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The Communist Road to Self-Enslavement

by Karl R. Popper

No theoretician contributed as much to the downfall of communism—or socialism—as did Friedrich August von Hayek. He did so nowhere more forcefully than in his small book *The Road to Serfdom*, first published in 1944, when the end of the Second World War was in sight.¹ He followed it up with many excellent works—books as well as articles. The most important of these were *The Constitution of Liberty*, published in 1960,² and the three volumes

Sir Karl Popper, the pre-eminent philosopher of science of our time, is Professor Emeritus at the University of London and the author of many books, including *The Open Society and Its Enemies*. His long correspondence with F. A. Hayek will appear as Vol. XIX of the Collected Works of F. A. Hayek. These remarks, subtitled "How the Communist Slave-Owners Enslaved Their Brains and Thereby Themselves," were delivered for Sir Karl at the annual meeting of the American Economic Association, New Orleans, January 4, 1992. Copyright © 1992 by Karl R. Popper.

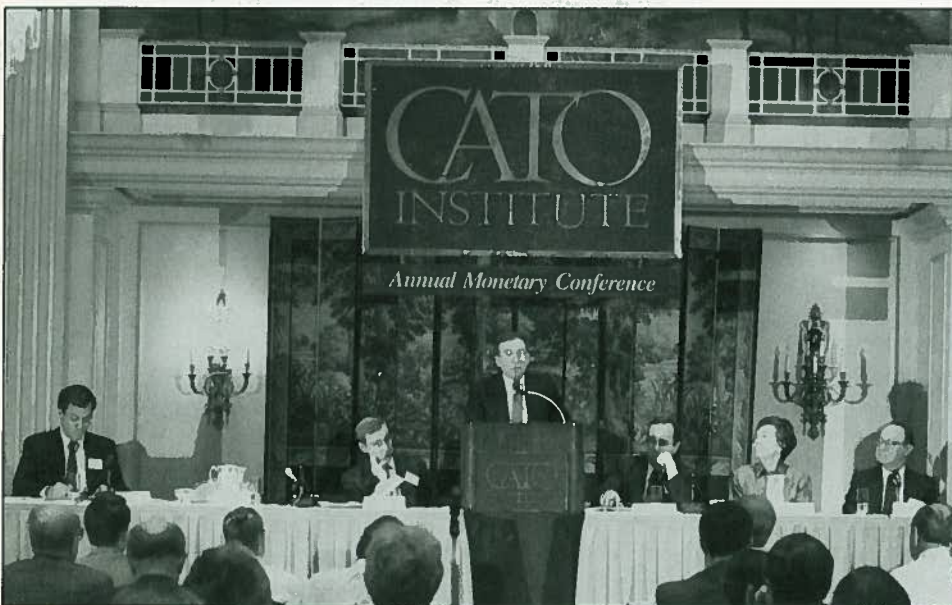
of *Law, Legislation and Liberty*, published between 1973 and 1979.³ When he was 89, he published, supported by W. W. Bartley, a most successful book, *The Fatal Conceit* (1989).⁴ These books form an extraordinary series of scholarly works that, at the same time, are hammer blows against totalitarianism. They contributed much to the fall of Khrushchev's Berlin Wall and of Stalin's Iron Curtain.

But Hayek did not confine himself to writing these politically so amazingly powerful works. Although a great scholar and distinguished gentleman, rather reserved in his way of living, thinking, and teaching, and averse to taking political action, he founded, shortly after the Second World War, the Mont Pèlerin Society. Its function was to provide a balance to the countless intellectuals who opted for socialism. Hayek felt that more had to be done than writing papers and books. So he founded a society of scholars and practical economists who were opposed to the fashionable socialist trend

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of the majority of intellectuals who believed in a socialist future. The society was founded in Switzerland in 1947 on Mont Pèlerin, on the southern shores of Lake Geneva. I had the honor of being invited by Hayek to be one of the founder-members. Among the surviving founders are Milton Friedman and Aaron Director. This society still exists; and for many years it has exerted a considerable influence within the ranks of the intellectuals, especially the economists. Its first and perhaps greatest achievement was, I feel, to encourage those who were fighting the then overwhelming authority of John Maynard Keynes and his school. However, not being an economist myself, I am probably not competent to assess the historical influence of the Mont Pèlerin Society. This is a task—I think an important task—for future historians of economic doctrines and economic policies. Yet having been for many years a member of the London School of Economics, I could experience the growing undermining of leftist teaching which, in the first few years after the war, had been immensely powerful.



Federal Reserve governor Wayne Angell discusses a new monetary standard for Russia at Cato's Tenth Annual Monetary Conference in March. Steve H. Hanke, Lars Jeurling, Alan Reynolds, Anna J. Schwartz, and Allan H. Meltzer listen.

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Hayek, Brookes, and the Fatal Conceit of Socialism

President's Message



In the past few months we have lost two of the great champions of a free society and the market-liberal vision. In December the brilliant economic and investigative journalist Warren Brookes passed away suddenly. In March the author of the classic book *The Road to Serfdom*, Nobel laureate in economics F. A. Hayek, died after an extended illness.

Both of those remarkable men had close ties to the Cato Institute. Hayek was the intellectual godfather of many of the policy staff here, and years ago he graciously accepted the honorary affiliation of Distinguished Senior Fellow. Brookes often wrote about Cato studies, had spoken at two of our Benefactor Summits, and was planning to write a book for us on environmental issues at the time of his death.

The magnitude of the loss we have suffered cannot be overstated, of course; indeed it is being underscored by the misguided policies being offered by all the major candidates for president in this election year. Each suffers from what Hayek termed the "fatal conceit"—the idea that smart planners in government can somehow coercively structure societal arrangements so as to optimize our well-being. The principles of strictly limited government and individual liberty have not been foremost on the minds of any of this year's crop of presidential aspirants.

The problem, as Brookes would have put it, is that the politicians have an essentially materialistic view of the world. At lunch just a week before his untimely demise, Warren said to me with his trademark twinkle in the eye and schoolboy enthusiasm, "You know, the bottom line is that statism is materialistic and liberty [or the market-liberal perspective] is fundamentally spiritual."

Brookes once authored a book, *The Economy in Mind*, the title of which was intended to drive home the non-materialistic nature of economic progress. "After all," he wrote a couple of years ago, "economic activity is about adding value. But in its essence, value is spiritual, the expression of qualities of thought: self-discipline, order, self-respect, honesty, integrity, respect for others. Societies with strong spiritual values tend to generate economic value and expand. Societies with too-materialistic values ultimately fall in disrepair and decay."

And Hayek wrote in *The Constitution of Liberty* that "the growth of knowledge is of such special importance because, while the material resources will always remain scarce . . . , the uses of new knowledge are unrestricted. . . . It is through this free gift of the knowledge acquired by the experiments of some members of society that general progress is made possible."

Hayek and Brookes knew that the statists, the socialists, the redistributionists never understand the subjective nature of economic progress. They think of wealth as material, when in fact it is intellectual. They view capital as a physical phenomenon rather than an intellectual one. In their view, for instance, the Third World lacks capital, so money must be physically ripped off from the developed world and delivered to the Third World if there is to be any hope.

But the Third World doesn't lack capital at all. It lacks something spiritual, in Warren's sense of the word. It lacks the *idea* of private property, the *idea* of the sanctity of contract, the *idea* of the right to make a profit. Instill those ideas and—presto!—the Third World is awash in capital.

The redistributionists see the material wealth of some and want to forcibly give it to others, not recognizing that in doing so they will eventually make everyone worse off, in particular the poor. The socialists see a capitalist television factory operate and attempt to copy it, not recognizing all the subtle incentives, contractual relations, and *non-materialistic* elements that are really what make it work. Then they wonder why their TV sets explode.

The irony, of which Hayek and Brookes were keenly aware, is that statism fails to deliver material progress precisely because materialism is what statism myopically focuses on. Liberty, on the other hand, does deliver material prosperity, precisely because it pays no attention to material things at all: it focuses on the idea of human freedom. In a free society resources are directed by the individual, subjective values of millions of people. In a statist society resources are directed by bureaucrats who invariably suffer the Hayekian "fatal conceit."

The idea of human freedom literally transcends what those with a governmental mentality perceive as inherent material limitations facing society. Twenty years ago the statists were predicting \$200 a barrel for oil, but the freedom of entrepreneurs to find ways to increase energy efficiency has meant that oil is cheaper today in real terms than ever before.

You may be aware of the bet that Julian Simon, a Cato adjunct scholar, made with the noted environmentalist Paul Ehrlich about whether a list of commodities would cost more or less in real terms over a five-year period. Ehrlich, who looks at the world through the statist paradigm, assumed he had a sure thing. How could scarce resources not go up in price over time? Simon, who understands the idea and dynamic of human freedom, won the bet.

