

Cato Policy Report

September/October 1995

Volume XVII Number 5

The State of Humanity: Steadily Improving

by Julian L. Simon

The 1980 *Global 2000 Report to the President* began by stating that "if present trends continue, the world in 2000 will be more crowded, more polluted, less stable ecologically, and more vulnerable to disruption than the world we live in now." In the Introduction to *The Resourceful Earth*, which I edited in 1984 with the late Herman Kahn, we rewrote that passage, stating, "If present trends continue, the world in 2000 will be *less crowded* (though more populated), *less polluted*, *more stable ecologically*, and *less vulnerable to resource-supply disruption* than the world we live in now."

The years have been kind to our forecasts—or more important, the years have been good for humanity. The benign trends we then observed have continued. Our species is better off in just about every measurable material way. And there is stronger reason

than ever to believe that progressive trends will continue past the year 2000, past the year 2100, and indefinitely.

When we widen our scope beyond such physical matters as natural resources and the environment—to mortality, the standard of living, slavery and freedom, housing, and the like—we find that the trends pertaining to economic welfare are heartening also. Please notice that this benign assessment does not imply that there will not be increases in *some* troubles—AIDS at present, for example, and other diseases in the future, as well as social and political upheavals. New problems always will arise. But the assessment refers to broad aggregate measures of effects upon people rather than the bad phenomena themselves—life expectancy rather than AIDS, skin cancers (or even better, lifetime healthy days) rather than a hole in the ozone layer (if that is indeed a problem), and agriculture rather than global warming.

We have seen extraordinary progress for the human enterprise, especially in the past two centuries. Yet many people believe that conditions of life are generally worse than in

Julian L. Simon is a professor of business and management at the University of Maryland and an adjunct scholar at the Cato Institute. This essay is based on the introduction to his latest book, *The State of Humanity*, just published by the Cato Institute and Blackwell Publishers.

In This Issue



Milton Friedman on school choice, page 12

Niskanen on the contract	2
Project on Social Security Privatization launched	3
Cato's guide to regulatory reform	5
Privatize the Postal Service?	6
New Cato studies	12
Will federal power be limited?	14
The book the Clinton administration tried to suppress	15



Former representative Tim Penny, Cato Institute fellow in fiscal policy studies, discusses Cato's new Project on Social Security Privatization at a National Press Club news conference.

the past, rather than better. We must therefore begin by discussing that perception, because it affects a reader's reaction to the facts. Pessimism about the environment and resources is so universal that it needs no documentation. The comparison one chooses is always crucial. A premise of *The State of Humanity* is that it usually makes sense to compare our present state of affairs with *how it was before*. That is the comparison that is usually relevant for policy purposes because it measures our progress. But many private and public discussions instead compare the present state of one group to the present state of *other groups*, as a supposed measure of "equity," or as the basis for indignation and righteousness, or to support political positions. Others compare the actual situation to the best possible, or to ideal purity, ostensibly to motivate improvement. A typical front-page story from the *Washington Post* (July 5, 1991) does both; it headlines a complaint of blacks that a nearby county "Isn't Drawing Upscale Stores," and the caption under a picture says, "Prince George's resident Howard Stone is angered by the shortage of upscale retail stores in his community." (Yes, that was

Continued on page 10

Whatever Happened to the Contract with America?

Chairman's Message



Six months ago my Chairman's Message was entitled "A Good Start on the Contract." As it has turned out, that has proved correct only for the House. As Speaker Gingrich promised last fall, all provisions in the contract were brought to a floor vote in the House, albeit with some modifications, in the first 100 days of the new Congress. Moreover, all but one of the contract provisions were approved by the House; the one exception was the proposed constitutional amendment on congressional term limits.

As of the dog days of August, however, most of the contract was stalled in the Senate. Three contract provisions passed the Senate without much controversy: one that makes Congress subject to the same laws that apply to other employers, one that provides some protection against new uncompensated mandates on state and local governments, and one that sets a governmentwide paperwork reduction goal. The proposed balanced-budget amendment, however, failed to pass the Senate by one vote. And the rest of the contract is in limbo.

What happened? First, the Senate is expected to be more deliberative than the House, and controversial measures must be approved by three-fifths or more of the members. More important, the contract was a commitment by House Republicans, not by their colleagues in the Senate; some of the Senate committee chairmen, specifically, have little enthusiasm for reducing federal spending, taxes, and regulation. The budget and other priorities have also delayed resolution of the remaining contract measures. And the 104th Congress has a lot of time left to address measures that need not be resolved in the fiscal year 1996 budget.

The most important step to restore the momentum of the contract is to approve a strongly restrained budget. On that issue, I am moderately optimistic. The nearly unanimous Republican support for a balanced-budget amendment was sufficient for approving a budget resolution that would balance the budget by 2002. The resolution also authorized some tax reduction on condition that spend-

ing reductions are forecast to be sufficient to balance the budget.

The two programs that most jeopardize the budget resolution are defense and Medicare. In a world where the United States has no major potential adversary, the Republicans propose to add to the Clinton defense budget; they make a good case for accelerating the development of a continental missile defense, but there is no case for increasing spending for such high-tech pork as the B-2, the Sea-wolf submarine, and the C-17. On Medicare, the Republicans have deceived themselves that the growth of spending can be substantially reduced without reducing benefits or the eligible population. Welfare reform will also be addressed as part of the budget, but the major remaining controversies involve the federal conditions for eligibility rather than the amount of spending. The Republicans' commitment to fiscal responsibility will be severely tested in the next two months as they develop the budget reconciliation bill and respond to the threatened Clinton vetoes.

Congressional resolution of the other major contract measures bearing on crime, regulatory reform, legal reform, and even tax cuts can be deferred without much cost. On those issues, Congress is best advised to do it right rather than quickly, in part because some of the House proposals are seriously flawed. The crime bills further increase the federal role in issues that should be left to the states. The regulatory reform bill places an unrealistic burden on the courts. The product liability bill unnecessarily federalizes an issue that is better resolved by state legislatures and the common law. The several proposals for tax cuts should probably be addressed as part of a broader tax reform and only after it is clear that the budget is on a path to balance.

In summary, some of the provisions of the Contract with America will not be approved this year or, maybe, ever. In some cases, that will be unfortunate; in other cases, not. The House Republicans deserve credit for developing and approving an ambitious if somewhat inconsistent agenda of first steps toward restoring limited constitutional government. They and their Senate colleagues should now be judged by their next steps.

—William A. Niskanen

C A T O C A L E N D A R

THE SECOND AMERICAN REVOLUTION VS. THE NEW DEAL

New York • Waldorf-Astoria • September 27, 1995

Speakers will include Malcolm S. Forbes Jr.,
Theodore J. Forstmann, and Edward H. Crane.

THE SECOND AMERICAN REVOLUTION VS. THE NEW DEAL

Chicago • Four Seasons Hotel • October 20, 1995

Speakers will include José Piñera and Edward H. Crane.

DISMANTLING THE PYRAMID:

HOW AND WHY TO PRIVATIZE SOCIAL SECURITY

Washington • Capitol Hill • October 19, 1995

Speakers will include José Piñera, William G. Shipman,
Laurence Kotlikoff, Mark Weinberger, and Michael Tanner.

EIGHTH ANNUAL BENEFACTOR SUMMIT

St. John, V.I. • Hyatt Regency • February 22-25, 1996

Speakers will include John Malone, Louis Rossetto, and Edward Crane.

Simpson-Kerrey Bill Introduced

Cato Launches Social Security Privatization Effort

Leading academics and experts in the fields of economics, finance, and government helped launch Cato's Project on Social Security Privatization on August 14, the 60th anniversary of the government pension program. The goal of the project is to develop a viable blueprint for privatizing Social Security. Drawing on the successful privatization of the public pension system of Chile, the project will have four fundamental components: an assessment of the current state of Social Security, a survey of the transition problems



Michael Tanner testifies before the Senate Social Security Subcommittee.

of privatization, crafting design options for privatization, and a marketing and outreach program.

The project was launched with a news conference at the National Press Club featuring cochairmen José Piñera, the architect of Chile's pension privatization, and William Shipman, one of the nation's leading financial analysts.

Also participating in the news conference were project director Michael Tanner, Cato's director of health and welfare studies, and project advisory committee members Dorcas Hardy, former commissioner of Social Security, and Timothy J. Penny, former Democra-

tic congressman from Minnesota. The following day Piñera spoke about the privatization plan at a lunch sponsored by the Federal Reserve Bank of Dallas.

Piñera, formerly Chile's minister of labor and social welfare and now the head of the International Center for Pension Reform, told the news conference that "the United States, like many other countries in the developed world, depends upon a government Social Security system that has a fundamental flaw. It is a pay-as-you-go system, and as such, it breaks the link between what people contribute to a system and what people take out of the system. In Chile, we found tremendous popular support for switching to a system in which people actually own their retirement accounts, and in just 15 years, they have seen their retirement incomes rise to levels 40 to 50 percent higher than the old ones." He added that "the United States has a tremendous opportunity. It can make the transition to a privatized system now, before the current system's crisis arrives with full force."

