Tammen, Alan Keyes, Paul Craig Roberts, and William Niskanen listen.

have repeatedly urged the swift introduction of a legal system that recognizes the sanctity of contract, private property, and voluntary market relations as indispensable for a transformation to a market-oriented economy. Such advice, and supporting technical expertise, can be obtained by Soviet leaders—in most cases, free of charge or for modest fees—from American economists or from U.S. firms that desire to expand commercial opportunities abroad.

Instead of making U.S. taxpayers' money available to the inefficient Soviet bureaucracy and firms, President Bush should stress private property as the basis for attracting foreign investors. Further, he should explain that financial resources need not be imported from abroad, particularly from Western governments and official institutions. The Soviet Union is not a resource-poor country. Privatization would instigate substantial wealth-creating activity *within* the Soviet Union. It should not be necessary to pay the Soviet government huge sums to persuade it to do what is in its people's own best interest: create a system of private property and market relations.

Nicholas Eberstadt
Visiting Scholar, American Enterprise Institute, and Visiting Scholar, Harvard Center for Population and Development Studies

Alan L. Keyes
President
Citizens Against Government Waste

William Niskanen
Chairman
Cato Institute

Paul Craig Roberts
William E. Simon Chair in Political Economy, Center for Strategic and International Studies

Alan Tonelson
Research Director
Economic Strategy Institute ■

"Making Perestroika Work"—A Bill of Goods, Not a Grand Bargain

by Alan Tonelson

Proposals for massive aid programs designed to avert Soviet economic collapse are portrayed as the essence of pragmatic, enlightened self-interest. The threats of waves of refugees flooding west into Europe, civil war, and fragmented control of nuclear weapons, it is argued, can all be neutralized if we simply apply enough resources and intelligence to the task of encouraging Soviet reform.

But the proposals fail the biggest test of any wise public policy. They confuse the merely desirable with the necessary. They wildly overstate not only America's stake in the successful resolution of a crisis but the prospects for success at an acceptable cost, and they hold no promise of coping with the only real danger that the Soviet crisis could pose for America.

Putting the Soviet Union on the path toward democracy and capitalism, stability and prosperity, is a goal that all persons of good will surely hold. But neither America's national security nor its prosperity hinges on achieving that goal.

Looking at the issue in terms of cold national self-interest—as we must initially—we realize that America's commerce with the Soviets is minimal, and even West European–Soviet trade flows are relatively modest. A westward flood of Soviet refugees would obviously create enormous problems—for Europe, not the United States. For that reason, averting a Soviet economic collapse would still be highly desirable for America, but it is essential to ask the question that our foreign policy experts typically love to dodge—at what cost?

However desirable making perestroika work would be, the burden of proof is still on those who argue that it can be accomplished at a cost that would not threaten our own well-being. Specific cost estimates provided by the aid proponents deserve special skepticism. How can they possibly know the cost of an effort so vast; so dependent on unquantifiable social, cultural, and psychological variables; and so unprecedented in human experience? Indeed, the entire assumption that academics have found a nation-building or transition formula merits nothing but ridicule. How many more American tax dollars must be lost in how many Third World and communist sinkholes before we learn our lesson?

Analogous arguments can be made about security. Not even anarchy in present Soviet territory poses any threat to America's physical survival or political independence. Thanks to geography, we simply do not face the kinds of concerns that Moscow's neighbors must live with.

In fact, the only danger posed to America by Soviet chaos is that created by the possibility that irresponsible forces will gain control over large or even small numbers of nuclear weapons. But even successfully promoting reform cannot neutralize that threat for many years—unless we believe that our efforts will restore durable order immediately. That deadly but narrow threat is best dealt with via a narrowly focused military response—creation of a thin missile defense system.

Providing short-term humanitarian aid to the Soviet Union is an entirely defensible policy, provided that the aid does not add to the federal deficit, and thus to the debt of future generations of Americans. Technical assistance is equally defensible, but we should spend just as much time and resources on steeling ourselves against the possibility that reforms will fail as on planning their success. The proponents of aid tell us we have vital interests in Soviet reforms but give us only the flimsiest of tools with which to secure those interests. What better definition can there be of policy breakdown? ■

Alan Tonelson is research director of the Economic Strategy Institute and an adjunct scholar of the Cato Institute.

Aid for Reform Serves Neither Western nor Soviet Interests

by William A. Niskanen

My remarks, and those of my colleagues, make two simple points:

1. Western grants and loans to the government of the Soviet Union would not serve the interests of the Soviet peoples.
2. Such grants and loans would not serve the interests of the Western nations.

The political requisite for genuine economic reform is a massive reduction and decentralization of state power in the Soviet Union. (Most leaders of the Soviet republics agree that Western assistance to the Soviet Union would only defer that necessary political change.) Substantial economic reform will not be initiated by the Union government, which is still implementing a dirigiste economic policy. In the first 10 months of 1990, the fifth year of perestroika, the Union government arrested 75,000 people for accumulating inventories and 117,000 people for buying low and selling high. In November the Supreme Soviet authorized the KGB to establish a Center for Combatting Economic Sabotage. And, according to Gabriel Schoenfeld in the *New Republic*, in January 1991 a presidential decree authorized both the KGB and the interior minister's agents to enter and inspect any enterprise without notice or warrant. The Union government is in very serious fiscal condition as a consequence of the republics' withholding tax receipts and of the declining economy. Western assistance to the Union government, in effect, would indirectly finance maintenance of the still-huge Soviet military establishment.

