

The Digest

SUMMARIES OF IMPORTANT NEW RESEARCH FROM THE NATION'S
UNIVERSITIES, THINK TANKS, AND INVESTIGATIVE PUBLICATIONS

POLITICS

Hiding the Money

Penelope Lemov, "Fiscal Tricks for the Fat Years," in Governing (February 1997), 1100 Connecticut Avenue N.W. #1300, Washington, D.C. 20036.

Accepted wisdom says that states with balanced budget amendments use arcane accounting tricks to hide budget deficits. But according to *Governing's* Lemov, states now have a new problem—budget surpluses. Both California and Texas, for example, expect to have budget surpluses of at least \$1 billion this fiscal year. So accountants in state capitals are frantically trying to create tricks to make these surpluses disappear.

Most states are in fine financial shape for several reasons. The robust national economy ensures low unemployment and rising payroll taxes. The welfare reform bill means falling welfare caseloads and more federal money to help states fund welfare checks. And by eschewing new state-funded regulations, Congress has rendered obsolete the reserve funds states previously created to pay for unfunded federal mandates.

State accountants often create surpluses on purpose, by using a technique called "revenue lowballing," in which accountants create budgets based on artificially low forecasts of tax revenue. These lowball estimates lead to a surplus at the end of the fiscal year, which the governor can use as a political reward. In North Carolina, for instance, revenue lowballing

produced a \$700 million surplus that Democratic Governor Jim Hunt and his liberal allies sought for education and environmental programs.

Lemov argues that revenue lowballing is a major reason why three-quarters of the states had surpluses in the last fiscal year. (Only Tennessee, Montana, and Maryland had fewer taxes than predicted.) But she predicts that the states will continue to underestimate tax collections as long as they can arbitrarily ensure surpluses at the end of the fiscal year.

No Jihad Likely

Zachary Kambell, "Fundamental Misconceptions: Islamic Foreign Policy," in Foreign Policy (Winter 1996/97), Carnegie Endowment for International Peace, 2400 N Street N.W., Washington, D.C. 20037.

In the wake of the Cold War, some scholars have argued that Islamic fundamentalism will pose the same threat to the West as did Soviet Communism. But Harvard's Kambell argues that "Islamic fundamentalists in power do not necessarily represent a threat to international security."

Islamic fundamentalists divide the world in two: the *umma*, or Islamic world, and everyone else. The *umma's* goal is to unite all Islamic states into a single nation ruled by Islamic law and to have boundaries created by colonial powers—such as between Saudi Arabia and the United Arab Emirates, or between Syria and Lebanon—erased.

No evidence, Kambell writes, suggests that the fundamentalists desire a *jihad*

(holy war) against Europe, Asia, or the United States. While terrorism should be contained, Islamic foreign policy lacks "a compelling ideological reason for violence against the United States." Nor should Western strategists fear fundamentalist nations' terminating the West's oil supply or raising oil prices to unreasonable levels. Fundamentalists, Kambell argues, learned from the '70s energy crises that higher oil prices only encourage alternative energy sources. It's likely Islamic fundamentalists will strive to maintain low oil costs in order to ensure continued Western dependence on foreign oil.

True, Islamic fundamentalism has the potential to make the Muslim world more chaotic. But Kambell argues that it's not America's interest to worry about whether an Islamic nation is fundamentalist or secular. "Islamic fundamentalism ought not to matter to the non-Muslim world," he argues, any more "than Québécois nationalism matters in Thailand."

ECONOMICS

Speeding Medicine to Patients

Noel D. Campbell, Making Drugs Safe and Available Without the FDA. National Center for Policy Analysis, 12655 North Central Expressway #720, Dallas, Texas 75243.

Thanks to federal regulation, new drugs take longer and longer to reach the market. In the early '60s, it typically took around six years for a pharmaceutical company to produce a new drug and then have the Food and Drug Administration (FDA) approve it. By the late '80s, the average time rose to 16 years. In fiscal year 1995, the FDA only approved 33 new drugs and spent an average of 28 months studying each application—even though, by law, the agency is supposed to spend no more than 18 months.

Congress is considering ways to make drug regulation speedier, including allowing the creation of independent review boards to assist FDA regulators. But Camp-

bell of George Mason University believes a better solution would be to turn drug regulation over to the private sector.