It's easy to get discouraged as we listen to calls for industrial policies, protectionism, income redistribution, and various other reflections of the materialist/statist worldview coming from the major presidential candidates. We should take comfort in the fact that the ideas of F. A. Hayek and Warren Brookes will be around long after the sorry presidential campaign of 1992 is gone and forgotten.

—Edward H. Crane

Tenth Annual Monetary Conference

Ex-Communist Nations Need Sound Money, It's Agreed; Currency Boards, Gold-Backed Ruble, or Free Banking?

Stable money is fundamental to the successful passage from socialism to capitalism. That was the consensus of the international group of market liberals who met in March at the Cato Institute's 10th Annual Monetary Conference, "Money in Transition: From Plan to Market." The two-day Washington conference, directed by James Dorn, vice president for academic affairs, featured monetary experts and policymakers from several countries, including Russia, Ukraine, and Czechoslovakia.

A high point of the conference was the luncheon speech by Vaclav Klaus, finance minister of Czechoslovakia. Klaus spoke about the difficulties of making the transition from a command to a free economy. Other speakers who

have had direct experience with economies moving away from socialism were Oleksander V. Savchenko, former senior deputy governor of the National Bank of Ukraine; Oleg Bogomolov, an adviser to Russian president Boris Yeltsin and director of the Institute of International Economic and Political Studies; and Nikolai Petrakov, director of the Market Institute at the Russian Academy of Sciences and former economic adviser to Mikhail Gorbachev.

Savchenko discussed the problems of a separate currency for Ukraine. Bogomolov and Petrakov addressed the need for privatization and monetary stabilization to avoid hyperinflation. Bogomolov said hyperinflation could be prevented by quickly privatizing housing and capital assets and by anchoring the ruble to a commodity-backed parallel currency (chervonets) that would be freely convertible into hard currencies.

Other methods of transition were proposed by several speakers. Steve Hanke of Johns Hopkins University presented his and Kurt Schuler's widely discussed proposal for a currency board, under which the ruble or new currencies in the former Soviet republics would be fully backed by a Western currency. Alan Reynolds of the Hudson Institute proposed a gold-backed ruble similar, ironically, to that introduced by Lenin in 1921. Annelise Anderson of the Hoover Institution called

for free banking and the private, competitive issue of currency.

Among the other participants were Malcolm S. Forbes, Jr., editor-in-chief of *Forbes*; Judy Shelton of the Hoover Institution; Anna J. Schwartz of the National Bureau of Economic Research; Allan H. Meltzer of Carnegie Mellon University; Pedro Schwartz of National Economic Research Associates; Paul Craig Roberts of the Center for Strategic and International Studies; Jerry L. Jordan of the Federal Reserve Bank of Cleveland; Wayne Angell of the Federal Reserve Board of Governors; Peter Boettke of New York University; George Selgin of the University of Georgia; Franklyn Holzman of Tufts University; and Cato chairman William Niskanen.



Malcolm S. Forbes, Jr., editor-in-chief of *Forbes*, opens the monetary conference with a discussion of money and the market.



Czechoslovakian finance minister Vaclav Klaus gives the luncheon address at Cato's Tenth Annual Monetary Conference.

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Helping to Save At-Risk Youth

Mexico, Haiti, and South Africa Are Subjects of Forums

Cato Events

February 13: A Policy Forum examined "The Constitutional Future of South Africa" with talks by four speakers: George B. N. Ayittey of American University, author of a forthcoming Cato book, *Africa Betrayed*; Walter E. Williams of George Mason University, author of *South Africa's War against Capitalism*; Cato chairman William A. Niskanen; and Mangosuthu Gatsha Buthelezi, chief minister, Kwazulu Legislative Assembly. They discussed the importance of private property, free markets, and limited constitutional democracy.

February 18: Cato adjunct scholar Richard A. Epstein, professor of law at the University of Chicago, and John Echeverria, chief counsel to the National Audubon Society, debated the question "Are Property Rights Opposed to Environmental Protection?" *Lucas v. South Carolina Coastal Council* at a special Policy Forum. Epstein argued that the government authority that seeks to bar a South Carolina resident from building on his beach-front property had not shown that his plans were dangerous to anyone; thus the regulation is a "taking" that requires compensation under the Fifth Amendment. Echeverria responded that the prohibition on Lucas's building on his property was not a taking but an abatement of threatening behavior and therefore requires no compensation.

February 25: A noon Policy Forum entitled "Ozone Nonattainment: A \$26 Billion Charade" focused on the Environmental Protection Agency's study of urban smog. K. H. Jones, president of Zephyr Consulting, argued that most of the urban areas designated as "ozone nonattainment" regions by the EPA are actually in compliance with federal standards. He argued that by including 1991 data, which reflected favorable weather conditions, in the calculations and facilitating the appeals process, which is already available to nonattainment regions, the Bush administration could begin lifting a \$26 billion annual



Mangosuthu G. Buthelezi, chief minister of the KwaZulu Legislative Assembly, greets participants after his address at a Cato Policy Forum, "The Constitutional Future of South Africa."

regulatory burden. David Hawkins, senior scientist at the Natural Resources Defense Council, argued that the pollution controls are needed because the weather data Jones wants to include are exceptional and smog remains a long-term problem.

February 27: "The Haitian Boat People: Should America Re-Open the Gates?" was the issue debated at a Policy Forum. Rep. Bill McCollum (R-Fla.) said that most of the boat people are economic, not political, refugees and thus do not qualify for asylum. He warned that allowing the Haitians to stay would be an invitation to many others to come to the United States. Wade Henderson, Washington director of the NAACP, countered that there is evidence that returnees are being persecuted by an oppressive



Rep. Bill McCollum (left) and Wade Henderson, Washington director of the NAACP, debate whether Haitian immigrants should be sent back.

regime and that the U.S. government is denying the boat people due process. He said the administration's asylum policy reflects a double standard and suggested that the Haitians are being turned back because they are black.

February 28: A Policy Forum addressed "Predatory Pricing: Where's the Beef?" Cato adjunct scholar Thomas J. DiLorenzo, an economics professor at the University of Tennessee at Chattanooga, argued that there is no need for legislation to protect independent gasoline dealers against predatory pricing by major oil companies because such pricing is irrational. DiLorenzo said no businessman would commit to a strategy of cutting prices and losing money for an indefinite period in hopes of driving out competitors and later being able to raise prices to monopoly levels. He added that since competition is a rivalry, selling below cost is a normal practice that historically has not led to monopoly. Phil Chisholm of the Petroleum Marketers Association of America argued that independent gasoline retailers were harmed during the Persian Gulf crisis when major oil companies charged their own retailers below-cost prices and charged the independents more. He conceded that there was no predatory intent and no likelihood of monopoly emerging from that pricing policy.

March 5-6: Monetary experts from around the world participated in Cato's 10th Annual Monetary Conference,



Roberto Salinas-Leon, academic director of the Mexico City think tank CISLE and an adjunct scholar of the Cato Institute, discusses the North American Free Trade Agreement as Ian Vasquez, assistant director of Cato's Project on Global Economic Liberty, listens.

"Money in Transition: From Plan to Market." Speakers included Vaclav Klaus, finance minister of Czechoslovakia; Malcolm S. Forbes, Jr., editor-in-chief of *Forbes*; Paul Craig Roberts of the Center for Strategic and International Studies; Wayne Angell, a member of the Federal Reserve Board of Governors; Nikolai Petrakov, an economic adviser to former Soviet president Mikhail Gorbachev; Oleksander V. Savchenko, formerly of the National Bank of Ukraine; Oleg Bogomolov of the Institute of International Economic and Political Studies (Russia); Pedro Schwartz of the National Economic Research Associates (Spain); and Annelise Anderson and Judy Shelton, both of the Hoover Institution. The papers focused on methods of moving from a state-controlled monetary system to a market-based monetary system.

March 12: A Policy Forum examined "The United States and Mexico: International Competitiveness and Free Trade." Roberto Salinas-Leon, academic director of Mexico's Center for Free Enterprise Research, gave a glowing report on the liberalization and privatization of the Mexican economy, but he lamented Mexico's dependence on foreign aid to finance the so-called strategic state-run sectors of its economy. He advocated a switch from aid to trade. James Bovard, Cato associate policy

analyst and author of *The Fair Trade Fraud*, criticized the pervasive protectionism of the United States and emphasized the harm U.S. trade barriers cause Mexican producers.