The argument for the proposed "grand bargain" is that Western assistance to the Soviet Union would improve the prospects for both stability and economic growth. But the interests of the United States and other Western nations are not necessarily served by either stability or improved economic conditions in the Soviet Union. The Soviet Union was stable under Stalin, and Nazi Germany was the richest country in Europe. Our interests are best served by the same political change that is requisite for real economic reform—a massive reduction and decentralization of state power in the Soviet Union. In the event of such change, Western assistance might be helpful but not necessary. In the absence of such change, Western assistance to the Union government would benefit neither the peoples of the Soviet Union nor the interests of the West. ■

William A. Niskanen is chairman of the Cato Institute.

Melanie Tammen, director of Cato's Project on Global Economic Liberty, talks with adjunct scholar Paul Craig Roberts at Cato's conference on foreign aid.

New Cato Studies

Runaway Spending Causes State Fiscal Crises; Let Japan Pay for Its Own Defense; Free Schools from Bureaucracy

Topics addressed in recent studies from the Cato Institute include the need for a new Japanese-American security policy, the U.S. drug war's interference with Peruvian land reform, state fiscal crises, loans to the Soviet Union, the futility of "Adopt-a-School" programs, the government's role in bank failures, severing commitments to the Middle East, and the need to foster creativity in the stifled public schools.

Japan Should Start Paying for Its Own Defense

Recent events in the Persian Gulf highlight the need for a new Japanese-American security policy "that not only more equitably distributes security burdens but restructures the entire Japanese-American security relationship," Christopher A. Preble, an independent defense analyst, argues in "U.S.-Japanese Security Relations: Adjusting to Change," no. 7 in the Foreign Policy Briefing series. "Now is the time for Washington to . . . cease opposing Japan's departure from the obsolete policy of depending on the United States for the defense of Japanese security interests," he writes.

"The Persian Gulf crisis provides a catalyst for a critical break in precedent and a fundamental shift in Japanese strategy and policy. America's leaders must be alert to the forces at work in Japan and recognize the likelihood of change. Failure to do so threatens to perpetuate an increasingly untenable U.S. strategy based on fostering Japan's security dependence on the United States. Given the hostility already demonstrated by Congress and the American people toward Japan's limited military 'burden sharing,' refusal to adjust U.S. policy could lead to an acrimonious confrontation," Preble writes.

Drug War Hinders Land Reform in Peru

Peruvian president Alberto Fujimori's new program to enable farmers to own their land would boost Peru's economy, but the U.S.-backed drug war is doomed to failure and will only aid the country's violent Shining Path guerrillas, writes Melanie Tammen, director of the Cato Institute's Project on Global Economic Liberty, in "The Drug War vs. Land Reform in Peru" (Policy Analysis no. 156).

According to Tammen, "Washington should applaud Fujimori's effort to empower Peru's farmers through secure land ownership. . . . With [Peru's] state agrarian bank bankrupt and untitled Peruvian farmers with no collateral with which to seek private credit, farmers need help, and they need it fast. . . . [But] the prospects for a widespread and lasting switch by coca growers to substitute crops are dim unless the United States legalizes illicit drugs, which would bring down the price of drugs substantially and permanently."

Mexico Needs Trade, Not Aid

A North American Free Trade Agreement would be in the best interests of the United States, Canada, and Mexico, writes Roberto Salinas-Leon, academic director of the Center for Free Enterprise Research in Mexico City, in Foreign Policy Briefing no. 9.

In this briefing, based on his testimony of May 15 before the House Subcommittee on Consumer Affairs, which solicited his testimony as a result of remarks he made at a Policy Forum on free-trade areas, Salinas addresses some of the major concerns of opponents of a NAFTA.

According to Salinas, a NAFTA would create "the biggest and most significant open market in the world: three countries with three-way trade of over $225 billion; a vast consumer market; a wealth of natural, human, and capital resources; and an aggregate gross output 25 percent larger than that of the 12 nations of the European Economic Community."

Term Limits Would Counter Professionalized Politics

Term limitation would counter the professionalization of politics that threatens our democratic system, argues Mark P. Petracca, an assistant professor of politics and society at the University of California at Irvine and author of *The American Presidency*, in "The Poison of Professional Politics" (Policy Analysis no. 151).

The congressional turnover rate has plummeted from 50 percent in the 19th century to about 10 percent today, according to Petracca. As that trend continues unabated, "instead of public engagement, we end up with public estrangement; instead of civic commitment, we foster civic abandonment; and instead of political empowerment, we are left with political confinement."

Limiting terms of office is the first step toward controlling a government peopled by congressional careerists and lifetime lobbyists all playing the political game to their own advantage, Petracca concludes.

Allow Satellite Competition

It's time to repeal U.S. policies that constitute some of the most formidable obstacles to competition in international satellite telecommunications, argues Milton Mueller, a research associate at the International Center for Telecommunications Management at the University of Nebraska at Omaha, in "Intelsat and the Separate System Policy: Toward Competitive International Telecommunications" (Policy Analysis no. 150).

Current federal regulations restrict private companies' freedom to compete in the international telecommunications market and deny service to millions of people. Most countries that joined Intelsat, the international telecommunications satellite consortium, when it was created in 1965 named as signatories their public telephone and telegraph monopolies, which control the public switched networks, or PSNs (that is, the networks that carry telephone calls). AT&T, MCI, and other American companies must go through the Communications Satellite Corporation (COMSAT), the U.S. signatory, if they wish to use Intelsat.

In 1985 the United States came up with the public switched network restriction as part of a new separate satellite system policy. That rule restricts private satellite systems to the supply of private-line circuits, television signal carriage, and other services not connected to the PSNs, thereby reserving the lion's share of the market for Intelsat and creating "an obvious conflict between the PSN restriction and U.S. policy goals favoring competition and diversity in international telecommunications services."

Runaway Spending to Blame for State Fiscal Crises

Since state officials couldn't just say no to spending during the 1980s, Americans face a fiscal climate gloomier than any seen since the Great Depression, Stephen Moore writes in "State Spending Splurge: The *Real* Story behind the Fiscal Crisis in State Government" (Policy Analysis no. 152).