He proposes a private organization to approve new drugs just as Underwriters Laboratories (UL) approves electrical devices. Every year, over 900 UL engineers certify 14,000 different products—everything from toasters to windshields to air conditioners. Over 40,000 clients submit products to UL and pay for testing. These clients have no control over UL, but they know consumers will pay more for products certified safe and effective by a third party.

If drug companies were allowed to submit their products to a third party for certification, the certifier would have no reason to approve a dubious drug, since it could be sued if harm resulted from a product it approved. Under Campbell's proposal, uncertified drugs could also be released to the public, but he suspects doctors, fearful of lawsuits, would be reluctant to prescribe them. These experimental drugs would be available to patients dying of incurable diseases, who cannot currently obtain them without a bureaucrat's approval.

Privatizing the drug review process, Campbell concludes, would ensure that "we would get safe and effective drugs, quickly and efficiently. We would be free to choose our own level of risk."

SOCIETY

Uncle Sam: Slumlord

Howard Husock, "We Don't Need Subsidized Housing," in *City Journal* (Winter 1997), *Manhattan Institute*, 52 *Vanderbilt Avenue*, New York, New York 10017.

The Department of Housing and Urban Development is currently razing scores of "severely distressed" public housing projects. Husock of Harvard's Kennedy School argues that this demolition symbolizes Washington's 60-year failure to produce good housing for poor people. "Devoting government resources to subsidized housing for the poor," he writes, "is not only unneces-

sary but also counterproductive."

Yet public housing subsidies continue because of "remarkably tenacious myths":

- *The market won't build housing for the poor.* Before New Dealers began massive public housing programs, private developers created a great deal of housing for the poor. While some of these apartments were cramped and unbearable, and poor people often shared bathrooms with neighbors, many cities abounded with cheap housing. A 1909 federal survey found that the poor in Washington, D.C. paid, on average, 18 percent of their incomes for rent, and many lived in their own homes.

Too many regulations, Husock argues, discourage affordable housing from being built. Environmental Protection Agency rules make it uneconomical for developers to convert abandoned industrial sites in the inner-city to low-cost housing. Handicapped-access rules prevent the construction of new basement apartments. Other regulations, such as mandates that builders use cast-iron pipes instead of plastic ones, "push up the cost of housing needlessly."

- *Government can give the poor better housing than profit-seeking landlords.* But bureaucrats have no incentives to maintain apartment complexes, ensuring that these projects eventually have to be demolished or abandoned. Moreover, public housing is an expensive burden for cities, not only because of the money they must

spend on housing, but because public housing projects and housing built by nonprofits are exempt from property and other taxes.

When regulations are relaxed, Husock argues, developers are eager to supply housing to the working poor. San Diego allowed the construction of 2,700 single-room-occupancy units, which were swiftly filled by day laborers and taxi drivers who didn't mind that the new units had small bathrooms and limited parking. After Baltimore eased its rules for renovation, City Homes restored buildings it rents to the working poor. These buildings, he reports, are "oases of stability in bad neighborhoods."

The Dispensable NEA

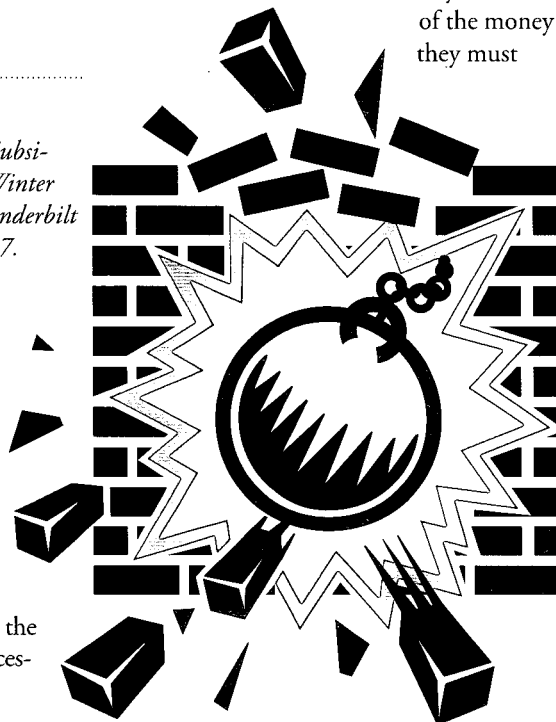
William Craig Rice, "I Hear America Singing," in *Policy Review* (March/April 1997), *Heritage Foundation*, 214 *Massachusetts Avenue N.E.*, Washington, D.C. 20002.