The project also released two studies. In



José Piñera, architect of Chile's social security privatization, displays his own retirement account passbook at Cato's press conference on August 14.

"Dismantling the Pyramid: The Why and How of Privatizing Social Security," Karl Borden, professor of financial economics at the University of Nebraska, points out that Social Security is analogous in design to illegal pyramid schemes. Government accounting creates the illusion of a trust fund, Borden writes, but, in fact, excess receipts are spent immediately. He notes that the government's own actuaries predict that the system will be bankrupt by 2030 but that Social Security could face financial crisis as early as 2014. Moreover, he says, Social Security's relatively poor rate of return makes the program an increas-

Continued on page 13

Cato Policy Report is a bimonthly review published by the Cato Institute and sent to all contributors. It is indexed in PAIS Bulletin. Single issues are \$2.00 a copy. ISSN: 0743-605X. ©1995 by the Cato Institute.

Correspondence should be addressed to: Cato Policy Report, 1000 Massachusetts Ave., N.W., Washington, D.C. 20001.

COMPU SERVE: 76464,505
INTERNET: cato@cato.org
WEB SITE: http://www.cato.org

David Boaz Editor
David Lampo Managing Editor
Sheldon Richman Assistant Editor
Mark Fondersmith Design Director

CATO INSTITUTE

William A. Niskanen Chairman
Edward H. Crane President and CEO
David Boaz Executive Vice President
Leanne Abdnor Vice President, External Affairs
James A. Dorn Vice President, Academic Affairs
Brian W. Smith Vice President, Administration

Doug Bandow Senior Fellow
Robert N. Borens Director of Corporate Relations
James Bovard Associate Policy Analyst
Ted Galen Carpenter Director, Foreign Policy Studies
Barbara Conry Foreign Policy Analyst
Peggy J. Ellis Director, Government Affairs
Nicole Gray Assistant to the President
Edward L. Hudgins Director, Regulatory Studies
Elizabeth W. Kaplan Copyeditor
David Lampo Publications Director
Stephen Moore Director, Fiscal Policy Studies
Roger Pilon Director, Center for Constitutional Studies
Sheldon Richman Senior Editor
Paul Craig Roberts Distinguished Fellow
Michael Tanner Director, Health and Welfare Studies
Gregory F. Taylor Director, Information Services
Jerry Taylor Director, Natural Resource Studies
Ian Vásquez Director, Project on Global Economic Liberty
James M. Buchanan Distinguished Senior Fellow
Karl Hess Jr. Senior Fellow in Environmental Studies
Patrick J. Michaels Senior Fellow in Environmental Studies
Gerald P. O'Driscoll Jr. Senior Fellow
P. J. O'Rourke Mencken Research Fellow
Tim Penny Fellow in Fiscal Policy Studies
Jim Powell Senior Fellow

Hyde, Schundler Speak

Rep. Chris Cox Defends Cyberspace Freedom

Cato Events

June 19: A double Book Forum honored publication of *Prescription for Failure: Race Relations in the Age of Social Science* by Byron Roth and *Antidiscrimination Law and Minority Employment* by Farrell Bloch. Roth said that misguided policies on welfare, crime, and education have led to massive increases in crime, illegitimacy, and education failure among black Americans in the inner cities. Bloch argued that affirmative action has not helped most poor black Americans.

June 20: A Policy Forum titled "After the Crusade: America's Role in a New World" featured authors of two recent books. Jonathan Clarke, Cato adjunct scholar and coauthor of *After the Crusade: American Foreign Policy for the Post-Superpower Age*, argued that the United States should pursue a strategy of defending only its vital interests. Robert B. Oakley, coauthor of *Somalia and Operation Restore Hope: Reflections on Peacekeeping and Peacemaking*, replied that U.S. policy should include alliance leadership and UN participation.

June 20: Former Minnesota congressman and Cato fellow in fiscal policy studies Timothy J. Penny, coauthor with Major Garrett of *Common Cents: A Retiring Six-Term Congressman Reveals How Congress Really Works—and What We Must Do to Fix It*, spoke about congressional defects and the need for federal fiscal integrity at a Book Forum in the House Budget Committee hearing room.

June 22: Rep. Henry Hyde, chairman of the House Judiciary Committee, discussed the theme of his new Cato book, *Forfeiting Our Property Rights: Is Your Property Safe from Seizure?* at a Capitol Hill press conference. Hyde called for reform of the civil forfeiture laws to, among other things, restore the presumption of innocence for property owners.

June 22: Cato sponsored a **Press Conference** at which chairman William Niskanen and representatives from four other Washington organizations voiced opposition to the Clinton administration's auto trade policy toward the Japanese. Also participating were Joe Cobb of the Heritage Foundation; Robert Crandall of the Brookings Institution; Christo-



Roger Pilon, director of Cato's Center for Constitutional Studies, greets Rep. Henry Hyde, author of *Forfeiting Our Property Rights*, at news conference.

pher DeMuth, president of the American Enterprise Institute; and James C. Miller III, chairman of Citizens for a Sound Economy.

June 27: Mexico's ambassador to Washington, Jesus Silva-Herzog, spoke about his country's economic problems with Cato staff members and guests at a **Roundtable Luncheon**.

July 12: A seminar entitled "Toward an American Renaissance," held in Philadelphia, featured keynote speaker Bret Schundler, mayor of Jersey City, New Jersey, and Cato's Edward Crane, Roger Pilon, and Stephen Moore.

July 18: "School Choice: Where Do We Go from Here?" was the title of a Book Forum marking publication of David Harmer's Cato book, *School Choice: Why You Need It—How You Get It*. Harmer talked about his experience with the unsuccessful school choice initiative in California. Jeanne Allen, president of the Center for Education Reform, discussed the prospects for choice in 1995–96.

July 18: Lee Edwards spoke about "Barry Goldwater: The Once and Future Libertari-



Tim Penny talks with Rep. Steve Gunderson at a Capitol Hill reception for Penny's book.

an" at a Book Forum honoring publication of his new book, *Goldwater: The Man Who Made a Revolution*. Edwards pointed out that Goldwater's 1964 presidential platform, which included a call for a flat tax, privatization, elimination of farm subsidies, and voluntary Social Security, is today at the center of the public policy debate.

July 19: A Cato Institute and Media Institute Telecommunications Colloquium addressed "Censoring Cyberspace." Rep. Christopher Cox (R-Calif.), an opponent of the Exon-Coats amendment to prohibit "indecent" on the Internet, discussed his bill (H.R. 1978) to protect free speech and facilitate private-sector solutions for people who wish to filter out material they deem offensive. Also speaking were Robert Corn-Revere, an attorney specializing in the First Amendment; Jerry Berman of the Center for Democracy and Technology, who warned of the dangers of censorship; and Cathy Cleaver of the Family Research Council, who argued for government measures to protect children from indecency.

August 2: Sen. Pete Domenici's (R-N.Mex.) Livestock Grazing Act came under fire at a Cato Policy Forum titled "Grazing at the Public Trough: Rangeland Reform in the 104th Congress." Karl Hess Jr., environmental author and Cato senior fellow in environmental studies, argued that Domenici's bill would exacerbate the existing tangled web of ranching subsidies. Bill Myers, director of the Federal Lands Council at the National Cattlemen's Association, argued that the bill simply provides for the fair use of public land and resources. ■

Banking, Telecom, Superfund

Regulation Magazine Offers Guide to Reg Reform

Congressional proponents and critics alike claim the regulatory reform measures now before Congress are sweeping, radical, and effective. However, the proposed bills fail to repeal a single regulation. Contributors to the latest issue of *Regulation* (1995, no. 2) say those proposals are merely small first steps toward getting control of the regulatory process. In "Telecompetition Revisited: An Agenda," Cato adjunct scholar Lawrence Gasman says that many so-called market-based reform proposals in fact keep the federal government involved in telecommunications policy, for example, by attempting to control content or mandating universal service. But advances in hardware, software, and services have come in spite of government interference. Gasman says that rather than adopt incomplete reforms, the federal government should leave telecommunications completely to the market.

In "Banking on Free Markets," Catherine England of the Competitive Enterprise Insti-

tute assails the Glass-Steagall Act, which artificially separates commercial and investment banking, and the Bank Holding Company Act, which restricts banks from offering services such as insurance. England argues that those acts impose an unnecessary burden on America's financial sector. Repealing them would strengthen the country's financial infrastructure, making it better able to meet 21st-century economic challenges.

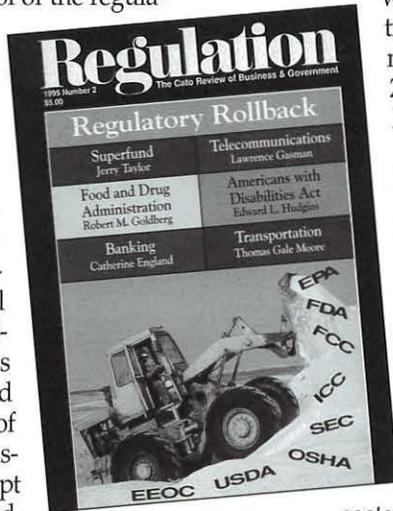
In "Breaking Up the FDA's Medical Information Monopoly," Robert M. Goldberg of Brandeis University argues that by controlling the acquisition and distribution of information about pharmaceuticals, the Food and Drug Administration hinders the creation of new drugs, pushing up health care

costs and costing thousands of lives. Goldberg catalogs the staggering human costs attributable to the FDA's attempts to smother private production of medical knowledge. According to Goldberg, "Real reform

requires questioning the FDA's mandate and very existence."