Moore, director of Cato's fiscal policy studies, points out that states with the highest spending rates in the 1980s, such as California and New York, are those burdened with the largest budget deficits today. He concludes that cutting spending, not raising taxes, is the only solution.

"Although state officials repeatedly insist that their states' fiscal plight is a result of factors beyond their control—including federal spending policies and the downturn in the national economy—the truth is that most states are themselves to blame for their current budgetary distress. With only a few exceptions, those states with large budget deficits can trace the roots of their fiscal problems to a decade of extravagant spending," Moore argues.

Soviet Economy Needs Private Property, Not U.S. and IMF Loans

Government-to-government and private bank loans to the government of the Soviet Union will stifle the development of a market economy, writes Karen LaFollette, a research associate at the Institute for Political Economy and coauthor of *Meltdown: Inside the Soviet Economy*, in "Government Loans for the Soviet Union: A Disservice to U.S. Taxpayers and Soviets Alike" (Cato Foreign Policy Briefing no. 8).

"To forestall collapse, the Soviet Union needs to establish private property and a market economy. As has been the case in the Third World, foreign aid does not help to reorient economies, and in the case of the Soviet Union, it will merely serve to entrench the communist old guard at the expense of democratic reformers," she concludes.

Businesses' Money Won't Buy Good Schools

More money from U.S. businesses won't improve the failing public schools they've "adopted," writes John Hood, publications and research director of the John Locke Foundation in "When Business 'Adopts' Schools: Spare the Rod, Spoil the Child" (Policy Analysis no. 153).

Criticizing the widespread "Adopt-a-School" program, Hood writes, "Consider the absurdity of improving the U.S. Postal Service, a government monopoly generally regarded as providing relatively poor service at relatively high cost, by having companies adopt a post office." Just as pouring money into the U.S. Postal Service "wouldn't change anything," 20 years of financial donations from "foster parents" in the business world have done nothing to improve public education.

Instead, Hood concludes, business leaders need to "apply the lessons they learn every day in the competitive marketplace . . . to the public education system they rightly view as a legendary failure. Those market principles, applied to public education, suggest a slate of reforms that depart from the prepared script of the education establishment, [including] parental choice among public, private, parochial, or home schools; elimination of statewide personnel regulations, including tenure and teacher certification; and elimination of the states' role in determining curriculum, textbooks, hours of operation, etc. Such changes can be summed up in a single model: the entrepreneurial school."

United States Should End Commitments to Middle East

The Bush administration jumped into the Persian Gulf crisis with eyes closed and now risks entanglement in a multitude of intractable problems throughout the Middle East, writes Leon T. Hadar, a former bureau chief for the *Jerusalem Post* who now teaches political science at American University, in "Extricating America from Its Middle Eastern Entanglement" (Policy Analysis no. 154).

He insists that Washington must reverse its long-standing interventionist policy toward the trouble-ridden region—a policy that "assumed that unless Americans helped make peace between Israel and its Arab neighbors," oil, strategic interests, and America's moral commitment to Israel would be threatened and "regional instability would invite Soviet meddling and expansionism." Instead, America should

(Cont. on p. 12)

Consultant Gordon Jones and Cato president Edward H. Crane talk with Sen. Connie Mack (R-Fla.) before a May 16 luncheon for Mack at Cato.

Foreign Aid (Cont. from p. 1)

is estimated that approximately 50 percent of India's economic activity takes place in the underground sector.

India's jungle of red tape is one of the largest and most complex in the world. For example, permission to open a hotel involves 45 applications that are reviewed by more than 25 different governmental agencies. Bribery and corruption constitute the norm for conducting business.

India's system of centralized five-year planning and comprehensive controls produced only about 1.5 percent annual growth of per capita real income from 1950 through 1985, compared with growth rates of 5.5 to 6.5 percent in the "newly industrializing countries" of Hong Kong, South Korea, Singapore, and Taiwan and 3 to 4 percent in Indonesia, Malaysia, and Thailand. Thus, even though India was unique among those nations in that it was a democracy during that period (except for a brief two-year lapse), its economic performance was quite disappointing.

What sets India apart from other developing Asian nations is its dirigiste policy orientation, its lack of openness to trade and investment, and the large amount of foreign aid it has received. India's experience with foreign aid throws clearly into relief the inefficiencies, the politicization, the false hopes, and the obstacles to economic development that arise from nonmarket, governmentally mediated transfers and activities.

The Underlying Vision of the Aid Cornucopia

It is ironic that the World Bank, which was set up to help war-devastated and developing economies to grow, is hard pressed to find any nations among its clients that have successfully developed after over 40 years of ever-escalating budgets and ever-increasing levels of multilateral foreign aid.

The history of official foreign aid to India provides an example of the failure of foreign aid and its symbiotic relationship with central planning. The role of foreign aid in India became dominant simultaneously with the adoption of a centrally directed heavy industrialization and "self-reliant" import-substitution planning strategy at the beginning of the Second Five-Year Plan in 1956–57. That planning strategy was explicitly modeled on the Soviet heavy industry planning model, and its chief architects, Professor P. C. Mahalonobis and Prime Minister Jawaharlal Nehru, espoused a socialistic framework of economic policy and development.

Nehru, who was India's prime minister for the first 17 years after independence, said in his 1936 presidential address to the Congress party that there was

> no way of ending the poverty, the vast unemployment, the degradation, and the subjection of the Indian people except through socialism . . . the ending of private property, except in a restricted sense, and the replacement of the private profit system by a higher ideal of cooperative service.

"The preference for comprehensive development plans made India, Tanzania, Indonesia, Ethiopia, and Mexico favored recipients of World Bank aid."