Supporters of the National Endowment for the Arts (NEA) argue that the arts will suffer if federal subsidies are eliminated. Rice of the Heritage Foundation disagrees.

Federal arts funding favors large and well-established organizations that can afford to hire the best grant proposal designers. But NEA subsidies are a tiny proportion of these wealthy organizations' budgets and can be replaced by slight rises in ticket prices. The Metropolitan Opera, for example, currently receives about \$875,000 a year from the NEA, a sum that could be replaced by raising ticket prices (which already range up to \$125) by \$1.50 per ticket.

Also, as government funding has declined, scores of new nonprofits have emerged to support artists and writers. The Newington-Cropsey Foundation, for instance, assists traditional artists by providing exhibition space and by publishing the *American Arts Quarterly*, a journal dedicated to advancing classical art. More avant-garde artists are aided by foundations created from the estates of Andy Warhol and Robert Mapplethorpe.

Other private ventures could also fund the arts. Hollywood could do more to subsidize theaters that train actors and develop plays. Hollywood executives could help regional theaters improve



their marketing. And studio moguls and wealthy stars could increase their contributions to such established theatrical charities as the Shubert Foundation and the National Corporate Theatre Fund.

The end of the NEA will be difficult for many artists used to grants. But they need to become more self-reliant and enterprising. "It is the stalwarts," Rice writes, "the pertinacious, entrepreneurial, independent spirits—and those with the vision to help them—who stand the best chance of advancing the cause of American art."

Why Government Can't End Homelessness

J. Philip Thompson, "The Failure of Liberal Homeless Policy in the Koch and Dinkins Administrations," in *Political Science Quarterly* (Winter 1996-97), *Academy of Political Science*, 475 Riverside Drive #1274, New York, New York 10115.

Homeless activists often assert that a lack of government housing subsidies is the sole cause of homelessness. And so in 1979 homeless advocate Robert Hayes, using an obscure clause in the New York State constitution which requires government to provide for "the aid, care, and support of the needy," convinced the state courts to rule that every resident of New York has a right to shelter. In 1981, New York City signed a decree that substantially expanded its shelter system.

Mayor Koch's administration tried to fight homelessness by creating spartan "congregate shelters," such as church gymnasiums. But the number of disturbed homeless people continued to rise, forcing the city to turn welfare offices into temporary shelters. Homeless lobbyists lobbied the courts and the press, winning a major victory in 1986 when the New York State Court of Appeals ruled that the city's shelter system be upgraded.

In 1989, the more liberal Dinkins administration tried to expand dramatically the number of public housing slots available to the homeless. But the 80,000 single mothers with children who *didn't* live on the streets and who had to wait

up to 12 years for public housing were indignant. Working poor people in the projects protested against living near formerly homeless single mothers who failed to supervise or control their children. Thus Dinkins' policies towards the homeless resulted in "intensified deterioration of the city's existing low-income housing stock," writes Thompson of Barnard College.

Dinkins also tried to aid the homeless by giving people in shelters federally subsidized "Section 8" housing vouchers to help pay for rent. But with a city housing vacancy rate of less than 2 percent, this policy "provided an incentive for landlords to evict lower-rent paying, non-subsidized poor families."

By 1992, New York City spending on the homeless had soared to over \$500 million, up from \$10 million in the early '80s. Yet the number of single mothers and their children in shelters had tripled, with each mother and child costing the city an average of nearly \$37,000. And still the programs failed to slow the flow of troubled people into shelters.

The failure of the Koch and Dinkins homeless policies, Thompson argues, shows the limits of liberal activism. "Homeless advocates," he concludes, "apparently believed that using the courts to mandate housing for the homeless would increase pressures on poor people to demand more housing for themselves, thereby broadening the homeless struggle to a unified struggle of the poor for housing. That strategy backfired. The poor did not unite."

SCIENCE AND ENVIRONMENT

Money vs. Medicine

Marcia Angell, *Science on Trial: The Clash of Medical Science and the Law in the Breast Implant Case*. W.W. Norton, 500 Fifth Avenue, New York, New York 10110.

In 1994, the manufacturers of silicon breast implants agreed to a settlement where they would pay over \$4 billion to women with implants, with at least \$1 billion going to trial lawyers. Though the details are still being negotiated, it's clear

the endless lawsuits over breast implants have frequently ended up terrifying women and enriching attorneys. Angell of *The New England Journal of Medicine* suggests that the breast implant affair will conclude with "relatively small gains for many women and enormous gains for a few lawyers."