Jerry Taylor, Cato's director of natural resource studies, argues in "Salting the Earth: The Case for Repealing Superfund" that "a Congress truly committed to rolling back government should start with Superfund, a law widely acknowledged by environmentalists, businesses, and academics as the most flawed environmental law on the books today." Despite Superfund's staggering cost—\$30 billion spent on nearly 400 sites—there is precious little evidence that any good is being done.

Regulation senior editor Edward Hudgins takes aim at one of America's most sacrosanct employment discrimination laws in "Handicapping Freedom: The Americans with Disabilities Act." Hudgins demonstrates that the vague definitions of "disability," "discrimination," and "reasonable accommodation" have placed huge, unnecessary burdens on businesses and local governments, often with little or no benefits for the handicapped. Hudgins reviews employment data that show that the act has not led to greater employment of the blind, the deaf, and wheelchair users. Instead, the ADA has led to an explosion of lawsuits, making it a kind of "full-employment act for lawyers." ■



Cato Names New Staff, Adjunct Scholars

Leanne J. Abdnor has been promoted to Cato's vice president for external affairs, with responsibility for development and legislative liaison. She had been director of external affairs since January and has 14 years experience as a business lobbyist in Washington. Robert N. Borens, named director of corporate relations, will devote full time to Cato's growing corporate support. As assistant to the president, Nicole Gray will be the primary liaison with Cato Sponsors.

Peggy J. Ellis has been named director of government relations. She previously served as a policy council director at the National Policy Forum.



Leanne J. Abdnor



Peggy J. Ellis



David Schoenbrod

The Cato Institute has also named six new adjunct scholars: Jarett B. Decker, a criminal defense attorney in Minnesota who has written on the congressional crime bill for Cato (Policy Analysis no. 229, "The 1995 Crime Bills: Is the GOP the Party of Liberty

and Limited Government?"); Catherine England, a George Mason University economist specializing in the financial services industry and formerly Cato's director of regulatory studies; Richard L. Gordon, a professor of mineral economics at Pennsylvania State University; Robert J. Michaels, an economist at California State University, Fullerton; Randal O'Toole, a publiclands expert at the Thoreau Institute; and David Schoenbrod, a professor at New York Law School.

Adjunct scholars Jonathan Clarke, a former British diplomat, and Stanley H. Kober, an author in Arlington, Virginia, were named research fellows in foreign policy studies. ■

Is It Time to Privatize the Postal Service?

Policy Forum

A Cato Institute conference on June 14 examined the question, "Postal Service in the 21st Century: Time to Privatize?" Among the speakers were Postmaster General Marvin Runyon; Thomas J. DiLorenzo of Loyola College; Steve Gibson of the Bionomics Institute; Gene Del Polito of the Advertising Mail Marketing Association; Murray Comarow, former executive director of the commission that recommended the transformation of the Post Office into the U.S. Postal Service; financial consultant Bert Ely; Peter Ferrara of the National Center for Policy Analysis; and Thomas M. Lenard of the Progress and Freedom Foundation. Excerpts from their remarks are presented here.

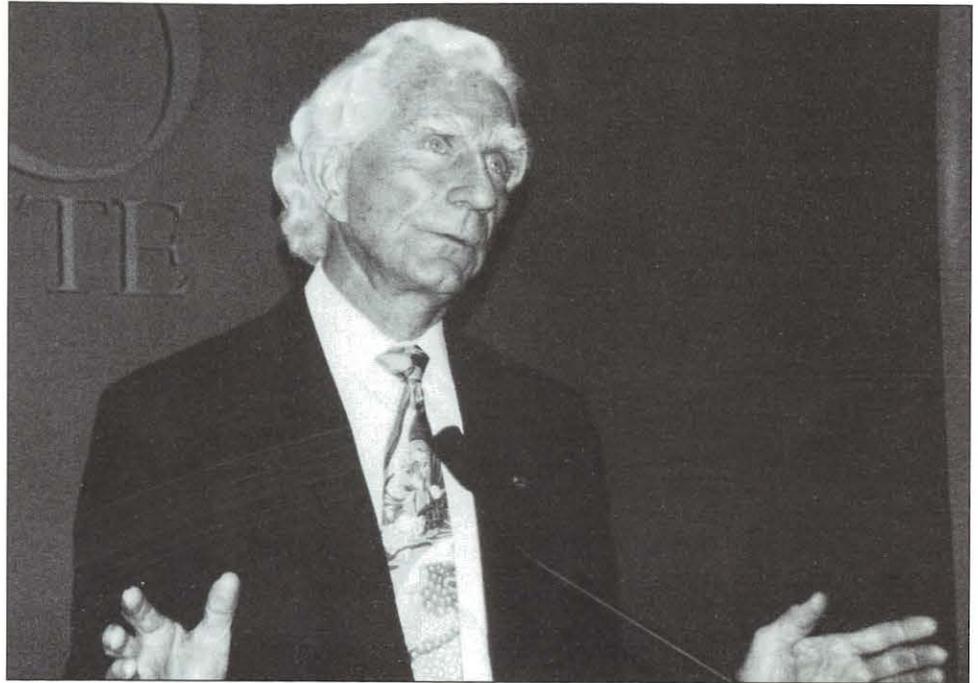
Marvin Runyon: You talk about privatization. Well, we're being "privatized" every day by our competition—letter by letter, package by package. Competition is giving us plenty of incentive to improve. It's making us realize that if we're to be an innovative leader in the communications industry, we've got to get out there and compete for every postal dollar we get.

The only way to do that is to become more like a private company—in effect, to "corporatize" ourselves. And that is exactly what we're doing. When it comes to running a business, I learned a lot in my years at Ford and Nissan. I came to government, first to the Tennessee Valley Authority and then to the Postal Service, because I wanted to prove that the same practices could work in the public sector.

They do. TVA is a customer-driven, top-performing organization. It hasn't had a price increase since 1987 and has pledged to keep prices steady for a full decade, until at least 1997. It's proving that an organization that's part government and part business can be successful and competitive.

The Postal Service is also more businesslike than ever. We got a good start 25 years ago, when the Postal Reorganization Act combined our mission to serve everyone, everywhere, every day, with a mandate to operate like a business. And we've delivered.

We've become more businesslike as the act envisioned. Political affiliations no longer determine who gets what jobs. Postal man-



Postmaster General Marvin Runyon: "America doesn't want a different Postal Service—it wants the one it has to be more businesslike."

agement, with help from a board of directors similar to ones in the private sector, determines our strategic directions and capital investments. And we're self-supporting. Today, when it comes to postage rates, what you see is what you get. There's no longer a 25 percent hidden subsidy in the price of a stamp. No tax dollars fill our coffers. And the real price of a stamp when adjusted for inflation is about the same today as it was back in 1971.

Clearly, it's time to take the next step in postal reform. In recent weeks, as this subject has been discussed around the nation, a broad range of actions has been recommended. You will hear some more today. They've run the gamut from minor legislative changes to selling off the Postal Service lock, stock, and barrel to a private company.

But there *is* growing consensus that the answer lies between those two extremes. There is agreement that it's not time to get the *government out of the business* of delivering the mail. It's time to get the Postal Service *into business for the American people* by freeing it to compete.

Recent surveys affirm that point. A recent Lou Harris poll says that competition is good for the Postal Service. However, the survey results indicate that more than three-quarters

of both business executives and consumers feel that, despite some flaws, the Postal Service is "the best way to provide mail delivery for everyone at a reasonable price."

A recent national survey by Opinion Research Corporation also found that the majority of Americans favor government delivery of the mail. Seventy-six percent favored keeping the current organization but making it more flexible. I've heard the same thing from business customers in a variety of sectors and in meetings with members of Congress and representatives of the administration. America doesn't want a *different* Postal Service—it wants the one it *has* to be more businesslike and responsive to its needs.

Thomas J. DiLorenzo: There is no evidence at all that at the outset of public utility regulation there existed any such phenomenon as a "natural monopoly." As Harold Demsetz has pointed out,

Six electric light companies were organized in the one year of 1887 in New York City. Forty-five electric light enterprises had the legal right to operate in Chicago in 1907. Prior to 1895, Duluth, Minnesota, was served by five electric lighting com-

panies, and Scranton, Pennsylvania, had four in 1906. . . . During the latter part of the nineteenth century, competition was the usual situation in the gas industry in this country. Before 1884, six competing companies were operating in New York City. . . . Competition was common and especially persistent in the telephone industry. . . . Baltimore, Chicago, Cleveland, Columbus, Detroit, Kansas City, Minneapolis, Philadelphia, Pittsburgh, and St. Louis, among the larger cities, had at least two telephone services in 1905.