That dirigiste vision of economic development was reflected in the views of policymakers and intellectuals in the donor countries and the foreign aid experts. John P. Lewis, the dean of American foreign aid experts, argued in 1962 that

> there is much less need now for such a defense of the very concept of comprehensive economic planning in countries like India. Today the same kind of planning is officially viewed as an essential concomitant of any national development that merits American assistance, and the United States government is urging such planning upon Latin American, African, and Asian governments that do not yet practice it.

Multilateral aid agencies such as the World Bank espoused a similar unconstrained vision by the early 1950s. For example, the *Fifth Annual Report* of the World Bank said that

> the Bank would prefer to go further, wherever that is feasible, and base its financing on a national development program, provided that it is properly worked out in terms of projects by which the objectives of the program are to be attained.

The preference for comprehensive development plans made countries such as India, Tanzania, Indonesia, Ethiopia, and Mexico, which had all adopted centrally directed economic development policies, favored recipients of World Bank and concessional international development agency aid. Foreign aid to India was both a result and to some extent the cause of increased government control of the Indian economy and the lives of the people, especially the poorest.

India's Aid Cornucopia and Statism

India has received more foreign aid, in aggregate terms, than any other developing nation since the end of World War II, and that aid has played a major role in enlarging the Indian public sector. During the 1960s and early 1970s, foreign aid accounted for most of the growth in government outlays for development and the central government budget.

Throughout the postindependence period, the private sector and the rest of the world provided the savings needed to finance the ever-growing public sector. Until the 1970s foreign aid remained the primary source of funds for growth, accounting for well over 50 percent of the government's deficit during the Second Five-Year Plan.

To the extent it displaced private saving, foreign aid further retarded self-financing growth, and in fact the lack of domestic saving was one of the many reasons given for nationalization of the major Indian commercial banks in the late 1960s. Thus, foreign aid may have indirectly contributed to the socialization of the economy.

The Role of U.S. Aid

The United States has been the single largest donor of foreign aid to the world and to India since World War II. Between 1945 and 1983 the United States gave away almost $321 billion (in then-year dollars) in overseas foreign assistance, concessional loans, military aid, and humanitarian assistance.

It is significant that the bulk of U.S. aid to India was disbursed from 1955 through 1971, when India was nationalizing its economy and effecting national economic planning aimed at heavy industry and import substitution. As a consequence, the major part of American aid went to the burgeoning Indian public sector. The neglect of the private sector in the provision of aid was diametrically opposed to the U.S. government's desire to win "the hearts and minds" of developing nations for "capitalism and democracy."

A significant component of U.S. aid to India was food aid. Food aid under the Food for Peace Program, the Emergency Food Aid Act of 1951, and the 1954 Agricultural Trade Development and Assistance Act (Public Law 480) was given directly to the Indian government, which in turn distributed the food through its public distribution system.

The PL 480 program provides a classic example of good intentions gone awry and the pernicious nature of foreign aid. Before the advent of the heavy industry–oriented Second Five-Year Plan, food production in India was growing steadily and very little food was being imported. Foodgrain prices were quite stable before 1956.

The demand for food imports increased under the Second Five-Year Plan. As food shortages began to develop and foreign exchange reserves fell sharply, the Indian government entered into an agreement with the U.S. government for assistance for the import of foodgrains under PL 480. A major effect of PL 480 was to repress the price of wheat and other commodities that were imported under the program. As a result, domestic production of those items declined as farmers reacted to the lower prices. And the price repression and output effects spread to competing cereals and reduced the acreage planted in those cereals as well.

The PL 480 scheme subjected Indian farmers to doubly regressive taxation. Since the government fixed procurement prices for a substantial part of agricultural output at below open-market prices, farmers were deprived of a commensurate portion of their profits. And since the ration shops in the public distribution system were mainly in the urban areas, the system acted as an instrument of income redistribution from the poorer rural areas, where the majority of the population lives, to the richer urban areas.

All of that was done in the name of "helping" a predominantly agricultural country that had a significant amount of uncultivated arable land and the potential to expand its food production, as demonstrated by the fact that India's yield per acre was one of the lowest in the world.

"The largesse and support of multilateral aid organizations have actively encouraged the impoverishment of nations. It is time to stop."

The World Bank and India

India has also received more World Bank aid than any other country in the postwar period. Most of the funds received by India from the World Bank group (the International Bank for Reconstruction and Development, the Agency for International Development, and the International Finance Corporation) have gone to the public sector. Government corporations that have been directly aided by World Bank funds include firms in the power, coal-mining, irrigation, oil, petrochemical, gas, telecommunications, fertilizer, steel, railway, airline, and cement sectors. The World Bank's willingness to support the Indian public sector is evidenced by some $16 billion in aid that has been committed by the bank but remains unutilized because the matching rupee resources cannot be found either by the central government and its undertakings or by the state governments and their undertakings.

A substantial part of the World Bank's (and also the U.S. Agency for International Development's) concessional loans to India has gone for irrigation, area development, infrastructure development, dairy development, rural and urban drinking water supply, population control and nutrition, and agricultural extension and training projects. The effectiveness of such loans can be judged by examining the World Bank's own review of its experience with rural development over the 1965–86 period:

> The most conspicuous project failures were in the large group of area development projects. . . . That form of area development project that came to be known as "integrated rural development". . . performed so poorly as to raise questions about the utility of that approach in many situations.

Past and Current Reform Efforts

Limited economic liberalization in the 1985–88 period produced an unprecedented spurt in economic growth, and per capita GNP growth rates averaged between 3.5 and 5 percent. However, the entrenched bureaucracy and special-interest groups were soon able to halt and even reverse the pace of economic reform. Economic growth slowed, and the many years of unchecked government spending, unproductive public-sector investment, and mismanagement of the economy resulted in an economic crisis in 1991. India's budget deficit reached about 9 percent of GDP, the external debt was over $70 billion, interest payments and amortization of external debt exceeded 30 percent of export earnings, and foreign exchange reserves in early 1991 could cover less than two weeks of imports.

