

Competing with the Postal Service

by Frederick W. Smith

My perspective assumes that the Cato Institute is one of the few institutions that seem to have learned some lessons from history. It also assumes that people have not changed much in recorded time and that there are certain eternal truths about human nature. These assumptions apply to the subject we are here to discuss today: competing with the Postal Service.

The first "postal services" were established by the Romans. They understood the importance of rapid communications to preserve the far-flung organization of a vast empire. In fact, the Roman road system was essentially built to carry those communications, most of them military or state business. The infrastructure for that communication system heralded a modern type of market economy for the Roman Empire.

Subsequently, people marveled at the prowess of Genghis Khan in assembling his trans-Asiatic empire. However, few people recall the exquisite communications or post system he established for the purpose of controlling that vast empire, just as the Romans before him had done.

A similar pattern was reproduced with the emergence of modern society in the late Middle Ages. Modern postal systems had their inception in England during the reign of Charles I, who desired not only to have good communications but also to extort substantial taxes from the people who wanted to communicate with one another. This miscalculated overreach of authority literally cost him his life; he was beheaded.

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Frederick W. Smith, founder of Federal Express and member of the Cato Institute's Board of Directors, criticized the U.S. Postal Service's overreaching attempts to extend its monopoly on December 2 at the Cato Institute conference "Mail @ the Millennium: The Future of Private Postal Service."

I am sorry to report that in the recent past the U.S. Postal Service has exhibited the same lack of judgment that proved so costly to Charles I by overextending its authority beyond that which was intended by Congress when in 1871 it gave the Post Office a monopoly on the transportation of letters in this country. Prior to that time, the movement of mail was mostly a private endeavor. However, as the country moved in the post-Civil War era toward achieving its "manifest destiny," it became extremely important to establish a system of communications capable of connecting all the points of the growing domestic economy. I am confident that the lawmakers who enacted the 1871 postal monopoly law clearly understood the meaning of the word "letter," a term whose common usage had long been established.

Most physical items in the 1870s were relatively large and bulky and were transported by private transportation companies.

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Save Social Security First: Continued



For the past year, this column supported President Clinton's proposal to "Save Social Security First" by deferring any commitment of the projected surplus on the unified budget until the Social Security issue is sorted out. I did this on the assumption that Clinton was serious about this issue, an assumption that I maintained, maybe naively, through the White House Conference on Social Security in December.

I was wrong. President Clinton is not serious about this issue. The plan that Clinton outlined in his recent State of the

Union Address, apparently assembled by some wordsmith with a stapler, includes three components:

1. About 50 percent of the projected surplus over the next 15 years would be committed to reducing the federal debt owed to the public. This may have better effects on the economy than many other proposed uses of the surplus but would have no direct effect on Social Security. By sleight-of-hand, Clinton would increase the federal debt owed to the Social Security Trust Fund by twice this amount, claiming that this would extend the solvency of this mythical trust fund to the year 2055, but this left-handed bookkeeping would have no substantive effect on anything.

2. About 12 percent of the projected surplus would finance a small new complicated IRA. The federal government would put a small fixed amount into Universal Savings Accounts and would then augment individual deposits to those accounts on an income-tested basis. This measure would also have no effect on Social Security.

3. Another 12 percent of the projected surplus would be invested in private securities to be held by the Social Security Trust Fund. Clinton proposed a system designed to protect those investments from political pressure, but the record of similar systems is not encouraging. Many state and local pension funds and some national provident funds have been manipulated for political objectives, reducing the rate of return to those funds. Since early in the Clinton administration, the Department of Labor has tried to pressure private pension funds to invest in politically targeted securities. Although this component of the Clinton plan has been the focus of most early criticism, it is the only component that would have any effect, albeit minuscule, on the future funding of Social Security.

This is not a serious plan, and there is no reason for Congress to give it serious attention. My guess is that this plan, like the 1993

Hillarycare plan, will never reach a floor vote.

In that case, where should Congress go from here? The worst response to Clinton's failure to submit a serious proposal would be to act as if Social Security were not a serious issue; this would trigger a frenzy of down-payment spending increases and junk tax cuts that would fritter away the budget surplus. A better alternative would be to do *nothing*; approve a tight budget, go home, and let the surplus reduce the federal debt until there is a sufficient consensus to resolve the Social Security issue.

The best alternative is to recognize that the projected surplus affords a rare opportunity to resolve the major long-term fiscal issues. And the most important fiscal challenge is to transform Social Security from an unsustainable pay-as-you-go government pension system into a sustainable system of prefunded private retirement accounts. My preference is to use the *whole* surplus for this purpose, by allowing current workers to opt out of the Social Security system in exchange for the opportunity to invest a substantial part of their payroll tax in an approved private retirement account. In effect, this would be a proportional tax reduction for low- and middle-earnings workers and a lump-sum tax reduction for high-earnings workers,

conditional on their opting out of the Social Security retirement system. Using the surplus in this way would not change net national saving; private saving would increase by the amount by which the federal budget surplus was reduced. More important, in contrast to the Clinton plan, this would eliminate the liabilities of the Social Security system for those workers who make use of this opportunity. This year may also be the window of opportunity for this proposal: congressional Republicans

are close to agreement on a system of private retirement accounts, and President Clinton has made a sufficient commitment to "Saving Social Security First" that he may not veto a bill incorporating this proposal.

Yes, there are important competing demands for the projected budget surplus. Sorting out Medicare is both more urgent and more complex than reforming Social Security, and a major reform of the federal tax code would have high payoffs, but these issues are not yet ripe; there seems to be no prospect of a near-term consensus on them. President Clinton has made Social Security the priority policy issue of 1999; Congress should do so also. And both Clinton and Congress should have the wisdom and courage to do it right.

“Clinton’s Social Security plan is not serious, and there is no reason for Congress to give it serious attention.”

—William A. Niskanen

61 chapters on free markets, civil liberties, and the threat of terrorism

Cato Releases *Handbook for Congress*

For those who go into government to improve the lives of their fellow citizens, the hardest lesson to accept may be that often there is no good reason for Congress to do anything about a problem—such as education, crime, or church burning,” the Cato Institute reminds legislators in the *Cato Handbook for Congress*, published at the opening of the 106th Congress.

The lesson appeared to have been learned in 1994, when the “Republican Revolution” turned Democrats out of power. However, the past five years have been a great disappointment for those who expected the Republican Congress to follow through on its promise to return to limited government. The Republican Contract with America has become a contract on taxpayers who have to pay for a still-climbing federal budget. As the *Handbook* points out, “The 105th Congress alone passed the largest highway-pork bill ever, revived flagging federal support for arts programs, brought farm subsidies back to life, widened federal involvement in local schools, gave another \$18 billion to the International Monetary Fund, and loaded everything but the kitchen sink into a 4,000-page budget bill.”

The third edition of the *Handbook* includes 61 chapters covering a broad spectrum of public policy issues, from urgent action items such as Social Security privatization, tax reform, and corporate welfare to term limits, strengthening civil liberties, abolishing federal agencies, regulatory reform, and deregulation. The *Handbook* details the road to fundamental reforms that can improve the lives of Americans by reducing the size and scope of the federal government.

Noting that “the nature of government is to grow,” Cato reminds members of the 106th Congress that while “the Constitution of the United States is the best device ever created for limiting government,” over the years “we have let the federal government exceed the bounds that the Founders wisely placed on it.”

One area in which the government has exceeded those bounds is Social Security. Just about all Americans agree that Social Security must be reformed, although they disagree about the method. Michael Tanner, director of health and welfare studies at Cato, advises Congress to allow young workers to

redirect their payroll taxes to individually owned, privately invested retirement accounts. Privatization will provide a better deal for young workers, promote savings and economic growth, help the poor, and provide freedom of choice and control.

Helping Americans regain control over their lives is a theme that runs throughout the book. Stephen Moore, director of fiscal policy studies, contends that Congress should cut taxes at least \$1 trillion over five years. Overhaul of the tax code should include repeal of the 1990 and 1993 tax increases, a cut in the payroll tax rate, and abolition of both the capital gains and the estate tax. In addition, Congress should replace the income tax with a national sales tax. “Congress has a \$1 trillion opportunity in 1999,” Moore writes. “It should act immediately to roll back taxes for two reasons. First, today’s record taxes are now the greatest single threat to the current economic expansion. And second, tax cuts are an essential preemptive measure against the advocates of bigger government, who wish to claim the surplus funds for new federal programs.”