March 23: A Policy Forum explored the question "Should Government Rush to Regulate Credit Information?" Daniel Klein, assistant professor of economics at the University of California at Irvine, argued that proposed regulations on credit bureaus, ostensibly to protect consumers' privacy, ignore the legitimate role of credit bureaus. By driving up the bureaus' costs and compromising the completeness of credit records, the new regulations would par-



Oleksander Savchenko of the Central Bank of Ukraine and Nikolai Petrakov, former economic adviser to Mikhail Gorbachev, were among the international policymakers discussing monetary aspects of the transition to a market economy at Cato's Tenth Annual Monetary Conference.

ticularly hurt consumers with the weakest credit standing. Klein also pointed out that bureaus and creditors have an interest in accuracy. Ed Mierzwinski of the U.S. Public Interest Research Group defended the regulations on the grounds that credit reports are full of errors and current law forbids consumers' suing credit bureaus for damage caused by erroneous reports.

March 25: "Teaching Entrepreneurship to At-Risk Youth" was the topic of a Policy Forum. Steve Mariotti, president of the National Foundation for Teaching Entrepreneurship, explained his program that teaches inner-city students how to start their own businesses. The program, highlighted twice on "ABC News," has helped students develop self-esteem and key skills and kept them from turning to crime.

March 31: A Cato conference was held on "The New World Order and Its Alternatives: America's Role in the 1990s." Among the speakers who proposed options for America foreign policy in the post-Cold War era were Sen. Charles E. Grassley (R-Iowa); Cato senior fellow Doug Bandow; Richard Rosecrance of UCLA; Owen Harries, editor of *National Interest*; Joseph S. Nye, Jr., of the Harvard University Center for International Affairs; Jenonne Walker of the Carnegie Endowment for International Peace; Earl Ravenal of Georgetown University; Ben Wattenberg of the American Enterprise Institute; Leonard Liggio of the Institute for Humane Studies; and Ted Galen Carpenter, Cato's director of foreign policy studies. ■



Property Rights and Environmental Protection

Policy Forum

In December 1986 David H. Lucas purchased two undeveloped waterfront lots, which were zoned for single-family homes, on the Isle of Palms, South Carolina. Lucas's intention was to build one home to sell and a second as his own residence. In 1988, after Hurricane Hugo, South Carolina passed the Beachfront Management Act, which prohibited all new construction beyond certain setback lines and thereby rendered Lucas's property essentially useless for the purposes he had intended. The trial court found that the BMA constituted a "taking" and awarded Lucas compensation. The South Carolina Supreme Court reversed that decision, and Lucas appealed to the U.S. Supreme Court, which will soon decide whether government must compensate property owners under the Fifth Amendment's takings clause when it forbids them to develop their land.

On February 18, 1992, the Cato Institute sponsored a debate, "Are Property Rights Opposed to Environmental Protection?: Lucas v. South Carolina Coastal Council," between Cato adjunct scholar Richard Epstein, James Parker Hall Distinguished Professor of Law at the University of Chicago and author of *Takings: Private Property and the Power of Eminent Domain*, and John Echeverria, chief counsel to the National Audubon Society. Excerpts from the debate follow.

Richard Epstein: If you understand exactly what a comprehensive system of property rights entails, not only do you say that there is no opposition between property rights and environmentalism, but you also say that property rights and environmental claims are mutually supportive when correctly understood.

Even though we recognize zones of autonomy, there have to be some limitations on what property owners can do with their own. It is in those limitations, I think, that one finds the effective reconciliation of property rights and environmental concerns.

The common law of nuisance, which developed over time to police disputes

between property owners, is best understood as a mechanism designed to arbitrate and to reconcile disputes so as to maximize the value of each person's respective property holdings. The moment one starts to deviate from that understanding, there will be excesses in one direction or the other. If landowners, for example, are entitled to pollute more or less at will, then activities that are relatively small in value will be allowed to continue even though they cause enormous harms to other individuals. And if a system of land-



Richard Epstein: "The position of the environmentalists on [takings] is, 'We will allow you to keep the rind of the orange as long as we can suck out all of its juice.'"

use restrictions is imposed as a matter of positive law when there are no such externalities, relatively trivial gains will be exacted at the cost of enormous private losses. The system must maximize the value of inconsistent claims under general rules.

The eminent domain clause of the Fifth Amendment says, "Nor shall private property be taken for public use without just compensation." It says nothing of the justifications for governments' assuming control of property without compensating the owners—an activity that goes under the heading of police power. Therefore, to understand *Lucas*, we must first ask what kinds of activities engaged in by government do constitute a taking, that is, do move into the sphere of protected liberties. Then we must ask whether we can find some kind of public justification for

the restrictions thus imposed.

On the first issue, it is quite clear that the common law did not draw a distinction that the constitutional lawyers insist on drawing: the modern claim that there is a vast distance between physical occupation by government and a mere regulation or restriction of use. That contemporary distinction is designed to say that we don't have to look closely at anything government does if it leaves a person in bare possession of his property.

In effect, the position of the environmentalists on this issue is, "We will allow you to keep the rind of the orange as long as we can suck out all of its juice for our own particular benefit." But exclusive possession of property is not an end in itself. The reason you want exclusive possession is to make some use of your property, and if you can't make good use of it, you'd like to be able to sell or trade it to somebody else. The modern law essentially says that all those use and disposition decisions are subject to public veto.

What's wrong with that? Chiefly, it encourages a massive amount of irresponsible behavior on the part of government in its treatment of private endeavors. Essentially, a government now knows that it can attain 90 percent of its objectives and pay nothing. Why, then, would it ever bother to assume the enormous burden of occupying land for which it would then have to pay full market value? Thus, we see government regulations pushing further and further, regardless of private losses, which will never be reflected on the public ledgers—precisely the situation we find in *Lucas*.

We have in *Lucas* a change in value brought about, not because people don't want to live on the beach anymore, but because they are prohibited from using their land in the ordinary fashion. And the simplest question to ask is, what kinds of public benefits could justify that private loss?

Nobody on the Isle of Palms or anywhere else along the Carolina coast regards the restrictions in question as having been enacted for his benefit. We know that because before the regulation was imposed, land values were

very high and appreciating rapidly; after the regulation was imposed, everybody who was subject to it was wiped out. When we see such a huge wipe-out, we have to look for the explanation of the statute that caused it, not in the protection of the local community, but in external third-party interests who will gain something, although far less than the landowners have lost.

In the usual case, when we take property for public use, we want to make sure that there's no disproportionate burden on the affected parties, but that consideration is rightly discarded when we can say to a particular fellow that we're concentrating losses on him because he has done something of great danger to the public at large. So we now have to think about Mr. Lucas's one-family house sitting on the beach front and find in it the kind of terror that might be associated with heavy explosives or ongoing, menacing pollution.

Can we do it? I think the question almost answers itself. There is no way that we can get within a thousand miles of a common law nuisance on the facts of this particular case. There is no immediate threat of erosion. We're told we're really worried about the infliction of serious external harms. Can we get an injunction on the grounds that the roof might blow off a particular building and land in the hapless fields of a neighbor? The question again more or less answers itself.

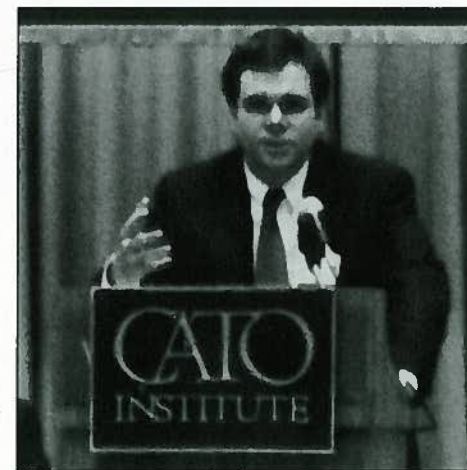
The original statute made very little if any reference whatsoever to the problem of safety. It referred instead to promoting leisure among South Carolina citizens, promoting tourism, and promoting a general form of retreat. The moment we see safety introduced during litigation, we have to wonder whether it's a pretext for some other cause.

Another difficulty involves the breadth of the restriction. If the concern is hurricane damage, the appropriate solution is, not to limit the statute in question to just beach-front owners, but to pass a general order that says: after Hurricane Hugo, nobody is entitled to rebuild in South Carolina—in Charleston or anywhere else.

There's also the question of the relationship between means and ends. If there was \$10 billion worth of damage attributable to the hurricane, at least \$100 of that damage must have been

attributable to flying debris and falling houses. That is a trivial problem, and even if it were serious, there are surely better ways of dealing with it. We might say, for example, that anybody whose house could be found littering the beach had to remove all debris.