Silicone breast implants came on the market in 1962. (The first implantee, now a 64-year-old grandmother, was still wearing her set 33 years after her operation.) The Food and Drug Administration (FDA) did not regulate implants and other medical devices until 1976; so breast implant manufacturers did not have to prove the implants' safety to the government. There's a 5 percent chance an implant will rupture and small amounts of silicone leak into the body. Occasionally the tissues around the implant harden and become scarred. Medical researchers weren't able to determine what caused the scarring or how dangerous silicone leakage might be.

In the 1980s, Ralph Nader's organizations began to lobby against silicone breast implants. Trial lawyers began to win cases against implant manufacturers. Talk shows and news programs aired sensational stories about the alleged harms the implants caused.

In 1992, FDA commissioner David Kessler imposed a ban on silicone breast implants that remains in force. Kessler said that although no evidence suggested implants were unsafe, manufacturers had to prove their safety—the first time, says Angell, the FDA mandated "that a drug or device be risk-free."

Kessler's decision prompted a flood of litigation. For many plaintiffs, their attorneys, and expert witnesses, leaky breast implants paved the road to riches. Under the proposed settlement, a woman could receive up to \$700,000 by claiming that her implants caused muscle aches, disturbed sleep, fatigue, and burning pain—symptoms that did not have to "be objectively verified by her doctor or anyone else." (The settlement also compensates husbands and children born before April 1994 for emotional trauma.) During the trials, expert witnesses made up to \$600 an hour for pre-

senting dubious theories connecting breast implants and disease.

In June 1994, the Mayo Clinic produced the first reliable study of breast implants, showing that women who didn't have implants were as likely to suffer connective tissue disease as women with implants. Trial lawyers denounced the study because it was indirectly paid for by the manufacturers, who were doing what the FDA requested. The lawyers also forced the Mayo Clinic to supply file cabinets full of material, including the medical records of every woman who lives in the Minnesota county where the clinic is based.

This last action sets a dangerous precedent, Angell warns, since medicine advances only when patients freely give confidential medical information knowing their records will remain private.

Breast implant litigation, Angell adds, could imperil "all medical devices—whether they carry silicone or not." Since anyone who makes any part of a medical device can be sued, trial lawyers usually attack big businesses who supply parts for allegedly faulty devices. When Vitek, a manufacturer of artificial jaws, went bankrupt, trial lawyers sued DuPont, who supplied Teflon used in the jaws. Though courts usually ruled in its favor, DuPont spent \$8 million fighting jaw-related suits. As a result, DuPont announced in 1994 that it would no longer sell Dacron and Teflon to makers of medical devices. Dow Chemical has announced similar restrictions. "Under these conditions," Angell writes, "a large number of very important medical products may become scarce or even unavailable." For example, the shunts used to protect against hydrocephalus are made of silicone.

"To a remarkable extent," Angell concludes, "the breast implant story is about greed and its consequences."

We welcome submissions of reports, articles, or papers you think should be summarized in THE DIGEST. Please send to P.O. Box 8093, Silver Spring, Maryland 20907.

Technology Helps the Earth

Indur M. Goklany, "Factors Affecting Environmental Impacts: The Effect of Technology on Long-term Trends in Cropland, Air Pollution, and Water-related Diseases," in Ambio (December 1996), Royal Swedish Academy of Sciences, Box 50005, S-104 05 Stockholm, Sweden.

Ecologists such as Barry Commoner and Paul Ehrlich often use a simple formula to determine how technological change affects the environment: I=PAT. They argue that the environment (I) is affected by a combination of rising population (P), increased affluence (A) and technological change (T). The more population rises, they argue, and people become richer and technology more complex, the more likely it is the planet will be harmed.

Goklany from the U.S. Department of the Interior suggests that the formula environmentalists use is misleading. Wealth and technological advances don't harm the planet, he argues, they help it. Without new technology, and the money to pay for it, the environment would be in much worse shape.

Cropland. Though U.S. population nearly tripled between 1910 and 1993, the amount of land used to grow crops fell by 5 percent. Because of new technology, farmers are able to use less land to grow more food, and because the U.S. economy nearly quadrupled during this period, farmers can afford high-tech devices that save land and labor. With 1910-style technology, Goklany says, today's farmers would have needed quadruple the land, including all the land now used for national parks and wildlife refuges.