In foreign affairs, the *Handbook* advises Congress to support the concept of a national defense based on strategic independence and diplomacy based on prudent nonintervention. Ivan Eland, director of defense policy studies at Cato, reminds Congress that it should act as a much-needed check on the executive branch’s reflexive tendency to expand the global political and military role of the United States. One way it can do that is by reducing the budget authorization for national defense by \$100 billion—from a planned sum of about \$275 billion to \$175 billion (in fiscal year 2000 dollars). Gary Dempsey, foreign policy analyst at Cato, recommends that Congress withdraw all U.S. troops from Bosnia and urge the Western European Union to expand its military responsibility for Bosnia. To deal with terrorism and weapons of mass destruction, Eland says that

Congress should “refuse to provide funds for U.S. military presence and interventions overseas that are not required to defend U.S. vital interests and could result in catastrophic retaliatory attacks on the U.S. homeland by terrorists using weapons of mass destruction.”

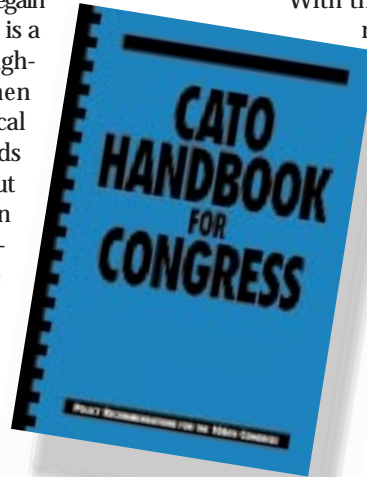
With the presidential election looming next year, the *Handbook* calls for

an end to restrictions on political speech. Congress should deregulate the campaign finance system, reject “voluntary” spending limits, and reject calls to eliminate political action committees. Bradley A. Smith, professor of law at Capital University Law School in Columbus, Ohio, and an adjunct scholar of Cato, concludes that “efforts to ‘fix’ the campaign finance system have been bad for government and bad for American citizens, who have a right to speak and be active in public affairs.”

David Boaz, Cato’s executive vice president, says that Congress should abolish the Department of Education and return education to the state, local, or family level, as provided by the Constitution. “Education,” he writes, “is a perfect example of one major theme of this *Handbook*: that even many vitally important things in American society are not the province of the federal government.”

As Tom G. Palmer, Cato’s director of special projects, says, “Limited government is one of the greatest accomplishments of humanity. It is imperfectly enjoyed by only a portion of the human race, and, where it is enjoyed, its tenure is ever precarious. The experience of the 20th century is surely witness to the insecurity of constitutional government and to the need for courage in achieving it and vigilance in maintaining it.” The *Cato Handbook for Congress* is one tool in that battle.

The *Cato Handbook for Congress* is distributed to all members of Congress and to journalists and is available for purchase for \$18.95 (paper). The complete text of the *Handbook* is available and fully searchable at the Cato Institute’s Web site: www.cato.org. ■



How the IMF exacerbated the Russian crisis

Is Social Security Privatization Moral?

◆ **December 2:** U.S. Postmaster General William Henderson and Federal Express CEO Fred Smith were the featured speakers at “**Mail @ the Millennium: The Future of Private Postal Service,**” a conference on the future of mail service. Henderson contended that monopolies are being deregulated around the world and that the USPS will eventually lose its monopoly over the mail. Smith, a Cato Board member, questioned whether the post office should be allowed to diversify and compete with the private sector when taxpaying private enterprises are already performing the needed services. Other speakers included Michael Critelli, CEO of Pitney Bowes; James Lucier of Prudential Securities Inc.; Gene Del Polito of the Advertising Mail Marketing Association; James Campbell of the International Express Carriers Conference; and Murray Comarow, former senior assistant postmaster general.

◆ **December 7:** At a Policy Forum titled “**The Morality of Social Security Privatization,**” Daniel Shapiro, associate professor of philosophy at West Virginia University, argued that a privatized Social Security system would be morally superior to the current system from any philosophical perspective—libertarian, egalitarian, or communitarian. Charles Murray of the American Enterprise Institute said that it is immoral for the government to take care of irresponsible people by taking important choices away from responsible people.

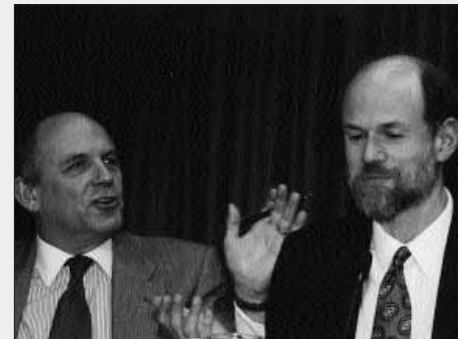
Communitarian philosopher Amitai Etzioni maintained that the moral and economic considerations are intertwined and that neither justify Social Security’s privatization. Kenneth Tollett of Howard University contended that Social Security should not be privatized because it turns individual risk into shared security.

◆ **December 8:** On October 12, in a key decision relating to possible conflicts between trade liberalization and environmental protection, the Appellate Body of the World Trade Organization upheld a U.S. law designed to protect sea turtles endangered by shrimp fishing but faulted the United States for the way it administers the law. Four analysts discussed the implications of the decision at a Policy Forum titled “**The WTO’s Shrimp-Turtle Decision: Free Trade vs. the Environment.**” Kanthi Tripathi of the Embassy of India contended that overly restrictive environmental laws cause Third World nations to waste valuable resources battling lawyers and environmentalists in court. David Schorr of the World Wildlife Fund said that trade policy is interwoven with social and environmental policies and that there must be rules for resolving disputes laid out in advance. Other speakers were John H. Jackson of Georgetown University Law Center and

Steven Charnovitz of the Global Environment & Trade Study at Yale Law School.

◆ **December 9:** At a Cato **Roundtable,** UCLA Law School professor Eugene Volokh discussed issues of separation of church and state with legal scholars and policy analysts.

Libertarians Charles Murray (left) and Daniel Shapiro debated the morality of Social Security privatization with Howard University’s Kenneth Tollett and communitarian Amitai Etzioni at a Cato Policy Forum.



◆ **January 12:** The recent proposals by some military analysts and members of Congress to resume conscription were discussed at a Cato Policy Forum, “**A Draft or Fresh Air? Alternatives to Conscription.**” Maj. Gen. Al E. Lenhardt, U.S. Army (Ret.), contended that a volunteer force is more effective than a conscripted one. He stressed that increasing pay and benefits could help the military cope with personnel shortages. Doug Bandow, senior fellow at the Cato Institute, emphasized that military commitments

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Brink Lindsey moderates as David Schorr of the World Wildlife Fund and Kanthi Tripathi of the Embassy of India debate World Trade Organization rules at a Cato Policy Forum.

should be reduced to induce more people to stay in the military. Capt. Rosemary Mariner, U.S. Navy (Ret.), emphasized the Founders' intention that we have a small, volunteer military. George C. Wilson, former *Washington Post* defense correspondent, proposed establishing a limited draft.

♦ **January 26:** At a **Capitol Hill luncheon**, Kathleen Bailey discussed with congressional staff her new Cato Policy Analysis on problems with the Comprehensive Test Ban Treaty.

♦ **January 27:** At a **Roundtable Luncheon**, defense analyst Kathleen Bailey spoke on the Comprehensive Test Ban Treaty to a group of scholars and policy analysts.

♦ **January 29:** When the Russian ruble collapsed in August 1998, many Western observers saw it as a failure of capitalism. At a Cato Policy Forum, "**How the Russian Crisis Was Manufactured**," Andrei Illarionov, director of the Institute of Economic Analysis in Moscow, explained that assistance from the International Monetary Fund has retarded liberal reforms in Russia and exacerbated the crisis. He also warned that official Russian statistics—upon which international organizations and the Western press rely—are misleading because they underestimate the size of government and the size of the country's economic problems. Government policies in post-Soviet Russia remain essentially "socialist" in that the state uses fiscal, monetary, and regulatory policies to allocate the country's vast resources instead of allowing the market to do so. ■

Most Cato Forums and conferences can be viewed with RealPlayer on the Cato Institute's Web site, www.cato.org, both live and afterward.



Maj. Gen. Al E. Lenhardt (Ret.) tells a Policy Forum audience that a volunteer force is more effective than a conscripted one. Doug Bandow (right) listens.



Defense analyst Kathleen Bailey addresses a Roundtable Luncheon on the Comprehensive Test Ban Treaty, organized by Cato's Ivan Eland (left).