The theory of natural monopoly is an economic fiction. No such thing as a "natural" monopoly has ever existed. The history of the so-called public utility concept is that the late 19th and early 20th-century "utilities" competed vigorously, and, like all other industries, they did not like competition. They first secured government-sanctioned monopolies, and then, with the help of a few influential economists, they constructed an ex post rationalization for their monopoly power.

That has to be one of the greatest corporate public relations coups of all time. "By a soothing process of rationalization," wrote Horace M. Gray more than 50 years ago, "men are able to oppose monopolies in general but to approve certain types of monopolies. . . . Since these monopolies were 'natural' and since nature is beneficent, it followed that they were 'good' monopolies. . . . Government was therefore justified in establishing 'good' monopolies."

In industry after industry, the natural monopoly concept is eroding. Electric power, cable TV, telephone services, and the mails are all on the verge of being deregulated, either legislatively or de facto, as a result of technological change. Introduced in the United States at about the same time communism was introduced to the former Soviet Union, franchise monopolies are about to become just as defunct. Like all monopolists, franchise monopolists will use every last resource to lobby to maintain their monopolistic privileges, but the potential gains to consumers that free markets provide are just too great to justify monopolies for much longer. The theory of natural monopoly is a 19th-century economic fiction that defends 19th-century (or 18th-century, in the case of the U.S. Postal Service) monopolistic privileges and has no useful place in the 21st-century American economy.

Steve Gibson: The Information Age is upon us, bringing a depth of technological, economic, and societal change not seen since Gutenberg's invention of the printing press and the Industrial Revolution it spawned. Human society is reorganizing itself around knowledge, rather than materials, and the implications for information-handling businesses—of which the U.S. Postal Service is but one—are profound.

During the next decade, computing power is expected to rise 100-fold, and "bandwidth" (the size of the pipe through which digital information, like e-mail, flows) is expected to increase 1,000-fold. Current fiber optic



Bert Ely: "Contracting out various USPS functions does not constitute privatization."

research suggests that up to 1 trillion bits per second is possible. That speed would allow you to transmit every issue of the *Wall Street Journal* ever printed in one second. Or a million channels of TV. That's per strand. If you need more, just add another strand. After all, fiber optic strands, not much bigger than human hair, are made of sand. And they're already cheaper (including the switching devices at either end) than copper.

Sooner, not later, technology will force us to abandon our existing bricks-and-mortar, paper-and-boxes paradigm and start thinking in terms of an evolving web of information technology. Electronic mail, for example, is sent to a *virtual*, not a real, address. You don't know where it's going when you send

it. And, at the same time, you can be anywhere when you read it. Indeed, the technology exists today to check e-mail from an airplane, or a moving car, or a mountain-top, or even the podium while delivering a presentation to a conference on the Postal Service. Olivetti is developing a system that, through a badge, can track where you are in a building and cause the nearest phone to ring.

In sharp contrast to the post office, electronic communication is erasing the very concept of place. Indeed, the virtual world is one not bounded by any of our traditional anchors; time and space are different, if not absent altogether, in a world of instantaneous global communication. The Information-Age economy is an increasingly seamless web of overlapping communication technologies that don't really care where you are. Unlike the post office's world of paper and mailboxes, Information-Age communication is between people, not places.

The bugaboos of the machine-age post office, time and distance, simply do not matter in a world of instantaneous global communication. The contrast with the early days of postal delivery, when it could take weeks to find out about wars, elections, or other world affairs, could not be more clear. For the record, the decisive turning point may have come on October 3, 1993, at 11:20 p.m. when CNN's Jonathan Mann said, "The attack on the Russian Legislature is about to begin, and we'll have that for you right after this commercial."

The competitive landscape in which the Postal Service operates has evolved dramatically in just the last few years, and the process is accelerating geometrically. The role of traditional paper-based, place-to-place communication will change dramatically. Whether the need for mass paper transport will even exist is the 750,000-employee question. Would we still be building horse-drawn carriages if that business had been a government monopoly when the automobile became a part of American culture?

The challenge for policymakers is first to recognize that the Information Age is here and that it differs fundamentally from the machine age. We must overcome what MIT's Mitchel Resnick calls "the centralized mindset." Complex results do not have to come about from central control. Witness the Internet. From there, we can best establish the simple rules that will allow the Postal Service

Postal Privatization *Continued from page 7*

to evolve in its own right. Adapt and succeed or fail to compete and fade away, either is preferable to the continued existence of a centralized, machine-age post office in a decentralized Information Age world.

Gene Del Polito: The U.S. Postal Service is a closely regulated entity because it has a statutory monopoly over the carriage of letter mail. New communications technologies, however, have eroded much of the buffering the monopoly once provided, and rate regulation has exacted from the Postal Service a very high price.

While others can introduce new products and services in the market at will, the Postal Service *must petition* the Postal Rate Commission for *permission* to introduce innovations. While others can adjust their prices and position their products in the market virtually at will, to attain the same ends, the Postal Service must undergo an expensive and frequently adversarial regulatory process—one that typically is used by its competitors to deny the Postal Service unfettered access to the marketplace.

I can see no way of purging the Postal Service of the root cause of its ills without transforming it from the “protected” enterprise it is today into a more private-sector-like, market-driven “competitive” enterprise.

One way to do that might be to reconstitute the Postal Service along the lines of other government-sponsored enterprises (GSEs) such as Fannie Mae, Freddie Mac, or COMSAT. That is a model that’s been used for postal systems elsewhere in the world, and it certainly might be suitable here. To gain the kind of market and regulatory freedoms the postmaster general says he would like, however, would require the Postal Service ultimately to give up its monopoly. Without the monopoly, there would be no need for regulation to serve as a proxy for competition, since competition would exist in ample measure in the marketplace.

As a GSE, the Postal Service could be transformed into a true “stock” corporation. Government, then, could have the option of being the enterprise’s sole stockholder, its majority stockholder, or its largest single minority stockholder. As a GSE, the Postal Service would be charged to operate on a truly commercial basis, that is, at a profit, paying tax-

es and stock dividends, and subject to antitrust and all other laws that apply to commercial enterprises.

Once the constraints imposed by third-party regulation were removed, the Postal Service would have the freedom to conduct its affairs in the same manner as other commercial enterprises. It could organize and position its services in whatever manner best met marketplace needs. It could price its products in closer accord with market-based principles. It could innovate freely and introduce to the market new products and services that made good business sense. It could explore entry into new markets without undue regulatory constraints, and it could exit markets as long as doing so did not compromise its statutorily defined mission. It also could be freed from constraints that are more in keeping with agencies of government, such as the present limits governing the compensation of its executive staff and its board of governors.

Murray Comarow: Ideological arguments about privatization tend to founder on the underlying details—except that they are not, of course, details at all. They constitute public policy and economic issues that need patient analysis. Here are some of them.

- Should there be a board of governors? If so, how would we get the right people on it?

- Is there any way to keep Congress from micromanaging and from using postal customers’ money for nonpostal purposes?

- How should rates be set?

- How should wages be set?

- Should postal employees have the right to strike? If so, should postal management have the right of lockout?

- Should the Postal Service be permitted to bid against competitors such as Federal Express and United Parcel Service for major contracts?

- Should the letter-mail monopoly be terminated? If so, would other deliverers have access to mailboxes?

- Should the Postal Service be authorized to close unprofitable outlets?

- Should it cost more to send letters to distant places?

- Finally, should the Postal Service become a private corporation? If so, how would mail be forwarded for the 40 million Americans who move each year? Who would assume

the responsibilities of the Postal Inspection Service? The FBI? Local police?

I am deeply concerned with the prospect of ill-considered action taken under the banner of privatization or its cousins: commercialization, corporatization, deregulation, and devolution. A theological conviction that privatization will reduce rates and improve service is not persuasive. As Eric Sevareid remarked, “The chief cause of problems is solutions.” The experience of the last 25 years warrants a new study, preferably by a non-partisan presidential commission. Privatization, as well as all other issues, should be on the commission’s agenda.

Bert Ely: Several realities must be acknowledged when addressing the issue of how to privatize the U.S. Postal Service. First, contracting out various USPS functions does not constitute privatization. Second, as a practical matter, its unionized employees own the USPS. They receive dividends in the form of above-market wages and excessive pension benefits. Third, the threat of privatization to universal mail service is a phony issue. In fact, as United Parcel Service and Federal Express demonstrate daily, universal delivery service is an objective to strive for, not retreat from. Not surprisingly, UPS and FedEx are now prepared to deliver to more homes and businesses than is the USPS.

Given those realities, I would like to make some recommendations for privatizing the USPS. One, give directly to USPS employees or to an employee stock option plan for USPS employees stock of a value that equates to the value of their present equity interest in USPS’s real earnings (reported earnings plus excess pay and pension benefits). In return, USPS employees would agree to accept a market rate of compensation, reasonable pension benefits, and elimination of unproductive work rules.

Two, sell stock in the USPS to the general public to raise the capital needed to improve the productivity and delivery reliability of a privatized Postal Service.

Three, abolish the private express statutes within one or two years after the USPS is privatized. A privatized USPS, like UPS, FedEx, and every other delivery service, will operate more efficiently once it is subject to competition for every piece of its business, including first-class mail.