We hear over and over again that the government's environmental programs will shrink in size if compensation is required in *Lucas*. Those programs should shrink, because when government is allowed to take without compensation, it claims too much for environmental causes relative to other kinds of causes that command equal attention. Unless we introduce a system that re-



John Echeverria: "The Supreme Court has never held, and I predict will never hold, that economic injury, standing alone, is sufficient grounds for a Fifth Amendment claim."

quires the government to take and pay when it restricts private use not associated with the prevention of harms, we'll face an institutional overclaiming problem. The expansion of government will become the major issue. The just compensation clause is designed to work a perfectly sensible and moderate accommodation, to force the government to make responsible choices.

John Echeverria: As everybody in this room knows, our national politics is driven by sound bites. The same is true in a judicial context. The hard facts of a particular case can make bad law, and the sound bite in this case is that David Lucas purchased a piece of property for about \$1 million and two years later the South Carolina legislature passed a law that left him with nothing. But that's the sound bite, and the

sound bite obscures the entirely genuine and legitimate goals that the South Carolina legislature had in mind—to prevent harms to the public, which are not trivial concerns.

My goal in this debate is to convince you that once you get past the sound bite of the impact on Lucas, you'll understand that the Supreme Court should and will conclude that there was no taking in this case. Before I get into it though, and I want to try to correct the sound bite by reciting to you the facts of a case the Supreme Court dealt with in 1987. That case involved a similar kind of regulation and raised the same fundamental issues of principle but leads to quite a different sound bite. I am referring to *First English Evangelical Lutheran Church v. County of Los Angeles*. The church had set up a camp for handicapped children in a flood plain, and a fire occurred in the watershed upstream from the camp. The county recognized immediately that there was enormous danger, since the vegetation had been removed, that flood waters could come down the river and wipe out the camp. In fact, a storm did occur, a flood did occur, and the camp was completely wiped out. In response, the county put in place an interim ordinance that said there could be no inhabitable structures, which could be wiped out once again, within the flood plain. When the Supreme Court got the case it did not resolve it on the merits. Instead, it used that case to reach the conclusion that a temporary taking is compensable under the Fifth Amendment. But in the dissenting opinion, several of the justices said there was no question that the ordinance was a valid public health and safety regulation and there was no taking. And Chief Justice Rehnquist said that the Court didn't have to touch that issue and would leave it to the lower courts to find out whether there had been a taking. The case was sent back to the lower courts. No taking was found, and when the case went up for review, the Supreme Court, which probably has some understanding of sound bites itself, declined to review it.

Lucas, as it was actually presented to the trial court, is actually a fairly easy case, in my view. The Supreme Court should conclude that Lucas did not establish a taking because he presented

Property Rights (Cont. from p. 7)

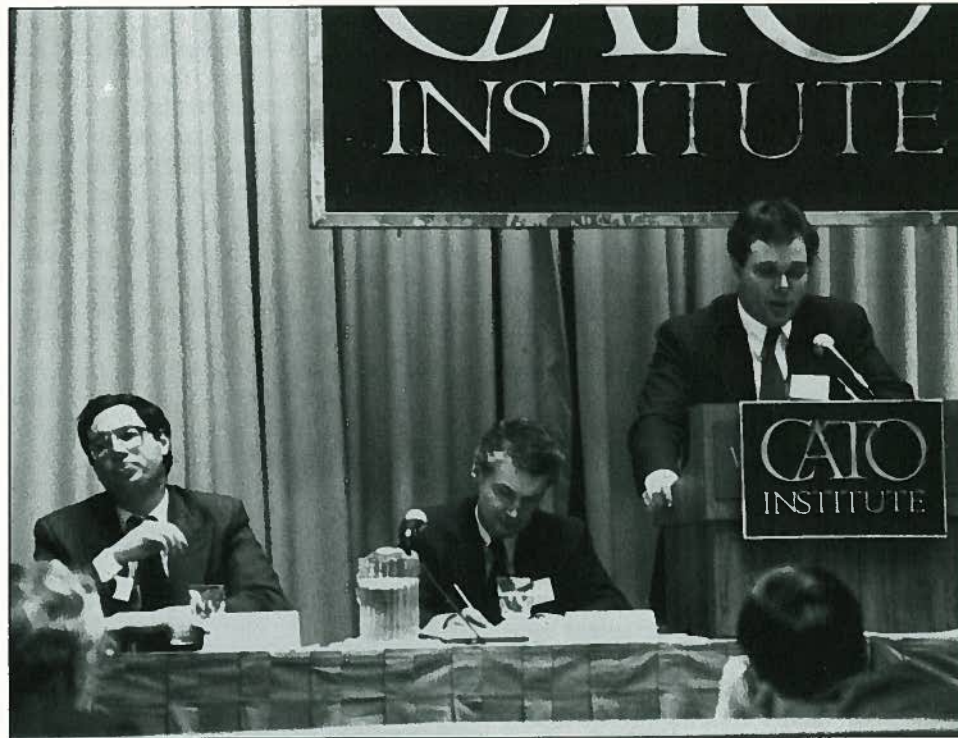
his claim based on the completely preposterous theory that if he suffered economic harm, that alone, regardless of any other consideration, entitled him to compensation under the Fifth Amendment. The fact of the matter is that the Supreme Court has never held, and I predict will never hold, that economic injury, standing alone, is sufficient grounds for a Fifth Amendment claim. The Court has consistently rejected that way of thinking for several reasons. First, the Court has recognized that every piece of property held in the United States is subject to the condition that it can't be used to harm others. That goes back to common law. Property rights are not absolute. They're conditional upon a responsibility to the community in which one resides.

The Department of Justice recommended initially that the United States in its brief take the position that economic harm, standing alone, constitutes a taking. Happily, wiser heads prevailed, and the solicitor general filed a brief that specifically repudiated that theory.

Richard Epstein, in his amicus brief, admits that a complete wipeout does not, by itself, make out a taking. We disagree about the range of activities in which the government can engage to prevent public harm without providing compensation. But we agree that within that range of activities, the government can act to prevent harm and no compensation is due regardless of the impact. I think it's on that issue that this case will basically turn.

Epstein's point, at least as I understand it from his brief, is that the burden of proof is on the government to show the legitimacy of the regulation, to show that it is in fact a public harm—prevention measure. But again, one doesn't have a property interest in harming others, and if the government is trying to prevent a landowner from harming others, then there's simply no taking.

I think that Epstein and I agree that there is a line between private property and the ability of people to impose external harms on others and to harm the general public by the use of property. The question is, where is that line drawn and on what side of the line does this particular regulation fall?



Richard Epstein expresses disdain and Cato senior fellow Roger Pilon takes notes as John Echeverria, chief counsel to the National Audubon Society, speaks at a Cato luncheon on the South Carolina takings case currently before the Supreme Court.

I submit that the harm the South Carolina legislature was trying to deal with here was both very real and very substantial. Barrier islands are not like other real estate. They literally migrate; they move. They're unconsolidated sandy sediments that migrate laterally up and down the shore and landward in response to the action of waves and winds. They are unstable areas that are very hazardous for construction. Barrier islands in the natural state provide the most important defense for coastal areas against the effects of storms, high winds, and storm surges associated with hurricanes. Building on the beach dune system, which destroys the dune, or trying to stabilize the dune fundamentally undermines the integrity of the system. Sand naturally moves from a dune down to the beach area, replenishing the beach and allowing it to serve as a barrier to storms. If the beach dune system is stabilized, its natural function is destroyed.

It is not simply a question of harm to somebody who builds on such an unstable area, although I think there are some reasons to support paternalism in some circumstances. It is also a question of harm to others. Landward

properties depend on the defense provided by the beach dune system. If that system is destroyed, those properties are exposed to storm damage. Epstein belittled what the coastal geologists refer to as projectile damage, but it's a very real phenomenon. Buildings that are on the ocean shore in front of or on top of the dunes are particularly exposed to the effects of wind and storms. After Hurricane Hugo in South Carolina, the primary adverse effects on landward structures were found to be due precisely to exposed properties that were hurled landward. All of those risks also have to be considered in light of global warming and a consequent sea level rise—again, exacerbating the hazardous nature of construction on the ocean shore and the dangers to other property owners posed by such construction.

The South Carolina Beachfront Management Act is an entirely rational, thoughtful, well-tailored response to a public hazard. The first purpose of the act, and clearly the primary purpose as recited in the act itself, is to protect the public. The act recites the fact that beaches are important recreational areas and identifies other public purposes that are served by the beaches. But what is

most clear is that the regulation at issue here is specifically tailored to address a public-hazard problem.