Andrei Illarionov of Moscow's Institute of Economic Analysis discusses how aid from the International Monetary Fund has exacerbated the Russian crisis at a Policy Forum. Ian Vásquez chairs.

The Business Community's Suicidal Impulse

by Milton Friedman

There's a common misconception that people who are in favor of a free market are also in favor of everything that big business does. Nothing could be further from the truth.

As a believer in the pursuit of self-interest in a competitive capitalist system, I can't blame a businessman who goes to Washington and tries to get special privileges for his company. He has been hired by the stockholders to make as much money for them as he can within the rules of the game. And if the rules of the game are that you go to Washington to get a special privilege, I can't blame him for doing that. Blame the rest of us for being so foolish as to let him get away with it.

I do blame businessmen when, in their political activities, individual businessmen and their organizations take positions that are not in their own self-interest and that have the effect of undermining support for free private enterprise. In that respect, businessmen tend to be schizophrenic. When it comes to their own businesses, they look a long time ahead, thinking of what the business is going to be like 5 to 10 years from now. But when they get into the public sphere and start going into the problems of politics, they tend to be very shortsighted.

The most obvious example is protectionism. Can you name any major American industry that has really benefited from tariffs and protection? Alexander Hamilton, in his famous report on manufactures, praised Adam Smith to the sky while at the same time arguing that the United States was a special case in that it had infant industries that needed to be protected, including steel. Steel is still being protected 200 years later.

Commercial banking is another example. At the end of World War II commercial banking accounted for roughly half of the capital market. Today it accounts for about one-fifth. Why has it deteriorated? Why is the international financial market in London, not in New York?

Milton Friedman is a Nobel laureate in economics and a senior research fellow at the Hoover Institution. He delivered these remarks at the Cato Institute-Forbes ASAP conference, "Washington, D.C., versus Silicon Valley."

The answer is the long-term effect of the of the banking industry's insistence on special government favors. In the early days, under what was known as Regulation Q, the government set a limit on the interest rates that banks could pay, including a rate of zero on demand deposits. The government-imposed interest rate of zero on demand deposits encouraged the emergence of money market funds and the growth of substitutes for and alternatives to banks. The banking industry consistently supported fixed exchange rates. When the dollar got into trouble, President Johnson introduced restrictions on foreign lending and an interest-equalization tax. The



Milton Friedman: "I have gradually come to the conclusion that antitrust laws do far more harm than good."

result was to drive the commercial banking industry to London. Both of those measures reduced the commercial banking industry from the predominant supplier of credit to a minor player. Again, a policy that was very shortsighted.

The easiest shot of all is the way in which corporations make contributions. The oil industry contributes to conservation organizations that are trying to sharply reduce the use of oil. The nuclear industry contributes to organizations that support nonnuclear energy. Recently, Capital Research Center analyzed grants from major corporations to public policy organizations and found that the major corporations made \$3 in grants to the nonprofit left for every dollar they gave to the nonprofit right.

Why hasn't the corporate world followed the excellent example that was set by Warren Buffett? From his earliest days, in sending a dividend check to his stockholders, he said, "We are prepared to distribute X dollars on your behalf for each share of stock

to charity, to some organization. Let us know to whom you would like it sent, and we will send it on your behalf."

Why should corporations decide the charitable purposes that should be supported by the income of their stockholders? Why shouldn't each stockholder decide that? And why is the business community in general so insistent on supporting its own enemies?

Now consider education. As you know, I have long been in favor of trying to privatize schooling through a voucher system. One strong argument in favor of privatization has to do with the values instilled by our public education system.

Any institution will tend to express its own values and its own ideas. Our public education system is a socialist institution. A socialist institution will teach socialist values, not the principles of private enterprise. That wasn't so bad when elementary and secondary education was more dispersed, so there could be more local control. When I graduated from high school there were 150,000 school districts in the United States. Today there are fewer than 15,000 and the population is twice as large.

What has been the business community's attitude toward education? Members of the business community have been well aware that schools instill values that are unsympathetic to a free private enterprise system. They are also aware that it's difficult to get employees with the appropriate skills. But have they been trying to promote a private enterprise education industry? Not at all. Their major activity has been to assign some of their employees to teach in public schools and to contribute computers and other items to public schools. I can't blame an individual for what he does, but I think it's tragic that Walter Annenberg contributed hundreds of millions of dollars for *government* schools, for *public* schools, not for private schools. I have not seen any movement in the business community in general, until very recently, to try to promote an educational system under which the customer, namely the parent and the child, has a real choice about the schooling the child gets.

Now we come to Silicon Valley and Microsoft. I am not going to argue about the technical aspects of whether Microsoft is guilty or not under the antitrust laws. My

“You will rue the day when you called in the government. The computer industry will experience a continuous increase in government regulation.”

own views about the antitrust laws have changed greatly over time. When I started in this business, as a believer in competition, I was a great supporter of antitrust laws; I thought enforcing them was one of the few desirable things that the government could do to promote more competition. But as I watched what actually happened, I saw that, instead of promoting competition, antitrust laws tended to do exactly the opposite, because they tended, like so many government activities, to be taken over by the people they were supposed to regulate and control. And so over time I have gradually come to the conclusion that antitrust laws do far more harm than good and that we would be better off if we didn't have them at all, if we could get rid of them. But we *do* have them.

Under the circumstances, given that we *do* have antitrust laws, is it really in the self-interest of Silicon Valley to set the government on Microsoft? Your industry, the computer industry, moves so much more rapidly than the legal process, that by the time this suit is over, who knows what the shape of the industry will be. Never mind the fact that the human energy and the money that will be spent in hiring my fellow economists, as well as in other ways, would be much more productively employed in improving your products. It's a waste! But beyond that, you will rue the day when you called in the government. From now on the computer industry, which has been very fortunate in that it has been relatively free of government intrusion, will experience a continuous increase in government regulation. Antitrust very quickly becomes regulation. Here again is a case that seems to me to illustrate the suicidal impulse of the business community.

Now I come to the hard part: Why is there that suicidal impulse? Why do business people behave that way? I hope many of you in this room will think about it and try to come up with an answer. I will give you the few suggestions that I have, but none of them seems to me an adequate explanation. One reason was stated more than a century ago by a remarkable man, Gen. Francis A. Walker, a professor at Yale and subsequently president of M.I.T. He wrote:

Few are presumptuous enough to dispute with a chemist or mechanic upon points

connected with the studies of labor of his life. But almost any man who can read and write feels at liberty to form and maintain opinions of his own upon trade and money. . . . The economic literature of every succeeding year embraces works conceived in the true scientific spirit, and works exhibiting the most vulgar ignorance of economic history and the most flagrant contempt for the conditions of economic investigation. It is much as if astrology were being pursued side by side with astronomy or alchemy with chemistry.

When it comes to economics, everybody is an expert who almost always gets it wrong—and business executives are no exception.

Schumpeter gave a very different explanation for this phenomenon. He argued that, within large corporations, the people in charge develop essentially bureaucratic-socialist attitudes and institutions. Belief in entrepreneurship and private enterprise tends to be replaced by a bureaucratic approach, leading to the emergence of a socialist system. I

don't believe that's true. In a competitive society there is enough pressure around to prevent that from happening. But that would be an explanation.

The general climate of opinion, which treats government action as an all-purpose cure for every ill, is probably a more important factor. However, over the past 40 years, the climate of opinion has been changing. It is no longer taken for granted, as it used to be, that if there is a problem the way to solve it is to get the government involved. We have been winning the war of ideas even though we have been losing the war in practice. Governments today are far bigger and more intrusive than they were 40 or 50 years ago, at the same time that—partly as effect—the climate of opinion is much less favorable to government control than it was then. But I still don't think that is an adequate explanation, so I confess that I have no good explanation. Yet I think the phenomenon calls for an explanation and that it's in your self-interest to find one and change the pattern of business behavior in order to get rid of what is a clear suicidal impulse. ■

The volunteer army: If it ain't broke . . .

Feeling a Draft?

by Doug Bandow

In the early days of the Reagan administration, military manpower was a critical issue because the all-volunteer force was having problems with quality and discipline. So it was a major concern of the Reagan administration to get the force right and to get it working. And that has happened. We've got ourselves a very high-quality force. The volunteer military is working very well.