Four, abolish the Postal Rate Commission

as of the day the privatized USPS loses its first-class mail monopoly. UPS and FedEx are not subject to government rate regulation; there is no reason why a privatized Postal Service that has no monopoly powers should be subject to rate regulation. Also, as UPS and FedEx have shown, a privatized Postal Service will not engage in excess price differentiation because of the high operating costs associated with administering a complex pricing structure. Therefore, rural residents will not pay higher postage rates than urban residents. In addition, more rural residents will get home delivery than is now the case.

Five, eliminate all restrictions that would prevent a privatized Postal Service from promoting greater usage of the service as an advertising medium. A privatized Postal Service will want to *increase* its volume of advertising mail (so-called junk mail) so that it can reduce its fixed delivery costs per unit of mail it delivers.

Peter Ferrara: Postmaster General Runyon's concerns about current restrictions on the U.S. Postal Service suggest the possibility of an emerging deal.

- The Postal Service would be given the free-market flexibility Runyon wants; restrictions on financing, innovation, and price flexibility would be removed.
- Ownership of the Postal Service would be moved to the private sector by issuing stock, with at least some if not all ownership granted to the employees.
- In return, the remaining postal monopoly would be removed, allowing private-sector competitors to enter the market.

The new Postal Service is likely to be the largest private mail delivery firm by far. Without a guaranteed market that it can retreat to, it will undoubtedly charge back into package and overnight mail delivery in a rigorous and highly competitive way, winning a substantial market share. And it probably will go beyond that, exploiting its comparative advantages.

One of those advantages is that the Postal Service is America's biggest landlord, with 40,000 properties nationwide. With new market incentives, the new service will move rigorously to put those properties to best use. Some can be sold at great profit, having been purchased for relatively little many years ago. Others can be rented out for maximum use.

But probably the greatest potential is to rent out space in every postal facility to complementary vendors—selling packaging and envelopes, copying services, printing, faxes, even letter stuffing.

Furthermore, the new free-market Postal Service is likely to move aggressively into offering those complementary services itself. The close complementary nature of those services and the postal business offers great profit potential. At the same time, consumers would enjoy great convenience and cost saving.

And that doesn't even begin to explore what complementary services can be offered on the delivery side of the business. What else can mail carriers do while they are delivering the mail? Can they deliver other goods and services? Can they carry advertising on their trucks? Can stamps carry advertising messages?

Indeed, in a market environment, the Postal Service is likely to see innovations we cannot even imagine yet. Only a decentralized competitive market offers the full opportunity for those with local practical knowledge to experiment and bring forth winners.

Thomas M. Lenard: A plan to redesign the

Postal Service should 1) provide flexibility for the Postal Service to survive and for mailers to have a sufficient array of service alternatives and 2) avoid the service disruptions and taxpayer bailout that are likely if nothing is done. A plan that meets those objectives should be based on the following premises:

- The government's monopoly over the carriage and delivery of mail should be abolished. There is no benefit to mailers in being forced to rely on a high-cost provider of service, even if those high costs are to some extent mitigated by the presence of economies of scale or scope. The monopoly deprives mailers of needed alternatives and the USPS itself of the freedom and flexibility it needs to adapt to the nation's changing mail service and communications needs.
- The Postal Service should be able to compete in new markets on a level playing field, enjoying no explicit or implicit advantages relative to its private competitors.
- Whatever the exact nature of the organization, that implies that a new Postal Service should have transferable ownership shares, because that type of organization promotes efficiency. The government could, however, retain a partial ownership share. ■



Rep. Chris Cox (R-Calif.) explains the Cox-Wyden bill to protect free speech and privacy on the Internet at the Cato Institute/Media Institute symposium, "Censoring Cyberspace," on July 19.

Simon *Continued from page 1*

on the front page.) This issue is very different from the sorts of problems that most of humanity has faced throughout most of its history.

The Path of Material Human Welfare

Let us distinguish three types of economic change: 1) Change that is *mainly absolute* rather than *relative*. An example is health improvement that benefits everyone worldwide. 2) Change that is *mainly relative* but also has an important overall effect. An example is a productivity improvement, due to people working smarter in one country, that allows that country to greatly increase its exports to the benefit of both exporters and importers but causes problems for some other exporting countries. 3) Change that is *wholly relative*. An example is a change in the price charged by one trading partner to another, or in the terms of trade between raw materials and consumer goods, or the dollar-yen exchange rate; in such zero-sum situations there is no on-balance change for bad or good. It is only the third category in which one finds bad news, and indeed bad news is inevitable for one party or the other.

This is my central assertion: Almost every absolute change, and the absolute component of almost every economic and social change or trend, points in a positive direction, as long as we view the matter over a reasonably long period of time. That is, all aspects of material human welfare are improving in the aggregate.

For proper understanding of the important aspects of an economy, we should look at the long-run movement. But short-run comparisons—between the sexes, age groups, races, political groups, which are usually purely relative—make more news.

Let's start with the longest and deepest trends. Surprising though they may be, these trends represent the uncontroversial settled findings of the economists and other experts who work in these fields.

Length of Life

The most important and amazing demographic fact—the greatest human achievement in history, in my view—is the decrease in the world's death rate. It took thousands of years to increase life expectancy at birth from just over 20 years to the high 20s. Then

in just the past two centuries, the length of life one could expect for a newborn in the advanced countries jumped from less than 30 years to perhaps 75 years.

Starting in the 1950s, well after World War II, length of life in the poor countries leaped upward by perhaps 15 or even 20 years because of advances in agriculture, sanitation, and medicine. (China excelled in this respect before developing its economy, which is exceptional.)

The extraordinary decline in child mortality is an important element in increased life expectancy, for which every parent must give fervent thanks. But contrary to common

“All aspects of material human welfare are improving in the aggregate.”

belief, in the rich countries such as the United States the gains in life expectancy among the oldest cohorts have been particularly large in recent years. For example, among American males aged 65 to 74, mortality fell 26 percent from 1970 to 1988, and among females of that age, mortality fell 29 percent and 21 percent from 1960 and 1970 to 1988, respectively (*Statistical Abstract of the United States*, 1990, p. 75).

The decrease in the death rate is the root cause of there being a much larger world population nowadays than in former times. In the 19th century, the planet Earth could sustain only 1 billion people. Ten thousand years ago, only 4 million could keep themselves alive. Now, more than 5 billion people are living longer and more healthily than ever before, on average. This increase in the world's population represents humanity's victory against death.

The trends in health are more complex. The decline in mortality is the most important overall indicator of health, of course. But whether keeping more people alive to older ages is accompanied by better or poorer health,

on average, in those older years is in doubt.

Agricultural Labor Force

The best single measure of a country's standard of living is the proportion of the labor force devoted to agriculture. When everyone must work at farming, as was the case only two centuries ago, there can be little production of nonagricultural goods. In the advanced countries there has been an astonishing decline over the centuries in the proportion of the population working in agriculture, now only about 1 person in 50. That shift has enabled consumption per person to multiply by a factor of 20 or 40.

Raw Materials

People have since antiquity worried about running out of natural resources—flint, game animals, what-have-you. Yet, amazingly, all the historical evidence shows that raw materials—all of them—have become less scarce rather than more. It is beyond any doubt that natural resource scarcity—as measured by the economically meaningful indicator of cost or price—has been decreasing rather than increasing in the long run for all raw materials, with only temporary and local exceptions. And there is no reason why this trend should not continue forever. The trend toward greater availability includes the most counterintuitive case of all—oil.

Food is an especially important resource. The evidence is particularly strong that the trend in nutrition is benign despite rising population. The long-run price of food is down sharply, even relative to consumer products, as a result of increased productivity. And per person food consumption is up over the last 30 years. The increase of height in the West is another mark of improved nutrition.

(Africa's food production per person is down, but in the 1990s, few people any longer claim that Africa's suffering has anything to do with a shortage of land or water or sun. Hunger in Africa clearly stems from civil wars and government interference with agriculture, which periodic droughts have made more murderous.)

Only one important resource has shown a trend of increasing scarcity rather than increasing abundance. It is the most important and valuable resource of all—human beings. Certainly, there are more people on earth now than ever before. But if we measure the scarcity of people the same way that we measure the scarcity of other economic

goods—by how much we must pay to obtain their services—we see that wages and salaries have been going up all over the world, in poor countries as well as in rich countries. The amount that one must pay to obtain the services of a barber or a professor has risen in India, just as the price of a barber or professor has risen in the United States over the decades. That increase in the price of people's services is a clear indication that people are becoming more scarce even though there are more of us.

The Standard of Living

The data show unmistakably how the standard of living has increased in the world and in the United States through the recent centuries and decades, right up through the 1980s. Aggregate data always bring forth the question: But are not the gains mainly by the rich classes, and at the expense of the poor? For a portion of U.S. history, income distribution did widen (though this is hardly proof that the rich were exploiting the poor). But there has been little or no such tendency during, say, the 20th century. And a widening gap does not negate the fact of a rising absolute standard of living for the poor. Nor is there evidence that an increasing proportion of the population lives below some fixed absolute poverty line. There have been extraordinary gains by the poor in America in consumption during this century, as well as a high standard of living by any historical and cross-national standards.