My final point, and perhaps the most important, is that the statute specifically provided that Mr. Lucas, if he believed the line drawn pursuant to the legislative scheme was unfair, could present evidence to the coastal council and explain that the line on his property should be drawn at a different point. He never took advantage of that opportunity. He simply said, "I've been hurt and I am entitled to compensation." I believe the Supreme Court will disagree.

Epstein: According to Mr. Echeverria, it would be within the state's power to order everybody who has a home on those islands to dismantle it immediately so that there would be no flying roofs to hurt anybody else. The state could order the demolition of old construction as well as enjoin new construction.

Moreover, the beach front is not the only area peculiarly exposed to the environmental and hurricane risks that we're talking about. What about Charleston? It's also exposed to those risks. Do we say, in effect, that in the name of environmental protection we must raze the entire city without compensation because somebody's house might fall on somebody else's?

This is not a question of environmental interaction. We now have a set of restrictions that promises to cause billions in private losses, and we've heard it said that we can stop houses from being knocked down by ordering them to be razed.

There is no sense of proportion or balance in Echeverria's position. An ounce of environmental angst is sufficient to allow draconian measures that forbid the very activities that enable people to use the environment constructively. This is a classic case of overclaiming, which occurs because the environmental lobby can go to the state legislature and say, "Let us have our way. You're not going to have to pay for this." And environmentalists can prove that the benefit is greater than the political cost. But that's the wrong test. From a social point of view, the right test is whether the benefit is greater than the cost inflicted on the property holders.

Book: To Solve Health Care Crisis, Give Consumers More Clout on Costs

In today's bureaucratically dominated health care system, the patient's major role is to sign the forms that authorize one large, impersonal organization to release funds to another. A new Cato Institute book, *Patient Power: Solving America's Health Care Crisis*, by medical economists John C. Goodman and Gerald L. Musgrave, proposes that consumers be restored to their natural role in the market for medical care.

Government, through Medicare and Medicaid, buys close to half the health care provided in America today, the authors write. Most of the other half is paid for by insurance companies, through policies purchased by third parties, because the tax laws encourage people to rely on first-dollar health coverage from their employers. Goodman and Musgrave explain that when health care appears to be free or very cheap, people buy more than they would if they were paying the full cost. The resulting casual attitude toward shopping for health care drives up prices, which drives up insurance premiums, which creates hardships for business and those without insurance. That spiral eventually harms all users of health care, but the process is so circuitous that people fail to see the connection with their buying habits.

Goodman and Musgrave's solution is to restore power and responsibility to individual consumers. If individuals are allowed to deduct the cost of insurance, they will have a stake in finding



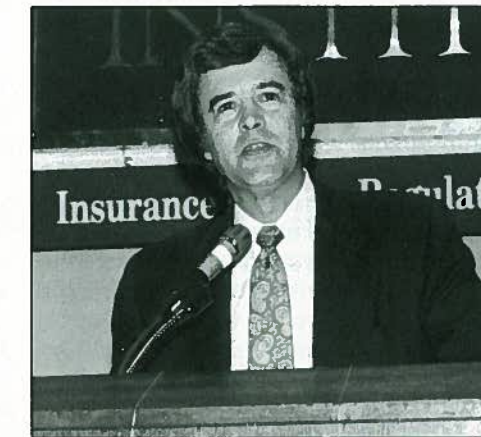
Gerald Musgrave

the best insurance value. And insurers will compete vigorously to provide it. Most consumers will discover that high-deductible insurance is a far better buy than low-deductible policies because the cost of handling small claims exceeds the benefits. To cover routine medical expenses, Goodman and Musgrave propose that consumers be free to set up tax-free medical savings accounts. Since the money in those accounts would be the property of individuals, they would have an incentive to spend wisely on health care. The money not spent would accumulate tax-free interest and could be used for health care and other needs during retirement.

The authors also propose solutions to the problems related to cost containment, malpractice, preventive care, long-term care, mandated benefits, and organ transplants.

"Play or pay" government schemes and full-blown national health insurance would only aggravate the worst problems of the current system, the authors write. Goodman and Musgrave's message is that just as government planning failed so spectacularly in the communist world, so it will fail—indeed, already has failed—in America's health care system. They write that their proposals would result in a competitive and innovative system of private medical enterprise.

Patient Power is available from the Cato Institute for \$16.95 in paperback, \$29.95 in cloth.



John Goodman

Self-Enslavement (Cont. from p. 1)

Justice demands that I point out that the movement, started by Hayek with his book *The Road to Serfdom*, had an important forerunner. I am alluding to Hayek's teacher, Ludwig von Mises, whom I first met early in 1935 in Vienna, owing to his interest in my first book.⁵ I met Hayek about six months later in London. It was Mises who advanced the first and fundamental modern criticism of socialism: that modern industry is based on a free market, and that socialism, and especially "social planning", was incompatible with a free-market economy and consequently bound to fail. ("Socialist planning" was in those days the most thrilling new slogan in intellectual circles.) This thesis of Ludwig von Mises was, as everyone can see today, of fundamental importance. Hayek was convinced—perhaps even converted; for he told me that he, like myself, was once in the days of his youth inclined towards socialism, and if my memory does not deceive me, he has said so somewhere in his published works. It is well to remember that Hayek was among the first to take over this immensely important thesis of Mises, that he greatly developed it, and that he added to it a most important second thesis—an answer to the problem: what will happen if a powerful government attempts to institute a socialist economy, that is, "socialist planning"? The answer was: this can be done only by force, by terror, by political enslavement. This second almost equally important thesis is, so far as I know, due to Hayek; and just as the earlier thesis of Ludwig von Mises was at once accepted by Hayek, so Hayek's thesis was almost at once accepted by Mises.

I must say again that I am neither an economist nor an historian of economic doctrines: the historical remarks just made may perhaps turn out not to be correct when all the historical documents, especially letters, have been examined. However, it may be of interest that things appeared this way to someone who, though not an economist, was not altogether an outsider.

Ludwig von Mises was, after Hayek, of course the most important founder-member of the Mont Pèlerin Society. I

was always very conscious of Mises' absolutely fundamental contribution, and I admired him greatly. I wish to emphasize this point since both he and I were aware of a strong opposition between our views in the field of the theory of knowledge and methodology. I think that Mises saw in me a dangerous opponent—perhaps one who had robbed him of the complete agreement of his greatest pupil, Hayek. Mises' methodology was, to put it briefly, subjectivist, and led him to claim absolutely certain truth for the principles of economic science. My methodology was objectivist, and led to the view that science is fallible and grows by the method of self-criticism and self-correction; or, to put it more elaborately, by the method of con-

"The acceptance of lies as the universal intellectual currency drives out truth—just as bad money drives out good money."

jecture and attempted refutation. I respected Mises, who was much older, far too much to begin a confrontation with him. He often talked to me, but he never went beyond allusions of dissent: he never really opened a discussion by direct criticism. Like myself, he appreciated that there was some common ground, and he knew that I had accepted his most fundamental theorems and that I greatly admired him for these. But he made it clear, by hints, that I was a dangerous person—although I never criticized his views even to Hayek; and I would even now not wish to do so. However, I have by now mentioned to several people the fact of my disagreement, without entering into critical arguments. So much about those distant days.

An Empire Ruled by Lies

I now wish to go one step beyond those days and to formulate the thesis

of this paper. It is this.

The demise of the Soviet Union can be perhaps explained, in the last instance, by economic collapse due to the absence of a free market; that is to say, by what I have called the first theorem due to Mises. But I think that the second theorem, the enslavement theorem due to Hayek, is even more important for understanding what has happened—and is still happening—in the former Soviet Empire. For this theorem has a most important corollary or appendix. It may be formulated as follows:

The road to serfdom leads to the disappearance of free and rational discussion; or, if you prefer, of the free market in ideas. But this has the most devastating effect on everybody, the so-called leaders included. It leads to a society in which empty verbiage rules the day; verbiage consisting very largely of lies issued by the leaders mainly for no purpose other than self-confirmation and self-glorification. But this marks the end of their ability to think. They themselves become the slaves of their lies, like everybody else. It is also the end of their ability to rule. They disappear, even as despots.

Of course, these are also, partly, matters of individual personal talents. But I suggest that they are mainly dependent upon the temporal length of the enslavement. The acceptance of lies as the universal intellectual currency drives out truth—just as bad money drives out good money.

Gorbachev was the first general secretary of the Communist Party of the Soviet Union to pay several personal visits to the West. I think it improbable that he understood much on his first or second visit. But he liked his reception and came again and again. And then he noticed something. I do not mean that the West was rich and that the U.S. worker was vastly better off than the Soviet worker. I mean that he noticed that the Soviet Empire was "not a normal country", as indeed he put it himself when he said that he hoped to make Soviet Russia "a normal country". He somehow noticed, probably subconsciously, that his own empire was suffering from a kind of suppressed mental disease; as indeed it was, together with all its leaders. It was the rule of lies.