Doug Bandow, a syndicated columnist, is a senior fellow at the Cato Institute. As a special assistant to President Reagan, he served on the Military Manpower Task Force. These remarks were delivered at a Policy Forum, "A Draft or Fresh Air? Alternatives to Conscription," on January 12.

Nevertheless, we are hearing some low but unmistakable calls for a return to conscription. We have a number of representatives and senators—Rep. Steve Buyer, chairman of the National Security Committee's Subcommittee on Personnel; John Murtha, ranking minority member on the House Appropriations Committee's Subcommittee on Defense; Norm Sisisky, senior member of the House National Security Committee; and Sen. John McCain, potential presidential candidate—who are talking about the potential need for conscription. This seems an odd time to be talking about conscription. The United States is at peace. America's enemies are pitiful. Our allies dominate the globe. The normal reasons for conscription just aren't there.

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“Conscription would destroy the very values that government is supposed to be defending.”

FORUM *Continued from page 7*

Nevertheless, a potpourri of reasons for conscription has been cited:

- High payroll and recruiting expenses.
- Poor recruiting results: Both the quality and the number of recruits are problems. The Navy, in particular, fell 7,000 recruits short last year.
- Poor retention—for example, of pilots and certain other skill grades.
- The lack of connection between political leaders and the military.
- The notion that young people today lack discipline. We no longer have some of the virtues that were inculcated by the military in the past.

None of those arguments is new. They've all been around for a long time, and they're not any better today than they were 10 or 20 years ago.

Conscription is not cheaper than a volunteer force. I remember debating Gen. William Westmoreland, who said that, with a draft, you just pay soldiers cigarette money. This was a constant mantra in the early Reagan years: conscription is a great way to save money. But it doesn't reduce costs; it shifts costs. What you're saying is that a cost that the entire society cannot bear should be shifted to 18-year-olds. That's a curious tactic for a free society. Moreover, there are new costs—the costs of the conscription apparatus, of avoidance activities, of economic dislocations. Look at the Vietnam War, when we saw the creation of an entire industry for avoiding conscription.

Then there's the issue of quality. If you look at any measure of quality today, our volunteer force is far superior to a conscript force, and there's a very real reason for that. The question is, who wants to be in the military? In a conscript military you have people who don't want to be there. Today you can discharge somebody who abuses drugs. You can refuse to bring in lower quality recruits. It's much harder if you have a conscript force to make those decisions because restrictions on drugs and so on just give unhappy conscripts a way out. That's a completely different dynamic in terms of discipline and all the measures that are impor-

tant to an effective force.

Conscription has nothing to do with careerism. Conscription brings you first-termers, not long-term soldiers. Indeed, conscripts are far less likely to reenlist than are volunteers. The extra difficulty of maintaining a high-tempo military with all the new commitments that we've been making is reflected, for example, by the reenlistment rate of people who have been in Bosnia. If you factor out higher bonuses, you find lower retention rates. A draft would exacerbate the problem.

Some people are concerned that a volunteer military can become a Praetorian Guard that is more dangerous than an army drawn from the whole people. It can be used for undemocratic purposes. But our history disproves this argument. The Vietnam War showed how a conscription apparatus run by the government can be maintained even in the face of an increasingly unpopular war. It took years of protests to stop the draft because the costs were immediately felt by 18-, 19-, 20-year-olds as opposed to the entire society.

A somewhat opposite claim for conscription today is that it's harder to get soldiers to enlist and reenlist to fulfill our commitments around the world. People aren't thrilled about patrolling Kosovo or Bosnia or Somalia. So the only way we can maintain those commitments is to have conscription. One of the virtues of a volunteer force is that it shuts off unpopular foreign commitments. If people don't want to serve in such deployments, they don't show up in the military. That puts a real check on government policy.

It has been alleged that we have a military that is not representative of society, so we need conscription to bring in college-educated people and others who are escaping their duty today. There's a whole tangle of issues here. Many people who talk about the number of college grads in the military ignore the officers and look just at the enlisted force, which gives a strange view of the armed forces. Today our military is very much middle class and weighted toward the middle. It has a slightly higher percentage of minorities than the general population. It has a much higher percentage of high school graduates. It has a somewhat lower percentage

of college graduates. What we have is, not a force that is dramatically out of keeping with America, but one that is representative of middle America.

Ironically, conscription would force people who don't want to be in the military to serve and supplant people who do want to be there. That's a stupid policy if you want a force that's effective, a force that can fight wars, a force that will do the job that it's supposed to do. And to go out and take 5 or 10 percent of 18-year-old men—because realistically we're talking about conscription of men only—would be grossly unfair. I find the argument for conscription unconvincing, but it might be at least plausible if conscription were universal—everyone served—and we were, in fact, fighting a serious threat to our national survival. But it's very hard to see that today. There is no such threat. And the notion of drafting 5 or 10 percent of 18-year-olds and calling that a fair process betrays a gross misunderstanding of what fairness is all about.

There are only two conceivable arguments, then, for conscription today. One is that it's the only way to fulfill all the grand new commitments that we have. The problem is that most of those commitments are frivolous at best. What happens in the Kosovo civil war is not a matter of great security concern to the United States. It's a tragic situation—I visited there back in June. But it is not an issue that requires drafting young Americans and sending them off to settle a quarrel that goes back centuries. The only acceptable reason for foreign interventions is that they defend vital American interests. The interventions in Bosnia, Somalia, and Haiti do not. That somehow we might feel good about ourselves because we are wandering around the globe doing costly and dangerous things that have very little to do with American national security is not sufficient.

The other argument that has to be taken seriously is based on the notion of moral duty, the sense that we owe something, and that young people today are not paying their debt. We have important duties to one another, but those duties are owed to our overall society, not to the government. And they are owed by everyone, not just 18-year-olds. To my mind, a voluntary military is the right way to share the defense burden. We issue a

San Diego. August 1. Be there.

Cato Launches Cato University Seminar

The Cato Institute will sponsor a week-long seminar near San Diego from August 1 to 7, 1999, as part of its Cato University program. Cato Sponsors will be invited to participate in the program featuring lectures and discussions on American history, law, economics, and philosophy.

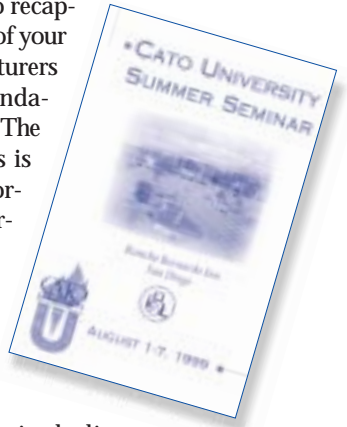
Cato University allows busy adults to explore the fundamental ideas of liberty and limited government. In addition to the seminars, there is a separate 12-month home-study course that uses audiotapes, books, and an integrated study guide.

Faculty at the week-long program will include Alan Charles Kors, professor of history at the University of Pennsylvania and coauthor of *The Shadow University*; Randy Barnett, professor of law at Boston University and author of *The Structure of Liberty*; Don Boudreaux, president of the Foundation for Economic Education; and Tom G. Palmer, director of Cato University.

Guest lecturers will include historian Paula Baker of the University of Pittsburgh; psychologist Nathaniel Branden, author of *Taking Responsibility*; and philosopher Christina Hoff Sommers, author of *Who Stole Feminism?* Cato's Edward H. Crane, David Boaz, Ted Galen Carpenter, and Robert Levy will also speak.

In announcing the August seminar, Palmer said,

"This program gives you the chance to recapture the intense intellectual atmosphere of your college days, in a climate where the lecturers and other participants share your fundamental ideas about freedom and justice. The schedule of lectures and discussions is designed to impart a great deal of information and analysis and encourage spir-



ited discussion about the implications of the basic ideas."

Cato University will be held at the beautiful Rancho Bernardo Inn, about 20 minutes from downtown San Diego. It will begin with dinner on Sunday, August 1, and conclude with lunch on Saturday, August 7. The cost, which includes all lectures and discussions, all meals, six nights in the inn, and a set of readings, is \$1,500. Some scholarships are available for full-time students.

All Sponsors will receive a seminar brochure soon. Check the Web site at www.cato-university.org for more information or to register online, or call 202-789-5296.



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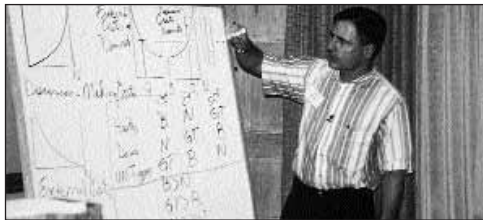
Professor Russell Roberts discusses the economics of international trade at a Cato University seminar.