A related question concerns possible exploitation by the rich countries that might cause misery for the poor countries. But the distribution of the most important element of "real wealth"—life expectancy—has narrowed between rich and poor countries (as well as between the rich and poor segments of populations within countries) over previous decades—to wit, the extraordinary reduction in the gap between the mortality rate of China and those of the rich countries since World War II. The reduction in the gap between literacy rates and other measures of amount of education in rich and poor countries corroborates this convergence. The convergence in economic productivity in the rich countries, along with general growth, dovetails with the other measures of income distribution. Data on the *absolute* gap between yearly incomes of the rich and poor countries are beside the point; widening is inevitable if all get rich at the same proportional rate, and

the absolute gap can increase even if the poor improve their incomes at a faster proportional rate than the rich. Here one should notice that increased life expectancy among the poor relative to the rich reduces the gap in lifetime income, which is a more meaningful measure than yearly income.

Cleanliness of the Environment

Ask an average roomful of people if our environment is becoming dirtier or cleaner, and most will say "dirtier." Yet the air in the United States and in other rich countries is irrefutably safer to breathe now than in decades past; the quantities of pollutants—especially

"The greatest achievement in history is the decrease in the world's death rate."

particulates, which are the main threat to health—have been declining. And water quality has improved; the proportion of monitoring sites in the United States with water of good drinkability has increased since data collection began in 1961. More generally, the environment is increasingly healthy, with every prospect that this trend will continue.

When considering the state of the environment, we should think first of the terrible pollutions that were banished in the past century or so—the typhoid that polluted such rivers as the Hudson, smallpox that humanity has finally pursued to the ends of the earth and just about eradicated, the dysentery that distressed and killed people all over the world as it still does in India, the plagues and other epidemics that trouble us much less than in generations past, or not at all. Not only are we in the rich countries free of malaria (largely due to our intensive occupation of the land), but even the mosquitoes that do no more than cause itches with their bites are so absent from many urban areas that people no longer need screens for their homes and can have garden parties at dusk. It is a mark of our extraordi-

nary success that these are no longer even thought of as pollutions.

The root cause of these victorious campaigns against the harshest pollutions was the nexus of increased technical capacity and increased affluence—wealth being the capacity to deal effectively with one's surroundings.

I am not saying that all is well everywhere, and I do not predict that all will be rosy in the future. Children are hungry, and sick people live out lives of physical or intellectual poverty and lack of opportunity; irrational war (not even for economic gain) or some new pollution may finish us off. For most relevant economic matters, however, the aggregate trends are improving.

Can All This Good News Be True?

Readers of articles like this often ask, "But what about the other side's data?" There are no other data. Test for yourself the assertion that the physical conditions of humanity have gotten better. Pick up the U.S. Census Bureau's *Statistical Abstract of the United States* and *Historical Statistics of the United States* at the nearest library and consult the data on the measures of human welfare that depend on physical resources, for the United States or for the world as a whole. See the index for such topics as pollution, life expectancy, and the price indexes, plus the prices of the individual natural resources. While you're at it, check the amount of space per person in our homes and the presence of such amenities as inside toilets and telephones. You will find "official" data showing that just about every single measure of the quality of life shows improvement rather than the deterioration that the doomsayers claim has occurred.

What Is the Mechanism That Produces Progress Rather Than Increasing Misery?

How can it be that economic welfare grows over time along with population, instead of humanity's being reduced to misery and poverty as population grows and we use more and more resources? We need some theory to explain this controversion of common sense.

The process operates as follows: More people and increased income cause problems in the short run—shortages and pollutions. Short-run scarcity raises prices and pollution causes outcries. Those problems present opportunity and prompt the search for solutions. In a free society solutions are eventually found, though many people seek and fail to find solu-

Privatizing Schools, Roads

Studies Examine Censorship, FDA Regulation, Bosnia

Cato Studies

Our elementary and secondary educational system needs to be radically restructured, writes Nobel laureate Milton Friedman in "Public Schools: Make Them Private" (Briefing Paper no. 23). Such a reconstruction can be achieved, Friedman argues, only by privatizing a major segment of the educational system—that is, by enabling development of a private, for-profit industry that will provide a wide variety of learning opportunities and offer effective competition to public schools. The most feasible way to bring about such a transfer from government to private enterprise is to enact in each state a voucher system that enables parents to choose freely the schools their children attend. The voucher must be universal, available to all parents, and large enough to cover the costs of a high-quality education. Friedman insists that no conditions that interfere with the freedom of private enterprises to innovate be attached to vouchers.

Privatizing Roads for Big Benefits

Enacting policies that encourage the private development of roads could be the "win-win" solution for a Republican Congress searching for ways to simultaneously reduce the budget and improve the nation's infrastructure, says journalist Peter Samuel in "Highway Aggravation: The Case for Privatizing the Highways" (Policy Analysis no. 231). Traffic congestion costs the American economy \$100 billion a year, writes Samuel, but state and federal governments are reluctant to build the highways needed to ease congestion or to implement rational pricing of highway use. Samuel shows how private road-building efforts are proving successful where government road projects have failed. He says that around the country, from Loudoun County, Virginia, to Orange County, California, private entrepreneurs are building much-needed roads that hard-pressed governments cannot afford. The paper points out that highway congestion is the U.S. version of the long lines outside Soviet stores—visible evidence of the failure of central planning.

National Anti-Smog Policy Is Wrong

National policy on the control of urban

smog is misguided because it fails to account for current pollution trends and is based on the anomalous meteorological conditions of 1988, conclude K. H. Jones and Jonathan Adler in "Time to Reopen the Clean Air Act: Clearing Away the Regulatory Smog" (Policy Analysis no. 233). Although new data on smog have shown that the trends are continuing downward, the Environmental Protection Agency is doing little to halt regulatory overkill, Jones and Adler write. The EPA has promoted various emission control strategies, including enhanced vehicle emission inspections and carpooling programs, that are ill conceived. The sort of "control for control's sake" pollution control strategies pursued by the EPA are neither cost-effective nor equitable means of achieving emissions reductions, even should such reductions be necessary.

Act Would Restrict Internet Communication

The Communications Decency Act, sponsored by Sen. James Exon (D-Neb.) and passed by the Senate 84 to 16 in June, could severely restrict the free flow of information that characterizes the digital age, writes First Amendment lawyer Robert Corn-Revere in "New Age Comstockery: Exon vs. the Internet" (Policy Analysis no. 232). Senator Exon proposed the bill when he learned that sexually explicit pictures and text could be obtained through the Internet and stand-alone computer bulletin boards. But "the law threatens to lobotomize the Internet by superimposing essentially the same legal standard that stifled the publication of literature in America for nearly 60 years under the Comstock law," Corn-Revere states.

Corn-Revere says the bill is unnecessary and incompatible with a culture of free expression. He points out that computers and modems offer parents much more control over access to material than do telephones or televisions. Online services and Internet providers are giving parents a range of options for blocking objectionable material.

V-Chip Spells Censorship

In "'V' Is Not for Voluntary" (Briefing Paper no. 24), Corn-Revere looks at another congressional assault on free communications, the proposed V-chip. Proponents of V-chip legislation tout it as a "voluntary" sys-

tem that simply restores parental control of the family television. But, writes Corn-Revere, there is nothing voluntary about the rating system being proposed. First, ratings for television programs would be imposed either by a government commission or by the industry under a government-imposed deadline. Second, the courts have invalidated government rating systems for movies as "unbridled censorship," and the same First Amendment considerations would apply to television. Third, the legislation does not amount to "parental responsibility," for parents would not be the ones to determine what was objectionable. Rather, parents would gain the ability only to tune out programs deemed by the government to be unfit for family viewing.

Reforming "Cowboy Socialism"

The results of more than a century of grazing on public land are testimony to the failure of land-use socialism, according to Karl Hess Jr. and Jerry L. Holechek in "Beyond the Grazing Fee: An Agenda for Rangeland Reform" (Policy Analysis no. 234). By all measures, write Hess and Holechek, private grazing on federal lands has been a costly venture. The environmental condition of public ranges deteriorated in the early 1900s because of overgrazing, and improvement since then has been slow and expensive. Taxpayers have paid for federally supervised and subsidized grazing.

Range reform is the centerpiece of Interior Secretary Bruce Babbitt's environmental agenda, yet Hess and Holechek say his Rangeland Reform '94 is a bitter disappointment. It ignores the institutional impediments that have made overgrazing and land abuse official programs of the federal government, and it leaves unchanged the federal policies that discourage rancher stewardship and pay stockmen to overgraze.

FDA Regulation: Hazardous to Health

Since its inception in 1938, regulation of the medical device industry by the Food and Drug Administration has increased in scope, detail, and cost to the American people. In "Wrecking Ball: FDA Regulation of Medical Devices" (Policy Analysis no. 235), economist Robert Higgs writes that, historically, legislative authority and regulatory stringency have made several discreet leaps, each prompted by shocking revelations widely dissemi-

nated by the news media.