The loss of freedom through the constant fear of terror is, indeed, a terrible

thing that deprives those who live under such circumstances of a part of their humanity: of their intellectual responsibility and also of part of their moral responsibility. First, they cannot protest where they should; then, they cannot help where they ought to help—not even their friends. Under Stalin, this affected everybody, even those highest in the hierarchy. All realistic and genuine thinking, all non-lying thinking, at least within the hierarchy, concentrated on personal survival. A picture of this—not a very open one—was painted in Khrushchev's mammoth speech (released by the U.S. Department of State on June 4, 1956) ending with: "Long live the victorious banner of our party—Leninism. (*Tumultuous prolonged applause ending in ovation. All rise.*)"⁶

But as we all know, Khrushchev was soon—not too soon—overthrown by the party bureaucracy; and his departure helped to accelerate the intellectual decline of the Communist Party hierarchy, within the Empire as well as outside it. In spite of the compulsory teaching of a highly complex Marxist-Leninist ideology, including a philosophy called "Dialectical Materialism", all that remained of this theory was the following historical dogma (I am quoting from *Khrushchev Remembers*): "The liquidation of the capitalist system is the crucial question in the development of society."⁷

Destroying Capitalism—and the World

Economists often describe our Western societies as "capitalist societies", meaning by "capitalist" a society in which people can freely buy and sell houses, land, and shares; and, if they like, can risk their savings on the stock exchange. But they forget that the term "capitalism" has become a popular term through Marx and Marxism, and that in the Marxist terminology it means something else. In Marxian language and theory, capitalism is a social system that enslaves all human beings by holding them in its claws—not only the workers but also the capitalists: they all are forced by its mechanisms to do, not what they want, but what they must do, what they are compelled to do. Capitalism is interpreted as an economic mechanism that has the most terrible and inescapable consequences: increasing misery for the workers and

proletarianization for the majority of the capitalists. In the struggle of competition, "one capitalist kills many others", writes Marx. Capital becomes concentrated in very few hands—a few very wealthy people are faced by a vast mass of miserable starving proletarians. That is how Marx visualizes capitalism.

Quite obviously, this "capitalism" never existed. It was a delusion—no more, no less. Yet indeed, such delusions have influenced humankind throughout its history.

The great task of the Marxist party, of Marxist policy, was to kill, or to liquidate, this delusionary social system. Khrushchev got a chance to do it. The chance was Andrei Sakharov's Big Bomb.

"The attempt to institute a socialist economy can be done only by force, by terror, by political enslavement."

Sakharov was then 39 years old, and he had spent many years, and had had several half-failures, on the construction of a nuclear bomb which would be far more powerful than any American bomb. In the autumn of 1961 he succeeded: a test of his big bomb was positive. The bomb was, as he writes, "several thousand times more powerful than the bomb dropped on Hiroshima."⁸ Only consider what this means: Hiroshima was before the bombing a city of more than 340,000 inhabitants. Does "several thousand times more powerful" mean that a densely built up district of 340 million or more could be devastated by one bomb? Far more than there are inhabitants in the United States? Probably not: there are nowhere in the world such districts. At any rate, any existing densely built up district in the world can be completely devastated by one such bomb.

It appears that, when Khrushchev heard about the successful testing of Sakharov's Big Bomb, he was in Bul-

garia. He writes in *Khrushchev Remembers* (1971): "It was during my visit to Bulgaria that I had the idea of installing missiles with nuclear warheads in Cuba without letting the United States find out that they were there until it was too late to do anything about them."⁹ It was a mad idea. At the time when he had to transport them back, 38 missiles had been delivered, each equivalent to "several thousand" Hiroshima bombs. Assume that "several" means merely three: this would mean 114,000 Hiroshima bombs. Fortunately, they were not yet ready. Khrushchev says, of course: "When we put our ballistic missiles into Cuba, we had no desire to start a war." I believe him: his desire was not a war but the unexpected delivery of 150,000 Hiroshima bombs in one blow; for about 12 more missiles and warheads were on the way. He writes: "I don't think that America had ever faced such a real threat of destruction as at that moment."¹⁰

I agree. Indeed, it was the most dangerous threat to mankind in human history so far. Khrushchev could have destroyed America with one blow. But in spite of the deadly wounds received, the U.S. rockets would have flown too; Russia would have been destroyed also, and the consequences, especially of the radiation, would have destroyed mankind.

But Khrushchev lost; and the United States quite rightly armed. The race was lost by the Soviet Union, and Sheverdnadze showed the white flag. In this situation, Hungary permitted the exodus of the young East Germans. Obviously, the situation made it impossible for Gorbachev to interfere. So came the East German collapse, and everything else followed.

All this, because it was the task of Marxism to liquidate a nonexistent capitalist hell. One can well say that Marxism dropped into an intellectual black hole—into an absolute zero of fiction.

We should take it as a warning of what an ideology can achieve. Obviously, the danger is not yet over. It will need intellectual responsibility to see us through.

The Rule of Law

As far as the republics of the former Soviet Union are concerned, no amount of economic planning by the state (insofar as the state exists) can help. The

"New World Order" Conference

Scholars Debate Post-Cold War Foreign Policy: Global Democracy Crusade or Strategic Independence?

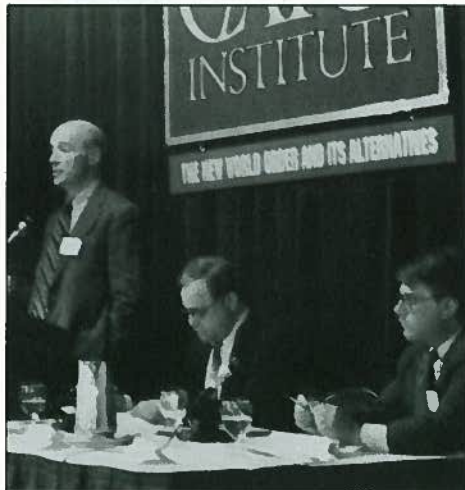
Should the U.S. government withdraw from its worldwide military commitments and pursue a course of "global stability" or "strategic independence"? Or should it persist in its activism on behalf of "American values" despite the passing of the Cold War?

That essentially was the choice at issue at the Cato Institute's March 30 conference, "The New World Order and Its Alternatives: America's Role in the 1990s." Organized by Cato's director of foreign policy studies, Ted Galen Carpenter, the conference assembled 12 prominent foreign policy analysts who advocated positions that ranged from noninterventionism, to restrained unilateral government involvement, to "co-operative security" through the United Nations, to a full-scale crusade to promote democracy internationally.

On the first panel, "The Purposes of U.S. Foreign Policy in the Post-Cold War World," Ben Wattenberg, a senior fellow of the American Enterprise Institute, argued that it was proper for U.S. policy to aim at making the world hospitable to American values and attacked those who would have the government follow a noninterventionist policy. Kim R. Holmes, director of foreign policy and defense studies at the Heritage Foundation, proposed a more restricted foreign activism to protect American interests. He said

he would confine U.S. intervention to Europe, East Asia, and the Persian Gulf area.

In response to Wattenberg, Carpenter said government activism was not required to promote American values. He criticized a recent Pentagon planning paper that he said assumes that U.S. security is potentially threatened everywhere and proposes that the United States take on a "global policing role." He called for a policy of "strategic independence" under which the



Joseph S. Nye, Jr., of Harvard University argues that economic power will be more important than military power in the future. Richard Rosecrance of UCLA and Cato Institute senior fellow Christopher Layne listen.

United States would act militarily only when its vital security interests were faced with a substantial, direct, and immediate threat. He especially objected to permanent alliances and "new world order crusades." Leonard P. Liggio, distinguished senior scholar at the Institute for Humane Studies, warned that the nation's economic crisis, fueled in part by expensive foreign activism and the consequent burdens on commerce, is fomenting a political crisis that could culminate in a public demand for fundamental constitutional change. He said that before that happens he hopes there will be a renewed commitment to the Founding Fathers' republican values, which included free trade and a noninterventionist security strategy.

During the second panel, on President Bush's "New World Order," Christopher Layne, Cato senior fellow in foreign policy studies, and Earl C. Ravenal of Georgetown University argued that the United States will not remain the sole superpower. Ravenal said that "the age of superpowers" will be replaced by an age of multiple regional powers and conflicts that don't threaten the United States. Their remarks clashed with those of Joseph S. Nye, Jr., of Harvard University and Richard Rosecrance of UCLA, who favor government activism abroad, though

London, 1976; Vol. III, *The Political Order of a Free People*, Routledge, London, 1979.