The solution to those endemic problems has been the standard band-aid medicine of more aid and "austerity" economics. The interim care-taker government has administered classic, International Monetary Fund–style adjustment therapy to the Indian economy by

(Cont. on p. 12)

Foreign Aid (Cont. from p. 11)

effecting a deliberate "austerity" contraction—curbing imports, raising taxes, "devaluing" the rupee to boost exports, and limiting privatization in anticipation of the second IMF credit. The objective is to attempt a "quick fix" of the fiscal and external payments crisis and make the borrower more creditworthy.

Unfortunately, those attempts to resuscitate the dying patient reveal a fatal flaw in the conventional wisdom. No amount of cosmetic manipulation of macroeconomic aggregates is going to help as long as the microeconomic and institutional fundamentals remain unchanged. Without replacement of public property rights by enforceable private property rights, establishment of the rule of law, across-the-board scrapping of controls and regulations both internal and external, dismantling of the public sector, and restoration of a voluntary exchange market economy, any efforts to solve the crisis will meet with only temporary success at best. The fundamental limitation of austerity economics is that it is not possible to make a borrowing country more creditworthy by reducing its potential future income through higher taxes. Such policies in themselves will put the chances of even temporary success in doubt by reducing the incentive to produce. No amount of artificial or "real" devaluation is likely to have a lasting effect on trade if the institutional and microeconomic fundamentals are left unaltered.

The Abysmal Record of the Indian Public Sector

The dirigiste vision of Indian policymakers in the postindependence era led to the central tenet that the public sector must dominate the "commanding heights" of the economy and produce the bulk of the basic goods and infrastructure of the economy. Foreign aid was seen as the crucial means of financing that strategy and was successfully tapped to fuel the growth of the public sector. However, the results of the strategy can be gauged from the dismal failure of the constituent public-sector firms.

Government expenditure as a proportion of GDP grew from around 19 percent in 1960–61 to around 35 percent in 1985–86. The number of central government public-sector companies grew from 5 in 1951 to over 250 by 1985. By 1979 the gross fixed assets of the central public sector (excluding the joint public-private sector, the state public sector, the government-owned railways, and the public utilities) exceeded that of private-sector industry by over 16 percent. The inefficiency of the public-sector undertakings is indicated by the fact that they accounted for 66 percent of total fixed capital and 27 percent of total employment but only 25 percent of industrial output and value added in 1980—despite their near or complete monopoly of oil production and distribution, power generation and distribution, railways, air transportation, coal mining, certain minerals and metals, banking, life and general insurance, and other basic industries.

In 1980–81 the top 157 public-sector companies sustained an overall loss of over $160 million. Meanwhile, the top 100 private-sector companies made an overall profit of $415 million on a total capital employed of $9 billion.

Thus, the public sector in India has been a black hole in the foreign aid constellation, sucking in huge amounts of foreign taxpayers' money and sinking it into inefficient, loss-making public-sector projects.

Conclusion

No amount of additional foreign aid is likely to help India break the vise of underdevelopment. Fundamental changes in policy are required—the dismantling of the overbearing and nihilistic central planning system, restoration of absolute rights to private property and voluntary exchange, and a comprehensive reliance on market forces. A free-trade and investment regime with a freely convertible currency needs to be established as a first step toward economic and political freedom. Halfhearted moves toward liberalization, such as those of the late Rajiv Gandhi, will just not do.

For their part, the Western nations and multilateral aid organizations must wean clients like India from the drug of foreign aid. Their largesse and support have actively encouraged the impoverishment of nations. It is time to stop. ■

Cato Studies (Cont. from p. 9)

adopt a policy of benign neglect that "might actually persuade more Israelis and Palestinians that unless they move seriously to solve their conflict they will be the ones to bear the costs of their own intransigence."

Government, Not the Market, Causes Bank Failures

Federal deposit insurance and other government regulations could lead to a banking crisis reminiscent of the S&L debacle, Catherine England, director of regulatory studies at the Cato Institute, warns in "Judging the 1991 Reform Effort: Do U.S. Banks Have a Future?" (Policy Analysis no. 149).

"The banking industry's problems are most often attributed to causes other than the regulatory system—slumping real estate markets, recession, irresponsible Third World governments, oil shocks, and war in the Middle East, to name a few. But vulnerability to external shocks is merely proof that the regulatory system is not working." The structure imposed by the bank regulatory system and federal deposit insurance are inextricably linked.

Freedom to Learn Is the Cure for U.S. Education Crisis

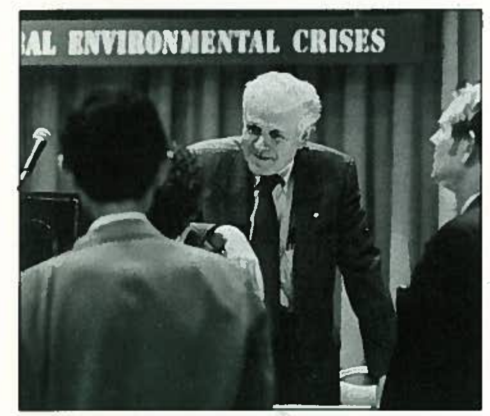
Dismantle the big education bureaucracy and return to a system of individual education that frees students to create, instead of teaching them to conform, argues Jack D. Douglas, a professor of sociology at the University of California at San Diego.