In the past four years, Higgs writes, the FDA has drastically slowed the rate at which it approves new or improved medical devices. The FDA's regulation of medical devices has produced little if any benefit but imposed large and increasing costs. Higgs emphasizes that those costs are not just economic; they also include deaths and human suffering. Ideally, the laws authorizing the FDA's regulation of medical devices would be repealed. At a minimum, Higgs proposes that Congress alter the FDA's authority, making the administration an agency for certifying products instead of an agency for outlawing products, micromanaging the operations of the device firms, and impeding innovation.

UN Peacekeeping Mission Prolongs War in Bosnia

The recent onset of clashes between UN and Serb forces in Bosnia is the latest evidence that the UN-led intervention in the former Yugoslavia is fundamentally flawed, writes John F. Hillen III in "Killing with Kindness: The UN Peacekeeping Mission in Bosnia" (Foreign Policy Briefing no. 34). According to Hillen, that operation prolongs the fighting and suffering instead of contributing to a

secure environment in which the local parties might negotiate a lasting peace settlement. The UN intervention has imposed an artificial life-support system on a Balkan society bent on continuing to fight. The "middle way" between traditional passive peacekeeping and large-scale coercive intervention has left all the local parties with greater incentives to continue the conflict than to negotiate a settlement.

More "Bosnias" in the Offing

The confusion that has bedeviled U.S. policy toward the Bosnian conflict could prove even more dangerous in the coming years, says Cato adjunct scholar Jonathan Clarke in "The United States and Future Bosnias" (Foreign Policy Briefing no. 36). There are numerous disputes surfacing elsewhere in Eastern Europe that threaten to duplicate the intracommunal violence that has devastated Bosnia, writes Clarke, a former British diplomat. The distinction between right and wrong or aggressor and victim will be extraordinarily difficult to draw in such murky struggles.

Because intracommunal conflicts in Eastern Europe do not pose a threat to America's security, Clarke concludes, the United States can and should adopt a consistent policy of

nonintervention.

Military Readiness Crisis Is a Myth

The recent, much publicized military readiness crisis is as dubious and politically motivated as were the Cold War era bomber and missile "gaps," writes defense analyst David Isenberg in "The Misleading Military 'Readiness Crisis'" (Foreign Policy Briefing no. 35). Most of the so-called readiness deficiencies in late 1994 and early 1995 were confined to a few military units that had already been earmarked for demobilization.

Isenberg says the remaining problems largely reflected temporary cash-flow difficulties arising from unanticipated missions in Kuwait, Rwanda, and the Persian Gulf. Nevertheless, the Pentagon and its supporters in Congress successfully fanned public concerns about a nonexistent crisis and obtained a \$3.04 billion supplemental appropriation for the Department of Defense.

Contrary to the prevailing mythology, Isenberg concludes, the Pentagon is not underfunded; the risk of returning to the "hollow forces" of the 1970s is overstated. The United States spends far more on the military than does any other nation, and its military forces have unmatched capabilities. ■

Social Security *Continued from page 3*

ingly worse investment for today's young workers. Borden concludes that only private pensions with individual property rights to accumulated fund balances can create a secure retirement system.

Various reform plans have been proposed for the United States, including recent legislation by Sens. Alan Simpson (R-Wyo.) and Bob Kerrey (D-Neb.), but Borden calls instead for a much bolder approach: "A plan that achieves the dual objectives of security and personal liberty would divert current Old-Age and Survivors and Disability Insurance payments to private personal retirement accounts, similar to individual retirement accounts, managed by the financial securities industry."

The second study, "Retiring with Dignity: Social Security vs. Private Markets," by Shipman, emphasizes the superior returns that a private pension would provide. "History shows that the financial return on [pri-



Nine cameras record the comments of former Social Security commissioner Dorcas Hardy and other speakers at Cato's National Press Club launch of its Project on Social Security Privatization.

ivate financial] instruments exceeds retirement needs at a fraction of Social Security's cost," Shipman writes. "For example, assuming historic rates of return, if individuals born in 1970 were allowed to invest in stocks the amount they currently pay in Social Security taxes, those individuals could receive nearly six times the benefits that they are sched-

uled to receive under Social Security, as much as \$11,182 per month. Even a low-wage earner would receive nearly three times the return on Social Security."

The project's next event will be a seminar at the U.S. Capitol on October 19, with presentations by Shipman, Tanner, Piñera, and Laurence Kotlikoff. ■

Cato's Studies Play Key Role

Constitutional Limits on Government Again an Issue

A long-time concern of the Cato Institute—the constitutional limitation of the federal government's power—has burst upon public awareness for the first time in decades thanks to several developments in the nation's capital. The primary locus of interest in the issue is the U.S. Supreme Court, where suddenly the limits of federal power have once again become subject to intense debate.

In April the Court ruled that Congress exceeded its constitutionally enumerated powers—in particular, the power granted by the commerce clause—when it outlawed possession of guns within 1,000 feet of schools (*U.S. v. Lopez*). That was the first time in more than 60 years that the Court acknowledged that there are limits to the commerce power. In his majority opinion, Chief Justice William Rehnquist wrote, "We start with first principles. The Constitution creates a Federal Government of enumerated powers."

Associate Justice Clarence Thomas went even further in his concurring opinion in the five-to-four case. "If we wish to be true to [the] Constitution . . .," Thomas wrote, "our Commerce Clause's boundaries simply cannot be 'defined' as being 'commensurate with the national needs' or self-consciously intended to let the Federal Government 'defend itself against economic forces that Congress deems inimical or destructive of the national economy.' Such a formulation of federal power is no test at all: it is a blank check."

Cato's Center for Constitutional Studies had been arguing for just such an interpretation in the *Lopez* case since it was accepted by the Supreme Court. Reasoning very sim-

ilar to Thomas's is found in the October 1994 Cato Policy Analysis (no. 216), "Kids, Guns, and the Commerce Clause: Is the Court Ready for Constitutional Government?" by Professor Glenn Harlan Reynolds. Center director Roger Pilon discussed the ruling in a May 21 Sunday *Washington Post* article, "It's Not about Guns: The Court's *Lopez* Decision Is Really about Limits on Government."

The issue of enumerated federal powers next surfaced when the Supreme Court issued its much-awaited ruling on congressional term limits. Although the court ruled five to four that term limits passed in the states are unconstitutional, Justice Thomas's dissent contained arguments that will probably echo in the capital for years to come. "Nothing in the Constitution deprives the people of each State of the power to prescribe eligibility requirements for the candidates who seek to represent them in Congress," Thomas wrote. "The Constitution is simply silent on this question. And where the Constitution is silent, it raises no bar to action by the States or the people." Again, that is the argument that Cato authors expounded in several papers and in the book *The Politics and Law of Term Limits*.

In a page-one news analysis of the Court's decisions, the *New York Times* stated, "The two events—what the Court accomplished in the *Lopez* decision and what the dissenters nearly achieved [in the term-limits case]—have together put into play for the first time in a half-century fundamental questions about the essential nature of the Federal Government." The *Times* also quoted Pilon.

Interest in the constitutional limits to fed-

eral power has become formalized in the 104th Congress with the formation of the Constitutional Caucus. With nearly 100 members, the caucus, according to the letter of announcement signed by Rep. J. D. Hayworth (R-Ariz.), "will explore ways to return power to the states and the people and restore a limited, constitutional government. It will focus on educating Congress and the public on the importance of returning the American government to 'constitutionalism.'" Hayworth's letter pointed out that "during this century, the federal government has assumed a vast and unprecedented set of powers . . . [which] has eroded our personal liberties and freedom."

When Hayworth gathered the freshman Republican House members to build support for the caucus, he invited Pilon to address the meeting. Pilon was also invited to testify at a hearing on federalism before the House Subcommittee on Human Resources and Intergovernmental Relations by chairman Christopher Shays (R-Conn.). Pilon told the subcommittee that "the federalism debate is, without doubt, the most important political, legal, and constitutional debate taking place in America today, going to our very roots as a nation." He advised the members that "the people and the states no longer trust Washington . . . because Washington has assumed a vast array of regulatory and redistributive powers that were never its to assume—not, that is, if we take the Constitution seriously."

Cato will be working to keep the Constitution a front-burner issue in Washington and throughout the United States. ■

Simon *Continued from page 11*

tions at cost to themselves. In the long run the new developments leave us better off than if the problems had not arisen. This theory fits the facts of history.

Technology exists now to produce in virtually inexhaustible quantities just about all the products made by nature—foodstuffs, oil, even pearls and diamonds—and make them cheaper in most cases than the cost of gathering them in their natural state. And the standard of living of commoners is higher today than that of royalty only two centuries ago—

especially their health and life expectancy, and their mobility to all parts of the world.

The extent to which the political-social-economic system provides personal freedom from government coercion is a crucial element in the economics of resources and population. Skilled persons require an appropriate social and economic framework that provides incentives for working hard and taking risks, enabling their talents to flower and come to fruition. The key elements of such a framework are economic liberty, respect for property, and fair and sensible rules of the market that are enforced equally for all.