Branden



Palmer



Cato University director Tom G. Palmer explains the economics of public choice at a Cato University seminar.



Levy



Barnett



Carpenter

call for patriotic young people to come forward, and everyone helps pay for that military. Everyone supports that military, and we withhold from the government the extraordinary power to order somebody to go fight and die. And that's the proper way for a free society to defend itself.

Still, some military manpower problems exist. What should we do? First and foremost we should drop commitments that aren't important for American security. We also

need to look at benefits—in a booming economy we may well have to pay soldiers more. We may need enhanced benefits for pilots and particular skill grades. We need to recognize that military life is very tough. I spent two weeks in Britain with my sister and her family. My brother-in-law, who is in the Air Force, is stationed near London. It's a hard life, especially when you're overseas. We need to take that into account. We also need to view a military career as worthwhile

and to speak well of our armed services.

But we must recognize that the military is the means to an end. It's not an end in itself. Defending a free society, built on respect for individual liberty, is the reason that we have a military. That, ultimately, is the most important reason to reject conscription. It is simply incompatible with the government's duty to protect our liberty. A draft would destroy the very values that government is supposed to be defending.

“If a private enterprise like FedEx sought to imitate the USPS’s advertising practice, we would undoubtedly be found liable for fraud.”

SMITH *Continued from page 1*

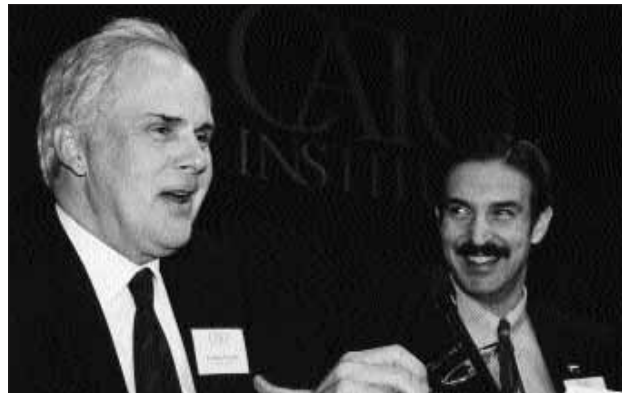
It is noteworthy that they continued to provide that service even after the Post Office was given its monopoly on first-class letters. Many famous names with which we are familiar today, among them Wells Fargo and American Express, were in the business of transporting these physical items from one point to another. However, in the early years of the 20th century the distinction between the movement of things and letters began to blur. We started sending through the mail items that did not conform to Congress’s understanding of the commonsense definition of the word “letter” under the 1871 postal monopoly law. I assume this development was directly related to the creation of the Sears Roebuck catalog. I read recently that the number of catalogs delivered in this country grew, in a relatively short period of time, from a yearly average of 6.5 billion in 1908 to approximately 13 billion in 1925.

Moreover, commodities, such as clothes, farm implements, and household items, began to be smaller and have more value. In addition, these commodities were no longer produced locally and thus had to be moved from one point to another. The increase in long-distance commerce generated by these new circumstances in turn produced an increase in the flow of commercial papers like waybills and printed advertisements. Correspondingly, the Post Office unilaterally added to its “letter” monopoly the movement of “commercial papers” and “advertisements” even though Congress did not explicitly or implicitly intend for the Post Office to have a monopoly on carrying these items. Thus, the Post Office’s heavy-handed expansion of its monopoly from letters to other types of documents was accomplished through very aggressive legal steps. It continued this practice following the Postal Reorganization Act of 1970, which, *inter alia*, redesignated the Post Office as the U.S. Postal Service (USPS) in 1971.

Postal Service Imperialism

In one famous incident in the 1970s, the USPS responded in the affirmative to the question, “Is a political bumper sticker a letter and thus subject to the postal monop-

oly?” The postal official who responded to the query did concede, however, that if the bumper sticker were affixed to a bumper he would not consider it a “letter.” This anecdote exemplifies the extent to which the USPS tried to overreach its monopoly authority. For many years, the USPS attempted to classify as “letters” and hence subject to its monopoly various types of items not com-



Fred Smith (left) and conference organizer Ed Hudgins share a laugh during the lively question period that followed Smith’s talk.

monly considered as such.

United Parcel Service’s (UPS’s) emergence as a transport delivery company in the early part of this century eventually posed a challenge to the USPS’s carriage of lightweight parcels. After World War II, UPS flourished as a department store delivery company. UPS did a marvelous job of developing over a number of decades an efficient nationwide parcel delivery system that was so effective in dealing with Washington on postal rate and other relevant matters that it actually had a *de facto* quasi-monopoly on the movement of lightweight parcels in the United States. UPS’s effectiveness along with other practical considerations, which are addressed below, compelled the Postal Service to rethink its participation in the movement of commodities and eventually to exit the parcel market.

The Postal Service discovered in the course of its daily operations that the equipment, the sorting facilities, the pickup and delivery vehicles—among other things—that function so well for the transportation of letters did not so easily accommodate the movement of bigger parcels and commodities. This difficulty is perceivable in the structure of

the small postal jeep vehicles, which are specifically designed to allow the driver, who sits on the right side, to insert in post boxes lightweight publications and letters without having to leave his seat.

The Emergence of Express Mail Services

A few years ago a number of circumstances forced the USPS to rethink its expansionist strategy, which sought to encompass various items beyond its congressional mandate for a letter monopoly. In the early to mid-1970s the USPS became the subject of scathing criticism from postal customers whose very urgent parcels it failed to deliver in a timely manner. This significant shortcoming was publicized by the financial services industry and served to highlight the first breach in the USPS’s very broad definition of “letters,” which was set out in

a series of postal monopoly regulations promulgated by the Postal Service and not by Congress.

The USPS counterpoised this attack by excluding from its monopoly very urgent communications, which it classified as “letters” although most of them were not “letters” at all. They were bond rate sheets, abstracts, manuscripts, and all sorts of other documents whose late delivery had an adverse impact on the business of customers. The nature of those items made it necessary that they be delivered “absolutely, positively overnight,” to borrow a phrase coined for FedEx’s incipient transportation service, which was fast and reliable. Hence, the emergence of the private express mail business was a rational response to market demands. Moreover, it emanated from the necessity to counterbalance the USPS’s inefficiency by facilitating the movement of urgent communications, which the USPS duly recognized had to be excluded from postal monopoly regulations.

Notwithstanding its acknowledgment, the Postal Service attempted to carve for itself a niche in the market for an express mail service. However, it found itself unable to com-

“For many years, the USPS attempted to classify as ‘letters’ and hence subject to its monopoly various types of items not commonly considered letters.”

pete with the service features, the reliability, and the performance standards initiated by FedEx whose innovations were later emulated by UPS and Airborne. The USPS's unsuccessful foray into the express mail market is best illustrated by its declining market share, which has gone from about 45 percent of a very small market in the mid-1970s to around 6 percent today. In contrast, FedEx has a comparative share of 50 percent of that particular segment of the overnight market. The rest is divided primarily between UPS and Airborne. The express mail portion of FedEx's business actually accounts for a relatively small part of FedEx's overall revenues and an even smaller part of FDX's, FedEx's parent company, revenues. Nevertheless, it is an extremely important segment of our business.

In the years that followed its rout from the express mail market, the Postal Service was content to focus mainly on the movement of invoices, letters, magazines, catalogs, and similar items. However, in the past decade or so it began to face a business problem with which many private companies have had to contend on numerous occasions: technological obsolescence. Letters and all the “things” that the Postal Service had subsequently categorized as such, which constituted the foundation of its monopoly, were now being diverted to an entirely different means of communication: electronic transmission. The Postal Service responded to this new innovative assault by diverting the revenue it derived from its monopoly on letters and their first cousins, publications and printed matter, and using the profits to reenter a business that was being handled successfully by the private sector.

Yet, its retreat from the overnight express mail business did not completely deter the USPS from exploring a new venture in this market. It developed a “quasi-express” product cleverly positioned between mail, which is considered slow and not very modern, and express, which is fast and provides instantaneous proof of delivery to customers. This new product was branded Priority Mail and it has, in essence, supplanted parcel post as the Postal Service's packaged-goods transport endeavor.