"The goal of all people sincerely committed to real, creative education should be to decentralize, deregulate, decontrol, depoliticize, and debureaucratize and to increase incentives for direct, individual, and local education of all forms. . . . If we can return to the freedom of education that Americans enjoyed when they were astounding the world with their creative energies, then the vast new learning resources that technology makes available to individual learners will enable them to be more creative and productive than was ever before possible," he writes in "Only Freedom of Education Can Solve America's Bureaucratic Crisis of Education" (Policy Analysis no. 155). ■

Global Warming (Cont. from p. 3)

free markets produce sustainable development and that technology has improved human welfare were Richard L. Stroup of Montana State University, Dennis T. Avery of the Hudson Institute, and Alain Madelin of Institut Euro 92 in Paris and co-leader of the conservative opposition to the government of French president François Mitterand.

The final topic discussed was the 1990 Clean Air Act. Speakers reexamined the alleged threats posed by acid rain, auto pollution, and air toxics. Edward C. Krug of the Committee for a Constructive Tomorrow demonstrated that acid rain cannot be causing the acidification of lakes because many of the lakes have been naturally acidic for thousands of years. J. Laurence Kulp, former director of Congress's National Acid Precipitation Assessment Program, stressed evidence that indicates that acid rain is not harming lakes, aquifers, or forests. Donald Stedman of the University of Denver reported on his studies that show that only a small percentage of the cars on the road produce much of the air pollution. He suggested that by using a device he invented to measure the pollution from moving vehicles, we could easily impose penalties on polluters only.



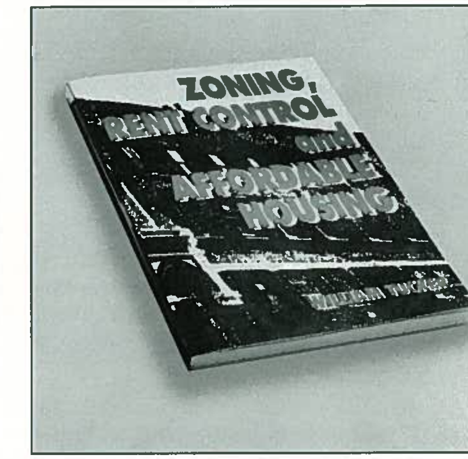
Participants in Cato's environmental conference question S. Fred Singer after his talk on ozone depletion.

The conference luncheons featured talks by Robert H. Nelson, author of *Reaching for Heaven on Earth*, about the theological nature of environmentalism and by Fred L. Smith, Jr., of the Competitive Enterprise Institute on how bad science becomes public policy. ■

Making War on Landlords

Zoning, Rent Control Cause U.S. Housing Shortages, Book Charges

Having already rendered New York City a bleak hunting ground for apartment seekers, zoning and rent control, enacted in the 1970s and 1980s, are bringing a housing crunch to Los Angeles and the San Francisco Bay Area as well.



In *Zoning, Rent Control, and Affordable Housing*, a new book from the Cato Institute, award-winning journalist William Tucker examines the history of government intervention in the housing market in several California communities and concludes that America's so-called housing problem is not national; it is local.

Rent control, exclusionary zoning, and other local regulations are the true causes of America's housing problems, Tucker has discovered. In Houston, Phoenix, New Orleans, and other cities without rent control, landlords offer bonuses to entice people to lease apartments. In cities with rent control, tenants and landlords are at each other's throats. Tucker tells of lawyer-tenants who play fast and loose with the law to exploit blue-collar landlords and talks with immigrant landlords who find Berkeley's Rent Stabilization Board reminiscent of Nazi Germany.

Contrary to conventional wisdom, Tucker writes, "Most landlords are of the same economic stratum as their tenants. . . . In general, wealthy tenants have wealthy landlords, middle-class tenants have middle-class landlords, and poor tenants have poor landlords."

That, he says, explains why rent control is popular in communities such as Berkeley and Santa Monica that have evolved from manufacturing towns to towns whose residents are primarily professional and university connected. The affluent, educated tenants come into contact with landlords who "often seem to have control over vastly more resources than their dress, demeanor, or level of education should allow—raising the suspicion that there must be something 'crooked' about them."

Rent control and zoning, products of a tyranny of the majority, prevent people from exercising their right to buy and sell in a free market, Tucker concludes in what should be essential reading for anyone concerned about making housing both affordable and available to all Americans.

Zoning, Rent Control, and Affordable Housing is available from the Cato Institute in paperback for $9.95. ■

Aid Conference (Cont. from p. 5)

of 52 percent. In 1989–90, for example, the IMF doubled its new credit commitments—just before it secured a 50 percent increase in funding.

Melanie Tammen, director of Cato's Project on Global Economic Liberty, warned that unless Western nations stop imposing central planning advisers and multilateral development bank loans on emerging democratic-capitalist governments, Eastern Europe will face the economic paralysis Latin America suffers after years of World Bank loans. Asserting that the "last things nations in transition need are multilateral development bank loans to politicize their economies," Tammen argued that the World Bank and the new East European development bank cannot be "catalysts for radical change."

Other speakers included Nicholas Eberstadt, Pascal Wick, James Burnham, Sen. Don Nickles (R-Okla.), J. Michael Finger, Jim Powell, and David Osterfeld. ■