⁴*The Fatal Conceit: The Error of Socialism*, edited by W. W. Bartley III; Vol. I of *The Collected Works of F. A. Hayek*, Routledge, London, 1988.

⁵*Logik der Forschung*, 1934; English translation, *The Logic of Scientific Discovery*, 1959.

⁶*Khrushchev Remembers*, translated and edited by Strobe Talbott, Appendix 4, Khrushchev's Secret Speech (as released by the U.S. Department of State on June 4, 1956), Little, Brown & Company Inc., New York, 1971, pp. 559-618.

⁷*Khrushchev Remembers*, p. 513.

⁸*Memoirs*, translated by Richard Lourie, Alfred A. Knopf Inc., New York, 1990, and Hutchinson, London, 1990, p. 218.

⁹*Khrushchev Remembers*, p. 493.

¹⁰*Khrushchev Remembers*, p. 496.

there is no difference between legality and criminality. Now the rule of law must be built up from scratch. For without the rule of law, freedom is impossible; and without the rule of law, a free market is equally impossible.

It is this side of Hayek's work that is most urgently needed in the former Soviet Union. ■

Notes

¹*The Road to Serfdom*, George Routledge & Sons Ltd., London, 1944.

²*The Constitution of Liberty*, University of Chicago Press, 1969, and Routledge & Kegan Paul, London, 1960.

³*Law, Legislation and Liberty*, Vol. I, *Rules and Order*, Routledge, London, 1973; Vol. II, *The Mirage of Social Justice*, Routledge,

Self-Enslavement (Cont. from p. 11)

help they need is not to come from the economists, not even from Hayek the economist. It can only come from Hayek the political philosopher.

No state can have the duty to build up a working economic system. But every state has the duty to build up a rule of law. This we can learn from Hayek. There was no rule of law in the Soviet Union, and there still is no rule of law: neither are there laws that are acceptable and workable, nor acceptable judges; there are only traces of party rule and of judges beholden to the party. As long as that is the case,

Book Challenges International Claim

Does Gun Control Work in Japan and England? Would It Work in U.S.?

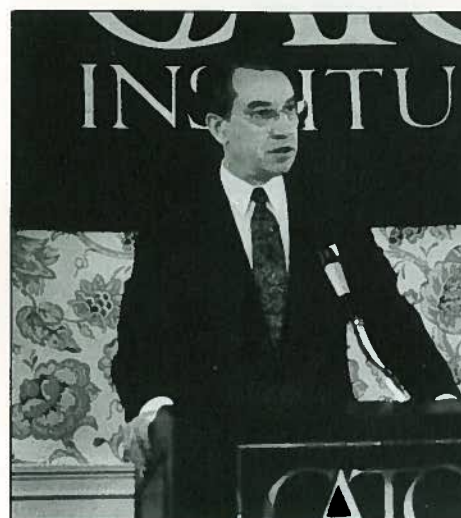
A new Cato book tests the seductive argument that since countries with strict gun control have less gun crime, the United States would have less crime if it had stronger gun control. *The Samurai, the Mountie, and the Cowboy: Should America Adopt the Gun Controls of Other Democracies?* by Denver attorney David B. Kopel offers a thorough investigation of both the gun laws and the cultures of Japan, Canada, Great Britain, and other democracies. He concludes that the lower crime rates

of those countries reflect their less violent cultures far more than their strict gun laws.

Kopel finds that gun control in other countries is often unrelated to crime. The British Commonwealth enacted gun laws in the 1919-20 panic over the "foreign-born anarchists" who were trying to lead a labor revolution. Most of the nations that have strict gun control also have much more powerful—albeit often benign—governments and much less respect for civil liberties than we do in the United States. In any case, Kopel finds that the key explanation of a nation's crime rate is the self-control of its citizens.

Kopel offers the most comprehensive analysis ever published in the United States of the gun control laws of several foreign countries. He also explains America's unique gun culture in the context of the American traditions of civil liberties and individualism.

The Samurai, the Mountie, and the Cowboy, published by the Cato Institute and Prometheus Books, is available from Cato for \$28.95. ■



Sen. Charles Grassley (R-Iowa) discusses America's role in the post-Cold War world at Cato's March 30 conference, "The New World Order and Its Alternatives."

they believe that in the post-Cold War era economic influence will be more important than military power.

In the final panel, "Alternative Security Strategies," two scholars advocated two different types of an activist foreign policy. Jenonne Walker of the Carnegie Endowment for International Peace called for a system of collective security under which the United States would share power and nations would give up some sovereignty. Owen Harries, editor of *National Interest*, said that although the end of the Cold War means that the United States can substantially reduce its foreign military involvement, it still has a world role—containing the military power of Germany and Japan, for example.

Doug Bandow, Cato senior fellow, criticized collective security through either the United Nations or regional alliances. He said that the United Nations cannot be trusted with military force and that the interests of the United States would not always coincide with those of its putative allies. Eric Nordlinger of Brown University said that "isolationism" would bring maximum benefits both because the United States is largely immune from foreign threats and because that policy would avoid dangerous provocations.

Sen. Charles E. Grassley (R-Iowa), in his luncheon address, said that while the United States should maintain its leadership in the world, it could not be a global policeman. ■



David B. Kopel

Book Calls for Health Care Reform

Decades of government intervention in the medical marketplace have brought us to the current crisis in medical care, and deregulation will lead us out. So concludes Terree P. Wasley in the forthcoming Cato Institute book

What Has Government Done to Our Health Care? In this concise and readable book, Wasley shows how the problems in our current system stem directly from a long history of government meddling. From the licensing of doctors, to state accreditation of medical schools, to restrictions on the building of hospitals, government has systematically limited the supply of medical care and stifled innovation.

Moreover, through the tax laws, regulation of the insurance industry, and Medicare and Medicaid, the federal and state governments have overstimulated demand for medical services by distorting the prices of those services. When government constricts supply and stimulates demand, Wasley writes, the result is what we have in the medical care industry today: skyrocketing prices, which take their greatest toll on the poor and the uninsured.



Terree P. Wasley

(Cont. on p. 14)

Health Care (Cont. from p. 13)

What Has Government Done to Our Health Care? balances that history with a tour of other nations' health care systems. The book's lesson is that, contrary to the claims of those who call for further nationalization of the system, government control does not produce accessible, high-quality health care at reasonable costs. In particular, Wasley shows that Canada's vaunted national health insurance system, which has been recommended for the United States, is not what it's cracked up to be. Care is rationed by bureaucrats, and there are long delays for even routine services. But costs have not been controlled any better there than here.

Wasley's prescription is to reverse government encroachment on the medical marketplace by giving consumers the freedom to control their own health care spending. Her proposal includes letting individuals spend pre-tax money on health insurance and pay noncatastrophic health care bills from tax-free savings accounts. Under that system, prudent buyers of health care would impose cost-consciousness on the system and reverse the price spiral. That in turn would make medical care and insurance more accessible to those who earn the lowest incomes.

What Has Government Done to Our Health Care? is available from the Cato Institute for \$10.95 in paperback, \$19.95 in cloth. ■



Jonathan Emord has joined the Cato Institute as vice president for development. He is an attorney who has specialized in First Amendment and telecommunications law and is the author of *Freedom, Technology, and the First Amendment*, published by the Pacific Research Institute.

EPA Doesn't Recognize Air Quality Improvement, Cato Study Charges; Foreign Military Aid Should End

The EPA dramatically overstates the urban smog problem. No monopoly was ever created by "predatory pricing." Military aid programs are a boon to arms makers in an age of defense-budget cuts. And the political science profession has a vested interest in opposing congressional term limits. Those are the conclusions of Cato studies published over the last two months.

Clearing the Fog about Smog

There has been a dramatic improvement in ozone air quality in 61 U.S. cities that the Environmental Protection Agency still classifies as problem areas, according to a preliminary analysis of 1991 ozone data done by K. H. Jones, a former senior scientist with the Council on Environmental Quality. "The Truth about Ozone and Urban Smog" (Policy Analysis no. 168) says that if 1991 ozone data were incorporated into the three-year data base used by the EPA to determine nonattainment status, the number of cities where smog exceeds federal limits would fall from 89 to 28. Recalculation of the data base could relieve the economy of a \$26 billion annual regulatory burden imposed by the 1990 amendments to the Clean Air Act.

Jones concludes that, outside California, 57 percent of the marginal nonattainment areas, 76 percent of the moderate nonattainment areas, and 83 percent of the serious nonattainment areas are actually in compliance with federal standards. He argues that temperature-adjusted data for non-California urban areas show a 74 percent reduction in ozone nonattainment since 1985 and that America has experienced a 60 percent reduction in median ozone exceedances since 1988.