Air pollution. While federal laws such as the Clean Air Act of 1970 helped reduce air pollution, rising incomes have enabled consumers to replace coal-fueled furnaces and wood-burning stoves with cleaner natural gas heaters. And increasing population meant more customers for natural gas pipelines, ensuring lower costs for this more environmentally friendly fuel.

Water pollution. New technology has ensured dramatic falls in the rates of

water-borne disease. In 1900, 1,400 of every million Americans died from gastrointestinal diseases caused by water-borne parasites. By 1970, the death rate for these diseases had fallen to six per million. Typhoid, which in 1900 killed 300 of every million Americans, was virtually eliminated by 1960. World Bank studies show similar drops in other countries with rising incomes.

Suppose that technology had not changed between the 1950s and today.

Then, Goklany predicts, about a half-million Americans each year would die from water-borne diseases. There would be a billion hectares more farmland—ten times the amount of land in U.S. national parks. Smog attacks, such as the air pollution that killed 4,000 people in London in 1952, would be commonplace.

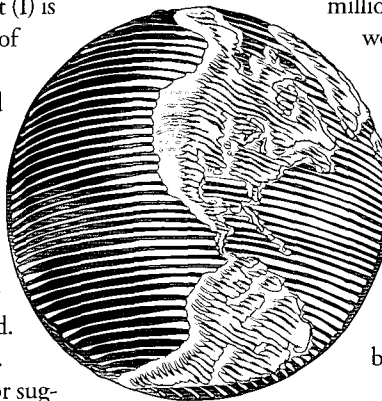
"Clearly, technological change and economic growth, together, have so far helped to avert full-scale environmental disaster." Goklany believes wealth and technological advance will "provide the means for solving present and future environmental problems, just as they did in the past."

Not Always Noble Savages

Terry L. Anderson, "Dances With Myths," in Reason (February 1997), 3415 South Sepulveda Boulevard #400, Los Angeles, California 90034.

Environmentalists often portray the American Indians before European settlement as noble souls who respected nature. But Anderson, executive director of PERC, an environmental think tank, argues that the truth is more complex. Most Indians were no friends of nature—and the tribes who did respect the environment also believed in private property.

Indians routinely burned the lands on which they lived before moving on. Some scholars argue that frequent fires set by Indians meant that there were fewer "old-growth" forests in the Pacific Northwest in 1700 than there are today. The Indians frequently wasted resources. When the



Indians of the eighteenth century slaughtered buffalo on the Great Plains by forcing the beasts off a cliff, "tons of meat were left to rot or be eaten by scavengers."

But when land was scarce, Indians developed private property systems. The Mahicans in the Northeast and the Creek, Havasupai, and Hopi tribes in the Southwest all developed systems of private property. The Tlingit and Haida Indians of the Pacific Coast even appointed judges called *yitsati* ("master of the house") to settle property disputes. The owners made sure their property was protected and that resources were conserved. In the Pacific Northwest, for example, Indians developed rights to streams where salmon spawned, and routinely built wheels, weirs, and other devices to ensure that some salmon swam upstream to spawn again.

Anderson argues that tribes who develop private property better protect the environment than those who hold property in common. In many tribes, "ownership is only established by killing animals," a system that encourages slaughter. Indians using gillnets, for example, have nearly wiped out salmon in several streams in the Klamath River basin. Elk, deer, and moose on the Shoshone, Arapahoe, and Crow tribal lands are nearly wiped out.

The White Mountain Apaches, by contrast, show how some Indians manage resources responsibly. "The tribe is managing its trophy elk population and other wildlife on a sustainable basis—and making a profit" by selling opportunities to hunt, fish, camp, and photograph wildlife. These entrepreneurial efforts have conserved wildlife while generating jobs and millions of dollars of revenues for the tribe.

OTHER COUNTRIES

India Dumps Protectionism

Clive Crook, "India's Economy: Work in Progress," in *The Economist*, (February 22, 1997), 25 St. James's Street, London SW1A 1NG, England.

India's economy has been socialist for most of its history. According to Crook of *The Economist*, Indian industries long suffered from "an insanely repressive system of domestic planning and regula-

tion." For example, planners imposed "capacity-licenses" which prohibited successful businesses from growing more quickly than planners liked. Imports were severely restricted, and foreign investment shunned. Tariffs averaged 87 percent, among the world's highest.