Rep. Edwards: Rein in FBI

A New Day Dawns: Capitalism Endorsed by Pope, Soviets

Cato Events

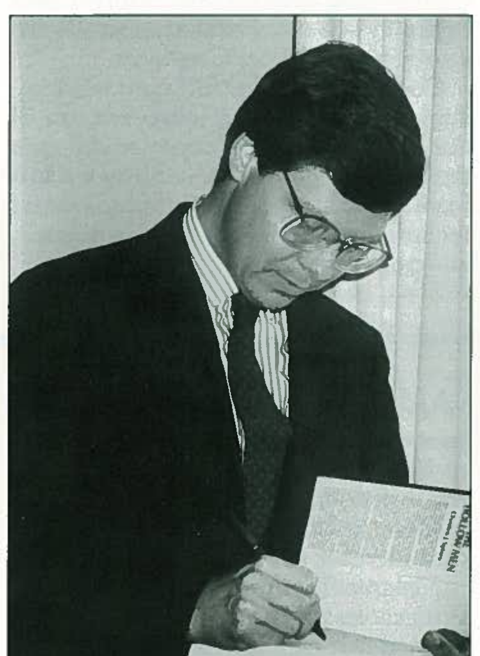
April 11: At a Policy Forum on **"Social Security Payroll Tax Cuts: Three Perspectives,"** Eduard Lopez, legislative assistant to Sen. Daniel P. Moynihan (D-N.Y.), outlined the senator's proposal to reduce Social Security taxes for most workers. Aldona Robbins of Fiscal Associates, Inc., and Peter J. Ferrara, a senior fellow of the Cato Institute, endorsed the proposal, and Ferrara urged that we move toward reliance on super IRAs for retirement income.

April 17: The possibility that a high-tech marketplace, instead of the high-cost welfare state, could provide low-cost housing for all Americans was the subject of a Cato Policy Forum, **"Let the Market Build Low-Cost Housing? The Promise of New Technology."** Edward D. Kelbish, president of Shelter Concepts Research, argued that eliminating current regulations on mobile and prefabricated homes would allow innovative housing technologies—such as the precast modular housing projects his company builds—to end the urban homeless problem. Jim Stimpson of the Department of Housing and Urban Development agreed that environmental barriers, zoning, and long waits for permits are among the methods used to curb growth. Bob Santucci of Urban Renovation Consultants commented.

April 20–22: Some 250 journalists were on hand to hear the Soviet Union's foremost free-market advocates speak at the second Cato Institute conference in Moscow, **"All the President's Men: Perestroika Yesterday, Today, Tomorrow."** Cosponsored by the Independent University and *Komsomolskaya Pravda*, the conference, which received wide media coverage, drew scores of Soviet reformers and radicals to discuss the economic and constitutional impact of moving to a market economy.

April 22: Charles J. Sykes discussed formal gag rules and the new McCarthyism that is quelling "politically incorrect" speech on American college campuses at a Cato Forum, **"Uncle Sam, Rock 'n' Roll, and Higher Education."** Sykes, author of *Profscam: Professors and the Demise of Higher Education* and *The Hollow Men: Politics and Corruption in Higher Education*, condemned the "culture of forbidden questions" that produces graduates neither versed in the traditional arts and sciences nor truly learned in the cultures of other societies. George Washington University president Stephen Joel Trachtenberg commented, agreeing that the problems raised by Sykes are important but insisting that American universities are still the world's best.

April 24: Walter K. Olson, a senior fellow at the Manhattan Institute for Policy Research, spoke at the Cato Institute on his recent book, ***The Litigation Explosion: What Happened When America Unleashed the Lawsuit.*** The excessive litigation that emerged in the 1970s damages the American economy as well as the legal system itself, Olson said. He argued that the modern discovery process amounts to an invasion of privacy and criticized the current legal system for forcing defendants to settle even meritless suits.



Charles J. Sykes autographs a copy of *The Hollow Men* after a Cato Policy Forum at which he criticized "political correctness" in higher education.

April 25: Janice Obuchowski, assistant secretary of commerce for communications and administrator of the National Telecommunications and Information Agency, explained the need for the United States to move **"Toward Market-Based Allocation of the Electromagnetic Spectrum"** at a Cato Policy Forum. She praised the Commerce Department's recent plan to sell the remaining unassigned frequencies on the spectrum at market prices instead of distributing them by lottery. Charles Jackson, vice president of National Economic Research Associates, discussed New Zealand's recent privatization of its electromagnetic spectrum.

May 7: At a Policy Forum sponsored by the Institute's Center for Constitutional Studies, **"The FBI First Amendment Protection Act,"** Rep. Don Edwards (D-Calif.) discussed the bill he and 50 cosponsors have introduced that would limit the FBI's authority to investigate and open files on Americans engaged in a wide range of constitutionally protected activities. In recent years files have been opened on school children who write to foreign embassies for information, members of Amnesty International who protest Soviet treatment of political prisoners, and library users who have Russian names. The Edwards bill would curtail surveillance of lawful activities yet enable the FBI to investigate activities reasonably believed to be criminal.

May 8: An international crowd filled the ballroom at Washington's Willard Hotel for the Cato Institute's conference on the International Monetary Fund and foreign aid, **"Multilateral Aid: Fostering Independence or Addiction?"** Speakers reconsidered the multilateral development bank model, looked at nations' increasing reliance on government-to-government loans, and discussed the possibility that trade and foreign investment could wean developing nations from annual aid infusions.

May 9: Present at a Cato Policy Forum on **"The Promise of Free Trade for North American Prosperity"** were William Niskanen of the Cato Institute, Michael A. Walker of the Fraser Institute in Vancouver, Roberto Salinas of the Center for Free Enterprise Research in Mexico City, Rep. Phil Crane (R-Ill.), and Rep. Bill Richardson (D-N.M.). The speakers addressed such myths as "jobs will move en masse to Mexico" and "the environment is threatened by regulatory 'harmonization'" and concluded that expanded capital, labor, and commercial markets will bring new jobs, investment opportunities, and consumer purchasing power to all North Americans.

George Washington University president Stephen Joel Trachtenberg tells a Policy Forum audience that academics need to take Charles Sykes's criticisms seriously.