Predatory Pricing and the Market Process

Inefficient firms accuse their rivals of predatory pricing to press the government to attain for them what they cannot attain for themselves in the mar-

ketplace, charges Thomas J. DiLorenzo, professor of economics at the University of Tennessee at Chattanooga. In "The Myth of Predatory Pricing" (Policy Analysis no. 169), DiLorenzo explains that the myth of predatory pricing, which fails to recognize that price cutting is a normal activity in competitive markets, persists because predatory pricing litigation is very profitable and members of Congress frequently attempt to protect businesses in their districts from foreign competition.

Any proposal to interfere with voluntary market pricing is a denial of the legitimacy of private property rights and individual freedom of choice, DiLorenzo argues. He points out that there has never been a clear-cut case in which an alleged predatory pricing strategy led to monopoly. Government-sanctioned protectionism, exclusive franchising, and other barriers to competition—not the free market—are the true sources of monopoly, he concludes.

Military Aid Should Be Ended

Military aid programs are both expensive and morally offensive, writes David Isenberg of the Center for Defense Information in "The Sins of Security Assistance Programs" (Foreign Policy Briefing no. 18). Isenberg points out that the United States is the world's largest supplier of arms and that the Bush administration has requested \$7.38 billion for taxpayer-subsidized military aid programs in FY 1993.

He charges that Washington wants to increase commercial sales of military equipment as a way of keeping the military-industrial complex happy when the Pentagon budget is cut. He also points out that U.S. arms are routinely used by repressive regimes to menace their neighbors or brutalize their own populations, making the United States an accessory to those crimes. If one of those governments is overthrown, Isenberg writes, the United States may be blamed for the misdeeds of the ousted regime, as it was in Iran, Nicaragua, and

the Philippines. Another possible consequence of U.S. policy is that American soldiers could end up fighting a country that the United States has armed.

Political Scientists Hate Term Limits

Mark P. Petracca, professor of political science at the University of California at Irvine, writes that political scientists are openly hostile to term limitation because they are cynical about the attentiveness, general knowledge, and judgmental capacity of the average voter, among other reasons. In "Why Political Scientists Oppose Term

Limits" (Cato Briefing Paper no. 14), Petracca points out that political scientists were instrumental in promoting the professionalization of legislatures.

He also argues that many political scientists prefer stability and efficiency to broad political participation and that they believe term limitation would quickly exhaust the pool of political leaders. Petracca writes that the views of political scientists may also be influenced by political partisanship and that they may even perceive attacks on professional politicians as a threat to their own professionalism. ■

U.S. Should Stay Out of Mideast, Leon Hadar Argues in *Quagmire*

With the disappearance of the Soviet Union, is there any remaining reason for the United States to be a major participant in Middle Eastern politics? Leon Hadar says no in his new Cato Institute book, *Quagmire: America in the Middle East*. Hadar, a former UN bureau chief for the *Jerusalem Post* who teaches political science at American University in Washington, writes that it is time to rethink America's decades-old Middle Eastern policy, which was fashioned in the crucible of the Cold War.

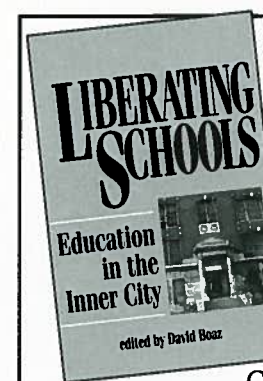
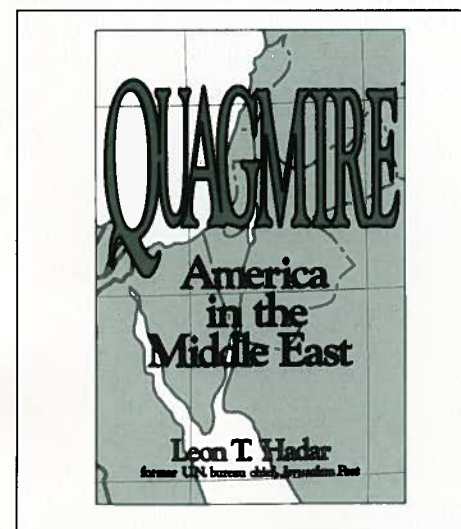
Quagmire begins by noting that dramatic changes in the old Soviet bloc in 1989 and 1990 had begun to force a reconsideration of America's international role—until Saddam Hussein of

Iraq invaded Kuwait. One effect of the crisis and ensuing war was to temporarily save the foreign policy establishment from a painful readjustment. Those, including President Bush, who advocated a continued global role for the United States could point to Iraq to illustrate the threat of "instability" that required an American response. Although other regions, Central Europe, for example, evidenced instability, the Middle East, with its riches of oil, furnished an apparently unanswerable case for American globalism.

Hadar argues that current developments in the Middle East in fact do not demonstrate a need for American involvement there. He points out that American leaders have neither the power nor the knowledge to manage the lives of people in the region and that U.S. meddling inevitably makes the various parties more irresponsible and less willing to take advantage of opportunities for settling disputes.

Quagmire calls on the United States to redefine its role with respect to Israel, the Palestinians, the Arabs, and Iran. It identifies the special interests—conservative and liberal, Arabist and pro-Israeli—that urge an energized American presence in the Middle East for their own purposes and argues persuasively that such a role is not in the general interest of the American people.

Quagmire is available from the Cato Institute for \$14.95 in paperback, \$24.95 in cloth. ■



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"To be governed..."

Victory in Colombia!

As President Bush met last week in Texas with leaders from Bolivia, Colombia, Peru, Mexico and Venezuela to discuss anti-drug strategies, Chilean officials complained [that] the United States' multimillion-dollar crackdown in neighboring countries is forcing traffickers into Chile.

— *Orlando Sentinel*, Mar. 1, 1992

Desperate last-ditch argument against market processes no. 1271

In a 1981 paper called "The Economics of Superstars," [economist Sherwin] Rosen noted that big markets produced big rewards that were highly skewed toward the top people in the industry. . . .

Robert Frank of Cornell University and Philip J. Cook of Duke University suggest that winner-take-all markets have grown substantially in recent years [to include] investment banking, law and corporate management. . . .

Now the really interesting thing about winner-take-all markets, according to Frank and Cook, is that their existence may undermine the overall allocative efficiency of the market [because] smart people may flock to the winner-take-all markets at the expense of other fields of endeavor. [Thus] the economists offer a model where progressive tax rates actually increase overall economic output sharply, by causing workers to move from the winner-take-all sector

of the economy (where they don't get to keep as much of what they make) to the production sector.

— David Warsh in the *Washington Post*, Mar. 25, 1992

Didn't you always suspect this?

The District [of Columbia] government . . . has spent \$7.9 million of its \$92.4 million share of federal highway money this year, one of the lowest spending rates in the nation.

The slow pace has been brought to the attention of Transportation Secretary Andrew Card, who . . . called Mayor Sharon Pratt Kelly to tell her of the problem. He has asked federal highway officials to help the District spend its money faster.

— *Washington Post*, Mar. 12, 1992

Getting off on the wrong foot

For the first time, Poland is trying to impose a Western-style personal income tax . . . and it is turning to the Internal Revenue Service in Washington for help. . . .

Two veteran American tax experts took time out earlier this month to provide a round of basic training to 25 of their newly appointed counterparts in Poland. . . .

At the training course, Polish tax inspectors marveled at the possibilities for obtaining data in an information-rich environment like America. In Poland, they said, permission to rummage through a taxpayer's personal

bank accounts is rarely granted by the Finance Ministry. . . .

Zygmunt Sachnowski, national director of the fiscal police, contends that the recently passed law setting up the personal income tax leans too far in the direction of protecting citizens' rights. . . .

[IRS agent George F.] Blair also noted that in the United States, the authorities had the power to pursue an individual for failing to pay taxes on illegal income. Such powers have not yet been granted to Polish revenue officers.

— *New York Times*, Mar. 26, 1992

Surprise, surprise, surprise!

A significant portion of a \$3-billion-a-year Federal program intended to help needy communities is spent in ways that provide them few benefits and sometimes enrich private interests, Congressional investigators say.

— *New York Times*, Mar. 18, 1992

A new study shows that white Medicare patients are 3½ times more likely to have heart bypass surgery than the black patients covered by [Medicare]. . . .

"Our results suggest that a national health insurance program by itself may not solve all the problems of access to care," says Arthur J. Hartz, a clinical epidemiologist at Medical College of Wisconsin.

— *Wall Street Journal*, Mar. 18, 1992

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