In 1960, the average South Korean earned four times what the average Indian made. By 1990, adjusted for inflation, the average South Korean annual wage was 20 times higher than that of India. Government planners excused India's anemic growth rate of under 4 percent by claiming that it was the "Hindu rate of growth" and that Indians were naturally unproductive.

By 1991, India's economy was near bankruptcy; so prime minister P. Narasimha Rao and his finance minister, Manmohan Singh, instituted market reforms. Currency controls were eased, the tariff rate fell to an average of 27 percent, and foreign investment increased. These reforms stimulated the economy, now growing by an average of 7 percent annually.

Much work remains if Indian firms are to compete in the world market. Indian

socialists instituted draconian rules prohibiting businesses from closing and imposing strict rules on hiring and firing. For example, corporations often had to offer jobs in perpetuity; if the worker died, the firm had to hire his child or a relative. As a result, only 3 percent of Indians in the labor force work for a company with more than 10 employees, while an additional 6 percent work for the state. India needs more entrepreneurial firms if the economy is to continue to expand.

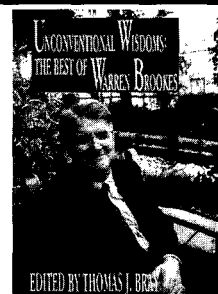
And the government still owns far too many businesses: cement, steel, drugs, refrigerators, soft drinks, batteries, banks, bread, and condoms. A quarter of India's GNP comes from these firms, but most are inefficient. Crook argues that economic liberalization will not come from New Delhi, but from state governments hoping to make their state more attractive for investors than rival states. If this competition happens, Crook foresees that "the Indian tiger may be scaring East Asia after all."



Unconventional Wisdoms: The Best of Warren Brookes

Edited by Thomas J. Bray

This book is a collection of Warren Brookes's work compiled and edited by his *Detroit News* editor, Thomas J. Bray.



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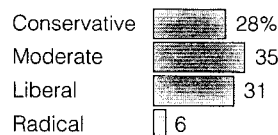
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'60s KIDS: THE WAY THEY WERE

The Sixties generation was never as radical as it was portrayed. About as many young people called themselves conservatives as liberals in the 1960s and early 1970s. Six percent described themselves as radical. A majority of those under 30 voted for Nixon in 1972. Slightly over 60 percent say they never used marijuana, although the number of college freshmen supporting its legalization rose sharply during the 1970s. Only 2 percent say they were very active in the protests of the time. Most were opposed to the Vietnam War, but 57 percent in another question said we should have used more military force to win the war.

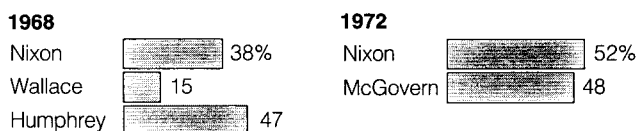
Politics

Question: Looking back to the 1960s and early 1970s, would you describe your political views at the time as being...?



Source: Survey by Yankelovich Clancy Shulman, April 15-17, 1986.

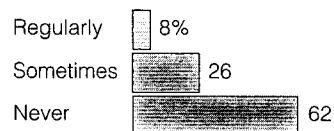
Vote of those under 30 years of age



Source: Pre-election surveys by the Gallup Organization.

Drugs

Question: During the period we are talking about—the 1960s and early 1970s—did you use marijuana?



Source: Survey by Yankelovich Clancy Shulman, April 15-17, 1986.

Question:...

Agree, marijuana should be legalized

College freshmen



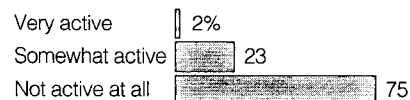
Source: Surveys by UCLA for the American Council on Education.

Protests and Vietnam

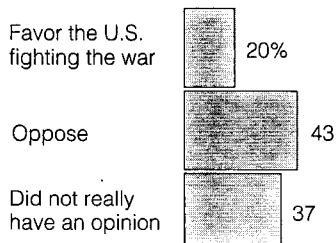
Question: The 1960s and 1970s were a time of social protests and demonstrations. Were you—at that time—...?



Question: Would you describe yourself as being...?



Question: At the time the Vietnam War was being fought did you...?



Question: Do you agree or disagree with these statements about the Vietnam War?

Was a noble cause



The U.S. should have used more military force to win the war



Note: All the Yankelovich Clancy Shulman data shown on this page are from surveys of 30-40 year olds.
Source: Survey by Yankelovich Clancy Shulman, April 15-17, 1986.