The problem with the USPS's vain attempts to compete in the express mail market is that

there is not a shred of evidence that its entry into the field serves any public interests. There are, to be sure, important interests worthy of consideration, primarily those of postal workers and the postal family. However, a convincing argument has yet to be made to show that the public interest requires the Postal Service to use its monopoly on the movement of letters to gain an advantage in a service that can be and is being provided more efficiently by private enterprise. Moreover, it is noteworthy that these private companies, with which the USPS seeks to compete, pay taxes while the USPS does not; purchase license plates for vehicles, which the USPS does not; and, unlike the USPS, must comply with zoning restrictions and pay fees and other charges; are subject to customs laws; and are constrained by a host of government-imposed burdens.

False Advertisement?

It is not only vexing that the USPS takes the position not only that it can provide a competitive service like Priority Mail under the foregoing conditions but that it can also advertise it to the public without being subject to the same rules that govern private-sector advertising. This abuse of governmental privilege prompted Federal Express to file a lawsuit against the Postal Service for its Priority Mail advertisements because they were false and misleading. If a private enterprise like FedEx sought to imitate the USPS's advertising practice, our company would undoubtedly be found liable for fraud. The Postal Service defended itself against our lawsuit by stating essentially the following: “We're the Postal Service and we don't have to obey those rules.” The “rules” to which the USPS made reference are provided under the Lanham Act, a federal law that prohibits deceptive competitive trade practices.

A recent *Consumer Reports* study published last year during peak season, the time it is most difficult for us to maintain the highest possible service levels for our customers, supports our contention that the Priority Mail advertisements are false and misleading under the Lanham Act. *Consumer Reports* found that FedEx's overnight delivery service was reliable over approximately 97 percent of the time. Our very good and able

competitor, UPS, had 94 percent overnight reliability. The USPS's express mail overnight product, according to *Consumer Reports*, was 65 percent reliable. In the area of second-day delivery service, FedEx again led the pack with a reliability success rate of 97 percent, followed by UPS, which had a 90 percent rate. In contrast, the USPS, which spends hundreds of millions of dollars a year advertising Priority Mail as a two- to three-day (the latter in very small print) product, had a reliability success rate of 60 percent for the two-day service.

I want to reiterate my last statement to underscore FedEx's point about USPS's false advertising practices: Express Mail sent “overnight” via the USPS was *not* delivered overnight 35 percent of the time, and the USPS's Priority Mail (two- to three-day service) was delivered as promised 60 percent of the time. The USPS states in defense of its appalling performance that its Priority Mail service is provided with the added premium (i.e., free of charge) of Saturday delivery, a service which private transportation companies provide at extra cost. Yet, anyone who goes to the post office and asks for Priority Mail service with the Saturday delivery feature will be told by the postal clerk that the USPS does *not* guarantee that feature.

In a nutshell, the problem as I see it is this: despite vast differences between the Postal Service's products and those of private express companies, the Postal Service advertises its products as comparable to ours. Therefore, in essence, the USPS's advertising claim for such products is, to put it kindly, an incredible overreach. I would not go so far as to characterize this overreach as being as great as that exhibited by Charles I, but it is perhaps not far behind.

Legislative Reform

Now, let us consider the specific circumstances of our subject: we have a very large and distinguished public institution; it is the best in the world; it is a great value; it built this country; and it has an impressive history. I make this characterization sincerely. I like the people who work for our Postal Service. However, there are many things in American life that have had a great history, for

Continued on page 12

SMITH *Continued from page 11*

example the calvary. Yet, we do not do cavalry charges anymore. We must recognize that there are many institutions that long ago passed into history. Therefore, the question that the United States needs to ask itself in 1999 is as follows: should this hallowed institution be allowed to diversify into new areas and provide services that taxpaying private enterprises provide more reliably and efficiently? I believe the answer to this question is no.

This is not to say that I do not understand quite clearly the political reality and the important private interests represented by the postal workers and their families. I also understand people's interest in subsidized universal mail service, a relevant fact in the remote areas of the United States. Yet, it would be entirely reasonable to say that Congress should keep the USPS from encroaching upon competitive sectors like overnight and express mail services. Federal Express would endorse this position if we thought it were politically feasible.

However, since it is not, we support the McHugh bill (H.R. 22 in the 106th Congress) because it is a step in the right direction. It aims to separate the commercial business of the USPS, which should not be supported under any rationale by taxpayer or mailer subsidization, by moving it toward the time it should be handled on a purely commercial basis, probably by a privatized USPS, Inc. The McHugh bill would give the Postal Service time to adjust, time to become commercially more responsible. For example, it would allow the USPS to accept that it is subject to the same advertising laws as the rest of the express transportation industry. It would also begin the process of leveling the playing field. This last consideration is most important and necessary because no justification exists for the unfair advantage the USPS has been allowed to enjoy in the past few years: massive diversification without any rules to control its use of public privileges. I am also pleased to report that we applaud a recent law that shifts the representation of the United States in the Universal Postal Union from the USPS, which competes in areas where the private sector performs quite adequately, to the State Depart-

ment, which has no self-interest to safeguard and thus is better able to consider the broader interests of all concerned parties in the UPU.

In closing, I would like to stress that at Federal Express we do not regard the Postal Service as an enemy. The problem I have described is not one of life, liberty, or the pursuit of happiness. Rather, it is a question of the transfer, backed by the full force of government, of rents from one sector of the economy to another. The following comparison illustrates my point: FedEx operates one flight a day to China, where there are all sorts of public institutions that engage in private business. If we follow the example of the Postal Service, why would it be impossible to contemplate a scenario where in the Army would carry the freight of our country to China? The Army has a marvelous fleet of trucks and many skilled truck drivers. Given that it costs the taxpayer and the country a great deal to support the Army, consider how much money we could save if we were to expand the job responsibility of the Army to include the trucking business, thereby allowing us to cross-subsidize the purchase of a few extra Tomahawk missiles.

Far from being an outrageous fantasy, the foregoing illustration underscores the sophistry that underpins the Postal Service's justification for cross-subsidizing universal mail service to remote Inuit villages in Alaska. The notion that cross-subsidization can be useful in that way is a fallacy. The few examples we have in the postal area have shown exactly the opposite of their intended effects. Canada Post was allowed to acquire a private express delivery company and before long its monopoly rents were subsidizing the competitor in the commercial sector, not vice versa.

As I conclude my remarks on the Postal Service and postal reform, I hope I have made it clear that my point is not to disparage the Postal Service, which I believe is wonderful, has a marvelous historical record, and employs wonderful people. Rather, it is that I believe what the USPS is attempting to do simply does not correspond with the values of the United States of America and is not in the best interest of the citizens of this country. ■

Help Cato with a Lasting Legacy

Λ

You can help ensure that the Cato Institute will be able to continue its defense of constitutionally limited government, individual liberty, and free enterprise into the next century, by remembering Cato in your planned giving.

For example, you can name Cato as the beneficiary or contingent beneficiary in your life insurance policy, 401(k) plan, or retirement plan; establish a charitable remainder trust or gift annuity that provides income to you throughout your lifetime while leaving the remainder interest to Cato; or establish a charitable lead trust that provides income to Cato and leaves the remainder interest to your loved ones. You can also make a charitable bequest to the Cato Institute in your will or living trust. This will also allow you to take advantage of the unlimited estate tax charitable deduction, which allows the full amount of your bequest to go to Cato.

If you'd like more information about remembering Cato in your planned giving, contact Christine Klein at (202) 218-4620; cklein@cato.org; or 1000 Massachusetts Ave., N.W., Washington, D.C. 20001.

V

Bosnia: No model for Kosovo

Blame El Niño for 1998 Temperatures

In the new Cato study “Long Hot Year: Latest Science Debunks Global Warming Hysteria” (Policy Analysis no. 329), climatologist Patrick J. Michaels reports that Vice President Al Gore’s latest alarmist claim—that 1998’s warmer than normal temperatures resulted from global warming—isn’t supported by the scientific evidence. Michaels, professor of environmental science at the University of Virginia and senior fellow in environmental studies at the Cato Institute, writes that “the record temperatures were largely the result of a strong El Niño super-



Pat Michaels

imposed on a decade in which temperatures continue to reflect a warming that largely took place in the first half of this century.” Satellite data show clearly that “the warmth of 1998 is an anomalous spike rather than a continuation of a warming trend.” Michaels notes that “imposing an El Niño upon an already warm decade creates the illusion of rapid global warming,” as he predicted it would in his 1992 Cato Institute book *Sound and Fury*. The fact is that “observed global warming remains far below the amount predicted by computer models that served as the basis for the United Nations Framework Convention on Climate Change.”