We have in our hands now—actually, in

our libraries—the technology to feed, clothe, and supply energy to an ever-growing population for the next 7 billion years. Most amazing is that most of this specific body of knowledge was developed within just the past two centuries or so, though it rests, of course, on basic knowledge that had accumulated for millennia.

Indeed, the last necessary additions to this body of technology—nuclear fission and space travel—occurred decades ago. Even if no new knowledge were ever gained after those advances, we would be able to go on increasing our population forever, while improving our standard of living and our control over

Bureaucrats, Clinton Aides Suppressed Book

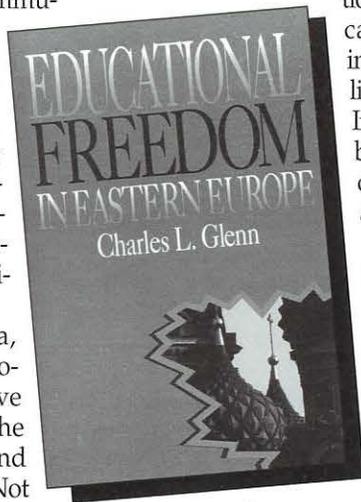
School Choice Emerging in Eastern Europe

Across Eastern Europe, school systems corrupted by communism are struggling to reestablish their integrity and independence. In *Educational Freedom in Eastern Europe*, Charles L. Glenn describes how communist governments made education a tool of totalitarian oppression, with the goal of imposing Marxist ideas and eradicating dissent among young people. Now, the post-communist reformers see education as an important vehicle for the revival of civil society.

In fact, today in Russia, Poland, and other East European countries, parents have more freedom to choose the schools their children attend than do American parents. Not only can they freely choose non-government schools; they can also work with others to create new independent schools. Glenn estimates that over 1,000 such schools now receive public funding in Poland, Russia, Hungary, and other postcommunist nations.

This is the only book in print that tells the story of both the communist takeover of education and the revival of educational freedom in postcommunist societies. It is a story that East European scholars were unable to write for many decades.

Glenn's report was commissioned by the U.S. Department of Education in 1989 and submitted in 1991. Department bureaucrats, apparently displeased by the implications of



Glenn's study, engaged in a classic bureaucratic slowdown, and the book was not published in 1991 or 1992. In January 1993, immediately after President Clinton's inauguration, publication of the book was canceled. After journalistic inquiries, 200 copies were published in March 1994. The Cato Institute decided to publish the book, with a new foreword and conclusion, to make it available to a wider audience.

In his new conclusion, Glenn's optimism has been tempered by experience. "In each of the countries of Eastern Europe," he writes, "though to a widely varying extent, the all-encompassing bureaucracy of the communist era remains largely in place, as do the habits and attitudes that sustain its power."

The reason for the Education Department's hostility to the book is clear in this excerpt from Glenn's original foreword, which was not included in the eventual Department of Education publication.

The experience of Soviet education since 1917, and of education in Eastern Europe from the post-war years to 1989, illustrates the danger of seeking to use schooling as an instrument of State power, in an effort to remold humanity and to eliminate loyalties and beliefs competing with those considered useful by the State.

Unfortunately, this ambition is not unknown in the United States and other Western democracies, where interest groups within the educational establishment and special interest groups have sought to manipulate the content of public schooling to advance their agendas.

Education scholar Diane Ravitch, whose efforts as assistant secretary of education to get the book published were thwarted by bureaucrats, says, "This is the state-of-the-art study on communist and postcommunist educational policy in Central and Eastern Europe. It offers lessons that Americans should ponder about the relationship of education and the state."

Jan Koucky, vice minister of education in the Czech Republic, calls it "a good history of education in the countries of Central and Eastern Europe, which will be appreciated not only by the Western reader but also by readers in the countries concerned."

Charles L. Glenn is a professor of educational policy at Boston University. For 21 years he was the Massachusetts education official responsible for civil rights and urban education, including an extensive program of improving educational opportunity through school choice. Glenn is the author of *The Myth of the Common School* (1988), *Choice of Schools in Six Nations* (1989), and many articles on educational policy and practice.

Educational Freedom in Eastern Europe is available from the Cato Institute for \$25.95 cloth (ISBN 1-882577-20-5) or \$15.95 paper (1-882577-21-3). To order, call 800-767-1241. ■

our environment. The discovery of genetic manipulation certainly enhances our powers greatly, but even without it we could have continued our progress forever.

Conclusion

Progress toward a more abundant material life does not come like manna from heaven, however. My message certainly is not one of complacency. The ultimate resource is people—especially skilled, spirited, and hopeful young people endowed with liberty—who will exert their wills and imaginations for their own benefit and inevitably benefit the rest of us as well. ■

POLICY ANALYSIS STUDIES

- | | |
|---|--|
| 235. Wrecking Ball: FDA Regulation of Medical Devices by Robert Higgs (August 7, 1995) | 231. Highway Aggravation: The Case for Privatizing Highways by Peter Samuel (June 27, 1995) |
| 234. Beyond the Grazing Fee: An Agenda for Rangeland Reform by Karl Hess, Jr. and Jerry L. Holechek (July 13, 1995) | 230. The Wrong and Right Ways to Reform Medicare by Doug Bandow and Michael Tanner (June 8, 1995) |
| 233. Time to Reopen the Clean Air Act: Clearing Away the Regulatory Smog by K. H. Jones and Jonathan Adler (July 11, 1995) | 229. The 1995 Crime Bills: Is the GOP the Party of Liberty and Limited Government? by Jarett B. Decker (June 1, 1995) |
| 232. New Age Comstockery: Exon vs. the Internet by Robert Corn-Revere (June 28, 1995) | 228. Medical Savings Accounts: Answering the Critics by Michael Tanner (May 25, 1995) |

Call toll-free (800)767-1241 • (Mon. - Fri., noon - 9 p.m. eastern time)

"To be goverped..."

Rent seeking comes out of the closet

In 1987, an advertisement in the Durango (Colo.) Herald touting the Animas-La Plata [dam and irrigation project] captured in just five pithy sentences what critics see as the essence of federal water policy. "WHY WE SHOULD SUPPORT THE ANIMAS-LA PLATA PROJECT," began the ad. "BECAUSE SOMEONE ELSE IS PAYING THE TAB! We get the water. We get the reservoir. They pay the bill."

—*Washington Post*, June 29, 1995

Who does this father think he is?

Charles Hayden... began tutoring son Chris, 13, for two hours a day, for 11 weeks, after finding out Chris was in danger of flunking five classes at Harrold Middle School. Chris passed with an 85.8% average, but on June 28, Hayden is due in court in Pittsburgh, charged with illegally taking his son out of study hall.

—*USA Today*, June 15, 1995

Free isn't good enough; it's got to be convenient

At a time when... the poor are being vilified as irresponsible and worse, Tiffany Washington is [a Mobile Pediatric Center] outreach success story... She has brought her son regularly [to a mobile van in her neighborhood] for checkups and shots... Because she is on Medicaid, Washington could go to a District clinic, but whether

she would go is not left up to her. Once a week, health care essentially comes to her.

—*Washington Post*, Aug. 2, 1995

We are not amused

[Rep. Sam] Gibbons said [income-tax deductions and] exemptions are the reason the public has lost confidence in the equity of the tax system, a deterioration, he acknowledged, that he and his colleagues on the Ways and Means Committee had helped perpetuate.

"I probably screwed up the tax code more than anybody still in Congress," he said with a laugh.

—*Washington Post*, Aug. 2, 1995

Let's not talk about it; that's the Democratic, uh, democratic way

A proposed November 1996 ballot question... would end certain government affirmative action programs...

Rep. Shirley Owens-Hicks (D-Mattapan) said... a ballot-question fight could be divisive.

"I don't think it ought to be debated at all in terms of whether affirmative action should continue to exist," she said.

—*Boston Globe*, Aug. 4, 1995

Community responsibility in the welfare state

Neighbors will tell you there's no doubt that neglect killed the [two] Elmore [tod-

dlers, who suffocated in a locked car], but it wasn't the neglect of a distracted parent or an indifferent community that doesn't watch its own. They say it is years of neglect by the city, the federal government and the media.

—*Washington Post*, Aug. 4, 1995

I asked my 10-year-old son what to say on the floor of Congress

"We've heard a lot of talk about revolution the past eight months," said [Rep. David] Bonior, the second-ranking Democrat in the House. "If Newt Gingrich says the Republicans are revolting, who are we to disagree?"

—*New York Times*, Aug. 5, 1995

Think about it

Paid maternity and parental leaves and safe, affordable day care, which are taken for granted by citizens of other nations, remain out of reach in the richest economy in the world.

—*Atlantic Monthly*, June 1995

There's light at the end of that tunnel

The arrest of the alleged No. 2 man in Colombia's Cali cartel is a death knell for the world's most powerful drug trafficking organization, said Thomas Constantine of the U.S. Drug Enforcement Administration.

—*USA Today*, Aug. 7, 1995

CATO POLICY REPORT
1000 Massachusetts Ave., N.W.
Washington, D.C. 20001

ADDRESS CORRECTION REQUESTED

Nonprofit Organization
U.S. Postage Paid
Washington, D.C.
Permit No. 3571

CATO
INSTITUTE