May 9: The latest papal encyclical *Centesimus Annus* was the subject of a spirited Policy Forum, **"The Centennial Encyclical: Moving toward Capitalism?"** featuring Rev. Robert A. Sirico, C.S.P., president of the Acton Institute for the Study of Religion and Liberty, and Rev. David Hollenbach, S.J., professor of Christian ethics and Weston School of Theology visiting fellow at the Woodstock Theological Center. Sirico argued that, with its celebration of entrepreneurship and legitimization of capitalism, the document is the beginning of the Catholic Church's "full and vigorous dialogue with classical liberal ideas." Hollenbach sharply disagreed, declaring the document a challenge to the U.S. capitalist economy, not a blessing of it.

After a Cato Policy Forum, Rev. Robert Sirico, C.S.P., president of the Acton Institute, discusses Pope John Paul II's more positive assessment of capitalism in the latest papal encyclical.

May 14: At a Policy Forum on **"Should Regulation of AT&T Be Relaxed?"** Joe Nacchio of AT&T argued that the regulations should be changed to allow all providers to compete under the same rules. Patricia Diaz Dennis of US Sprint/United Telecom contended that AT&T still has a "lingering advantage," especially in the international market, that should be countered by regulation.

May 16: Cato staff members and friends joined free-market economic experts for a round-table luncheon with **Sen. Connie Mack** (R-Fla.). Mack expressed his concern with averting another thrift crisis, and several ideas for free-market banking and deposit insurance reform were proposed. The conversation turned to reforming the federal budget process in hopes of restoring discipline on Capitol Hill, and Mack called for a new federal budget act. Several people present urged Mack to support a pro-growth package of tax cuts.

May 21: J. Patrick Rooney of Golden Rule Insurance Co. and Thomas Susman of the West Virginia House of Delegates discussed proposals for **"Reaching America's Uninsured: Marketplace Solutions"** at a Cato Policy Forum. Rooney explained the self-insurance program his company has adopted for its employees. That program provides incentives to keep medical bills low since workers get to keep whatever funds remain in their insurance accounts at the end of the year. Susman discussed the mandated-benefits programs that are being considered by the West Virginia legislature.

May 23: Although Article II of the Constitution is a clear expression of the structural unity of the executive branch of the U.S. government, independent agencies have usurped the powers of the president, effectively forming a fourth branch of government that is overseen by no one, argued attorney Ted Olson at a Policy Forum, **"Are Independent Agencies Unconstitutional?"** He pointed out that the rise of independent agencies has produced inevitable bureaucratic inefficiencies and, more important, the systematic dismantling of the individual liberties once constitutionally guaranteed by the separation of powers and the system of checks and balances.

Cato chairman William A. Niskanen talks with federal judge Douglas Ginsburg and Brookings Institution economist Robert Crandall at a Cato forum in May.

June 5–6: Washington's Capital Hilton Hotel was the site of the Institute's first environmental conference, **"Global Environmental Crises: Science or Politics?"** A crowd of several hundred was present to hear the foremost environmental scientists and advocates discuss issues such as global warming, acid rain, and carbon dioxide emissions and debate free-market solutions to those problems. ■

Grigori Yavlinsky (left), coauthor of the 500-Day Plan for economic reform, waits to speak at the Cato Institute–*Komsomolskaya Pravda* conference in Moscow.

"To be governed..."

$1.45 trillion just doesn't go as far as it used to

There's no money to spend. It's no fun being a congressman if there's no money.

—Eleanor Clift on "The McLaughlin Group," Apr. 7, 1991

Hope springs eternal

"You have to figure out about a thousand equations to be able to make any prediction about the direction of the economy," states an impatient Cynthia Latta, senior economist for McGraw-Hill's Data Research Institute, perhaps the country's premier economic forecasting service. "You have to know algebra, you have to know high-level econometric reasoning in order just to talk about this."

—(New York) *Downtown Express*, Mar. 27, 1991

At least not after 1066

In the first address by a British monarch to the U.S. Congress, Queen Elizabeth II yesterday [said that] . . . the United States and Britain viewed the Iraqi invasion of Kuwait in the same way, "an outrage to be reversed, both for the people of Kuwait and for the sake of the principle that naked aggression should not prevail."

—*Washington Post*, May 17, 1991

Still, Reagan would have prosecuted bank fraud

President Reagan thought that America needed no government at all. That isn't so. That's not what Harry Truman thought.

—Clark Clifford on the "MacNeil-Lehrer Newshour," May 17, 1991

Catching on at last

Through most of South Carolina's history, the people who set up and ran state government have had two main priorities: Keeping power out of the hands of black people. Keeping power out of the hands of everybody else.

—(Columbia, S.C.) *State*, May 5, 1991

Toeing the party line

To consumer advocate Ralph Nader, there's something "unseemly" about a publisher that releases President Reagan's book one year, and before a decent interval has passed, publishes the Kitty Kelley attack on his wife. Nader . . . said that "you like to think that a publisher prints a book because of a conviction to it, but it seems to be whatever sells. They don't care about the context."

—*Washington Post*, Apr. 10, 1991

Of course! *Tax compliance* is what the Soviet economy needs

A team of four Hoover Institution fellows . . . will provide advice on economic reform issues [to the Russian government of Boris Yeltsin]. . . .

Russia lacks both the mechanism of tax administration and a tradition of tax compliance. Most revenues should be collected through withholding, [Charles] McLure said. . . .

A moderately progressive rate structure, with a top rate as low as possible—no more than 50 percent . . . would avoid disincentives and distortions, he said.

—Hoover Institution Newsletter, Spring 1991

Vote Tully: Experienced, informed

John Johnson, a candidate for mayor in Austin's municipal elections . . . was an alias for John P. Tully, a New Jersey Campisi family mobster turned FBI informant who had served time for murder and cocaine smuggling and then . . . began a new life in the federal witness protection program. . . .

Tully said the only difference between his candidacy and those of most politicians is that he was a thief and a thug before seeking office whereas the others "get into office and then start crooking."

—*Washington Post*, Apr. 7, 1991

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