◆Perils of Government Investing

The questions at the center of the upcoming debate on Social Security’s future will be, What kind of private investment, and who should do the investing? Michael Tanner, director of Cato’s Project on Social Security Privatization, warns in “The Perils of Government Investing” (Briefing Paper no. 43) that those are critical questions because government investment of Social Security funds could make the federal government the largest shareholder in American corporations. Tanner points out that Federal Reserve chairman Alan Greenspan says that it is impossible to “insulate” government investment “from the political process.” Government investment of Social Security payroll taxes would result in a dangerous mix of govern-

ment involvement in corporate governance and “social investing.”

◆Failed Intervention in Bosnia

The three-year-old Dayton Agreement has failed to accomplish its main objective and should be abandoned, writes Cato foreign policy analyst Gary Dempsey in a new study, “Rethinking the Dayton Agreement: Bosnia Three Years Later” (Policy Analysis no. 327). “The Clinton administration’s continued and uncritical devotion to the agreement is compromising U.S. national security and saddling the United States with an expensive yet futile nation-building operation of unknown duration.” The study finds that the “goal of creating a unitary, multiethnic Bosnian state is not realistic.” The Clinton administration has refused to consider changing course, however. “The administration needs to jettison its presumption that there are only two options for U.S. policy on Bosnia: adhere to the Dayton Agreement or cut and run. There is another option: a negotiated three-way partition of Bosnia overseen by a European-led transition force. That is the most politically feasible way to create the conditions necessary to allow the departure of U.S. troops at the earliest possible date.”

◆Throw the Other Guy’s Bums Out, Too

In the new Cato study “What Term Limits Do That Ordinary Voting Cannot” (Policy Analysis no. 328), Harvard Law School professor Einer Elhauge addresses the questions: Why do the same voters who vote for term limits also routinely vote to return senior incumbents to office? Why don’t they vote the bums out? The answer is straightforward: “Voting your bum out is not a solution when what you want to do is oust the other districts’ bums. For that you need term limits.” The fact that incumbents tend to get reelected at very high rates even though large majorities of voters favor term limits is perfectly logical, he notes. “A district that ousts its senior incumbent suffers a loss of relative clout in the legislature. To avoid that loss of power, it behooves individual districts to vote to retain their incumbents.” The solution is also straightforward: “If all the districts collectively could agree to oust their senior incumbents simultaneously, no

district would suffer a loss of relative power, and each district would gain more accurate representation. Term limits are effectively just such an agreement.”

◆U.S. Foreign Policy Spawning Terrorism

One-third of all terrorist attacks worldwide in 1997 were perpetrated against U.S. targets. That is a very high percentage “considering that the United States—unlike nations such as Algeria, Turkey, and the United Kingdom—has no internal civil war or quarrels with its neighbors that spawn terrorism,” writes Ivan Eland, Cato’s director of defense policy studies. “The major difference between the United States and other wealthy democratic nations is that it is an interventionist superpower.” In “Does U.S. Intervention Overseas Breed Terrorism? The Historical Record” (Foreign Policy Briefing no. 50), Eland points out that the Pentagon’s own Defense Science Board finds that “a strong correlation exists between U.S. involvement in international situations and an increase in terrorist attacks against the United States.” Eland recommends that the United States adopt a policy of military restraint: “The United States could reduce the chances of devastating—and potentially catastrophic—terrorist attacks by adopting a policy of military restraint overseas.”

◆Nuke the Test Ban Treaty

The U.S. Senate should reject the proposed Comprehensive Test Ban Treaty and fund the resumption of limited testing, writes defense analyst Kathleen C. Bailey in a new Cato paper. In “The Comprehensive Test Ban Treaty: The Costs Outweigh the Benefits” (Policy Analysis no. 330), Bailey argues that the treaty is unenforceable, unverifiable, and unwise policy. Signed by President Clinton in September 1996 and to be considered by the Senate this year, the CTBT has limited political benefits and is “not worth the high cost to U.S. national security.” Weapons testing is essential to U.S. national security, according to Bailey, because “evolution in technologies for safety, nuclear delivery systems, and enemy defenses may render the now-modern U.S. nuclear arsenal technologically obsolete or less safe.” She notes that “at present, the United States is

Continued on page 14

New Staff at Cato

STUDIES *Continued from page 13*

two years or more away from being able to conduct a nuclear test. This lack of readiness will inevitably worsen as skilled experts retire and die, equipment ages or becomes obsolete, and financial support erodes." Bailey believes that, "from a purely technical standpoint, it would be most prudent for the U.S. Senate to reject the CTBT and to allocate funds for resumption of U.S. testing and for reconstruction of the U.S. nuclear weapons production infrastructure." But she notes as well that "it may be politically desirable to undertake some limitations on testing."

◆ Trashing Government Intervention in Refuse

One of the biggest environmental issues at the state and local levels is garbage—how to collect it, dispose of it, recycle it, and pay for doing so. In a new Cato study, "Time to Trash Government Intervention in Garbage Service" (Policy Analysis no. 331), Peter VanDoren, assistant director of environmental studies at Cato, challenges the reigning orthodoxy that the government must decide those questions for citizens. That belief, VanDoren points out, is grounded in the assumption that economies of scale and collection route density mean the government must have a monopoly on trash collection. VanDoren's research on the economics of refuse markets reveals that government management of garbage service is unnecessary and counterproductive. He argues that homeowners should be allowed to choose among competing collection firms and that homeowners, not bureaucrats, should have the final say about what kind of service they want. ■

◆ The Cato Institute is mailing almost 600,000 copies of its popular Constitution booklet to Americans this spring, along with an invitation to become a Cato Sponsor. The booklet contains the complete text of the U.S. Constitution, along with the Declaration of Independence and a brief introduction by Roger Pilon. Copies of the pocket-size booklet are available for \$1.00 each.



Susan Chamberlin

◆ Susan Chamberlin has joined the Cato Institute as director of external affairs. Along with Derrick Max, director of government affairs, she works to make members of Congress, their staffs, and other policymakers aware of Cato's work. Chamberlin was previously

an attorney representing landowners in a Washington, D.C., firm and had earlier served as deputy counsel of the National Republican Congressional Committee. She concentrates on government liaison for Cato's scholars in constitutional studies and regulation, while Max handles Social Security, trade, and fiscal policy.

◆ DJ Nordquist has joined the Cato Institute as director of communications. She came to Cato from the public relations firm Burson-Marsteller, for which she worked in the Paris, Bangkok, and Washington offices. Previously



DJ Nordquist

she had been a press secretary on Capitol Hill. At Cato she works on both media relations and marketing, including the development of an online store on the Web-site.

◆ Roger Pilon spoke to Federalist Society audiences from San Diego to Maine during February and was at the University of Miami in March. . . . Ted Galen Carpenter has been asked to edit a special issue of the *Journal of Strategic Studies* on NATO's relevance (if any) in the 21st century. . . . *Silencing Science* by Steven Milloy and Michael Gough went to number 66 on the amazon.com bestseller list after the authors appeared on the G. Gordon Liddy radio show. ■

Cato Calendar

Liberty in the New Millennium

*Chicago * Drake Hotel * May 11, 1999*

Speakers include Robert Novak, Stephen Moore, Michael Tanner, and Edward H. Crane.

Liberty in the New Millennium

*New York * Waldorf-Astoria * June 2, 1999*

Speakers include P. J. O'Rourke and Edward H. Crane.

Cato University

*San Diego * Rancho Bernardo Inn
August 1-7, 1999*

Speakers include Nathaniel Branden, Christina Hoff Sommers, Alan Kors, and Edward H. Crane.

The Search for Global Monetary Order

17th Annual Monetary Conference

*Washington * Cato Institute
October 21, 1999*

Speakers include Stanley Fischer, Anna Schwartz, Judy Shelton, George Selgin, and Charles Calomiris.

Third Annual Technology and Society Conference

Cosponsored with *Forbes* **ASAP**
November 4-5, 1999
Silicon Valley



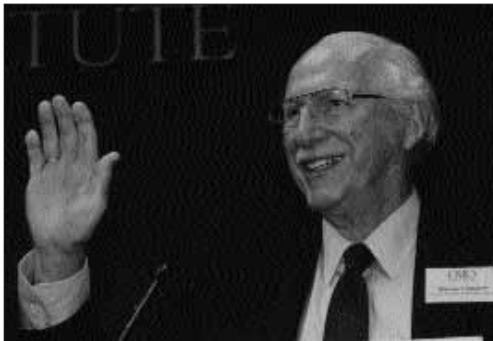
James U. Blanchard III, a member of the Cato Institute's Board of Directors since 1984, died March 19 at the age of 55. In the 1970s, when it was illegal for Americans to own gold, he founded the National Committee to Legalize Gold. After achieving that goal, Blanchard went on to organize an annual investment conference in New Orleans. Speakers at the conference included Margaret Thatcher, Milton Friedman, F. A. Hayek, Ayn Rand, and Ed Crane, along with a host of investment advisers. As a dealer in historical rarities, he lent Cato the first edition of *The Wealth of Nations* and the 1823 copy of the Declaration of Independence that are on display in the lobby of the Cato building.

Postmaster general sees USPS monopoly ending

USPS, Competitors Square Off at Conference

The phrase “You’ve Got Mail!” doesn’t conjure up images of the U.S. Postal Service in the minds of most Americans. The communications revolution, which has given us overnight delivery, faxes, and e-mail, has put pressure on the USPS to improve service, hold down costs to customers, and reduce its staff of nearly 900,000 mostly unionized workers.

Murray Comarow, architect of the U.S. Postal Service, discusses how the Postal Service’s collective bargaining process gives unions too much power and the USPS too little flexibility.



and do things that taxpaying entities can do.” Smith pointed out that the USPS is unfairly exempt from zoning, customs, and tax laws by which its private-sector competitors must abide. It has used its monopoly to offer messaging services, bill processing for private companies, and prepaid telephone cards.

Michael J. Critelli, chairman and CEO of Pitney Bowes, warned that various forms

tional Express Carriers pointed out that numerous other countries have already struck down their postal monopolies (Sweden and New Zealand) or are moving toward privatizing their mail delivery services (Germany and the Netherlands) while the USPS continues to resist reforms.

More than 180 people attended the conference, held in the Cato Institute’s F. A. Hayek



Postmaster General William J. Henderson discusses the impact of the Postal Service’s eroding monopoly at Cato’s December 2 conference, “Mail @ the Millennium: The Future of Private Postal Service.”

Those challenges were addressed at a Cato Institute conference, “Mail @ the Millennium: The Future of Private Postal Service,” held on December 2. Postmaster General William Henderson conceded that the USPS is likely to lose its monopoly status within the next decade. “Deregulation of the postal monopoly is likely to occur, and the competitive environment will become more dynamic.” He warned, however, that attempts to privatize the USPS could endanger its ability to ensure universal mail service. Henderson, who said, “I probably e-mail as much as any person in America,” contended that the USPS must become an efficient enterprise to compete. “We need to be so operationally excellent that it simply won’t matter whether or not we have a monopoly. No one is standing still and neither can we.”

Concerns were expressed, however, about the way the USPS is attempting to generate more revenue. “Electronic communications are undermining what the postal service does,” said Edward Hudgins, director of regulatory studies at the Cato Institute, “so it is expanding into other areas in search of the new revenue streams that compete with the post office.”

Frederick W. Smith, founder and CEO of Federal Express and a Cato Board member, argued that the USPS should not “be allowed to diversify into the private sector

of electronic communications mean that the delivery of physical mail itself is being challenged. “Physical mail will ultimately succeed only to the degree that postal authorities can continue to improve mail delivery systems to ensure that mail is delivered reliably, securely, and within a time frame that meets mailer expectations, particularly as new media become universal.” With that challenge sure to grow in the future, Critelli said, “the U.S. Postal Service cannot take its formidable customer loyalty for granted.”

The USPS’s “market grab” is nothing new, said Michael A. Schuyler of the Institute for Research on the Economics of Taxation. More than eight decades ago, the Post Office attempted to gain a monopoly over telegraphs and telephones, which Schuyler compared with the USPS’s contemporary attempt to expand into private markets. James P. Lucier of Prudential Securities added that the USPS’s attempt to grab control of the Internet “is an open invitation to privacy violations, invasive government, and much other mischief besides.”

The overriding theme of the conference was that the USPS must be privatized. Thomas Dueterberg of the Hudson Institute noted that in the past 30 years the real price of a first-class stamp has quadrupled, while the cost of a long-distance telephone call has fallen 88 percent. James Campbell of Interna-

Auditorium. The conference, broadcast live on the World Wide Web, is available for viewing online along with other Cato programs at www.cato.org/realaudio/audio/pages.html. The papers prepared for the conference will be published as a book later this year. ■

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“The savvy Web site from the Cato Institute proves that this libertarian think tank has its act together. . . . Cato’s Web site is always one step ahead of its visitors, providing scores of research and information in a provocative way that keeps the eyes from glazing over.”

—Dow Jones

◆ **Make them an offer they can't refuse**

Policy-makers in the White House and in the Education Department had met week after week to discuss the State of the Union address, the Elementary and Secondary Education Act (the main source of federal aid to schools, one that comes up for reauthorization this year), and how to make schools accountable. Clinton, kept informed by memorandum, sent back a note asking, "Anything more on this?"

"We were sitting around," a participant recounted, "[wondering] what points of leverage do we have," when out popped an idea: Wield the billions of federal education dollars as an instrument of statutory extortion. Either local schools do what Washington wants, or they can kiss their federal dollars goodbye.

—*National Journal*, Jan. 30, 1999

◆ **The Republican rooster crowed and the sun came up**

Today is the 3rd anniversary of passage of the 1996 Telecom Act. Modernizing our telecom laws for the first time since 1934 sped up the development of all kinds of new technologies. . . . We should be celebrating the accomplishments of the Republican Congress and how they have improved lives for millions. . . . [Three] years ago we created competition that will keep bringing them new, useful products [such as] wireless phones and E-mail . . . the Internet . . . your cell phone . . . 100 television channels . . . satellite television . . . electronic commerce.

—House Majority Leader's Talking Points for Telecom Act 3rd Anniversary

◆ **America for the English! . . . uh, the English speakers**

Maria Cobarrubias . . . has built her general store into a profitable fixture in the Atlanta suburb of Norcross by catering to a growing Hispanic community. . . .

Cobarrubias was stunned to receive a visit recently from the local marshal, who fined her for having a sign with the store's name—*Supermercado Jalisco*—in Spanish. . . .

Sgt. H. Smith, the Norcross marshal, said he has also issued citations to several Korean churches and an "Oriental beauty shop." Some Spanish words are "acceptable," he said, while others, such as "supermercado," must be changed. . . .

"If an American was out there driving by, he wouldn't know what that was."

—*Washington Post*, Feb. 6, 1999

◆ **And we wouldn't want that**

In an Annandale [Va.] shopping center, Chris Kong did what millions of hard-working Asian immigrants have done before him: He opened his own business—Starland Club, a video game store where customers can swap or buy Nintendo and other games. It has been so successful that Kong has since opened another store in Centreville and is scouting for a third Virginia site.

Back in the little fishing town of Suncheon, South Korea, Kong's brother-in-law is not faring so well. Shin Sam Ho is looking for a job as an architect at a time when . . . the nation is struggling to lift itself out of a deep economic recession.

And he got more bad news when he applied for a tourist visa to visit his relatives in Northern Virginia. He said officials

at the U.S. Embassy in Seoul rejected him as a bad risk; they concluded that, because he was unemployed, he might be tempted to overstay his visa and work illegally at Starland Club.

—*Washington Post*, Feb. 1, 1999

◆ **A Republican for the '90s**

Gov. James S. Gilmore III will use his State of the Commonwealth address Wednesday to reaffirm his Republican tax-cutting mission . . . [and] remind Democrats and Republicans that he is first and foremost an executive who wants to limit the scope of government, even as he spends liberally on college tuition cuts, local school programs, public employee raises, mental health facilities and clean-water initiatives.

—*Washington Post*, Jan. 13, 1999

◆ **The entitlement mentality begins at home, or in the House**

Getting elected to Congress for the first time may be easier than finding a place to live in the District that's . . . accessible . . . to the Capitol. . . .

New members also noted a lack of congressional funding to allay the cost of house hunting, temporary housing, hotel rooms, moving vans and furniture rental.

"There's no official resources, so you have to use campaign resources or personal finances to locate a place," [Rep. Mark] Udall said.

"The startling thing is, with all the members of Congress, you'd think they could come up with some [rental] coupon or [apartment-referral] plan," [Rep. John] Larson said.

—*Washington Post*, Jan. 9, 1999

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