

John Nollson

THE POWER ELITE

For the past thousand or so years, the middle class has been rising and the aristocracy has been declining. After the French Revolution, the surviving aristocrats thought it prudent to abandon knickers in favor of long pants. This has made it harder to tell who belongs in what class. Meanwhile, not so long ago, a Yugoslav writer introduced the notion of the "new class," which is, to simplify, the class that runs everything. Recent studies, however, indicate that the composition of the class that runs everything has undergone a rapid transformation in the wake of recent crises. It is to this new New Class that we must now turn our attention.

Who are its members? First of all, there is the new aristocracy, namely the operators of filling stations. With their enormous power and their characteristic mode of dress, speech, and musical preferences, they show all the markings of traditional aristocracy. They are, for example, landed, and their filling stations are passed on to the oldest son intact. They are treated with extraordinary deference, since an ordinary *bourgeois* cannot get his tank filled unless he removes his hat when asking the operator to fill 'er up. Like the guilds of old, filling stations are exempt from the prerogatives of the state; enforcers of the alleged price control system are not allowed to cross the boundary of a filling station unless the operator allows it. Like the baronies of old, filling stations have come to resemble feudal castles, surrounded by moats designed to keep out the rabble. Most filling stations are capable of withstanding long sieges, especially on weekends, when they pull up their drawbridges and exclude the outer world.

The more powerful filling station operators resemble the medieval barons in another essential respect. Whenever a car bearing the sign "Just Married" appears, the operator insists upon exercising the right of *prima nocte* before dispensing the unleaded. Some of the serfs have come to resent this, but there is nothing they can do about it. The State refuses to intervene, and the Church thinks it serves them right.

Another influential segment of the new New Class is the dental mechanics. Because dental mechanics control a significant fraction of the world's gold supply, they are now afforded more deference than even the gnomes of Zurich. Dental

mechanics believe in Gresham's Law, and practice it. They are withholding gold from fillings in order to hoard it. Instead, they make fillings and other dental fixtures from baser metals such as lead and antimony. It is no pleasantry to have one's jaw weighted down by lead fillings, but there is nothing that can be done about it. Like filling station operators, dental mechanics demand their pick of the prettiest hygienists before they will supply the dentist with dental bullion. They are allowed to get away with this since every central banker knows that the survival of the world's financial and monetary system depends on the cooperation of dental mechanics. This is why dentists have thus far escaped a windfall profits tax, though everyone knows that they are filling teeth with fifty dollar gold while pretending that it's five hundred and twenty-five dollar gold.

Not yet so influential as either filling station operators or dental mechanics, but rising steadily nonetheless, are the purveyors of flashlight batteries. They show all the arrogance of the parvenu. So vital have their products become that they literally dare any consumer to knock a battery off their shoulder. The battery makers established their control over society by deliberately withholding double-A batteries from the market at the height of Christmas

season. Through this ploy, they were able to quintuple the price of batteries, and everyone who owned either a transistor radio or an electronic game was forced to bend the knee. Battery purveyors show their contempt for a society powerless to restrain them by claiming to pack power into their little cylinders under a pressure that exceeds 10,000 pounds per square inch. People suspect that this is a lie or, if true, supremely irrelevant, but they are cowed into silence. Pedophilia is rampant among battery purveyors, and pre-teenage boys willingly deliver their younger sisters to the beasts in order to keep their little beeping machines charged up. Meanwhile, the battery makers trade in lead with the dental mechanics, each group reinforcing the other's power, wealth, and influence.

The most interesting members of the new New Class, though the least commented upon, are of course the exact-change machines that control access to bridges, tunnels, and turnpikes. They are beyond the control of the ordinary citizen and are literally untouchable, often unreachable, by the citizens they mercilessly exploit. In the tradition of the Elizabethan cavalier, they disdain pennies. Nor do they accept scrip. Neither will they deign to give receipts. They will perform no service unless they are first honored with a characteristic salute, which consists of raising the left arm while holding within a clenched fist the requisite coins. The machine then silently demands that the coins be thrown into it with a thud. After thinking it over for a while, the machine decides, in a wholly arbitrary manner, whether it will consent to raise the toll gate. As often as not, it decides in the negative. No amount of protest will affect it. It remains adamant. If the citizen seeks to trespass upon its immunity by assaulting it, he is immediately arrested and incarcerated. There is no appeal. Such abuses far exceed anything the barons had against bad King John, even before he signed the Magna Carta.

Our only hope in combatting the new New Class is to get its members fighting among themselves. Let the exact-change machines feast on a diet of slugs which, in the chewing, will wreck its teeth. Maybe when it discovers the cost of having its teeth repaired, it will learn a little humility. □





IMAM WE TRUST

by Michael Ledeen

This month's award for runaway prose goes to the world press in general for its coverage of American-Iranian affairs during the first half of March. That, you'll recall, is when the Carter folks put out the idea that the hostage "situation" had finally come to an end. For a while I had reserved the award for the *Washington Post* for its six-column (that is to say, full page) headline on March 7, MILITANTS TO YIELD HOSTAGES TO COUNCIL, along with its tantalizing single-column subhead, "Ghotbzadeh: Their Return Not Imminent," but after looking at the rest of the newspapers I concluded that the honor should be spread around. Furthermore, the germs that were implanted in the body press in early March are still with us, as will be seen.

You may think the *Post* should have been more careful with its headline (and I agree), but consider the performance of the pride of French political culture, *Le Monde*, on Saturday, March 8. By that time, the editors had decided that the transfer of the American prisoners from "student" control to that of the Revolutionary Council was a certainty, and so it was proper to speak of it *in the past tense*. In an unsigned comment on the front page, the editors analyzed the significance of the event (which had not, and still has not, occurred):

The decision of the "Islamic students" to return their hostages to the Revolutionary Council constitutes a new and important victory of M. Bani-Sadr over the "parallel powers" that have so singularly limited his authority ever since his election in January. . . . The attitude of the Imam Khomeini was decisive. . . . Pressured by the "students" who called upon him to condemn "every effort at compromise," he took a clear position in favor of the new President of the Republic.

As Parisians read these words on the weekend, it was becoming clear that there had been no breakthrough of any sort and that Bani-Sadr had

received yet another lesson from his Imam about political cunning.

Why did virtually every newspaper in the West assume that the hostage transfer was a sure thing? Why were there not strong words reminding the public that the Iranians had been lying for months and that there was no reason to believe them now? And what grounds were there for the banner headlines, for the total gullibility of normally skeptical newspapers like the *Post*? One's first temptation is to say that the press was fooled by President Carter, who had good reasons for wishing the public to believe that a breakthrough had been achieved. But papers like *Le Monde* don't place great faith in Carter's words. What's going on?

First of all, there is the usual cultural distortion: If a group of American "students" issued a statement, and a French parliamentary body confirmed it, it would be safe to announce an "event" in the press. The newspapers forgot who they were dealing with.

Second, and more important, was the "who's winning?" part of the story. From the very beginning of the Iranian drama (not just from the time the hostages were taken), the press has dealt with Khomeini as some-

thing other than a clerical fascist, even though his every action confirms that evaluation. By and large he gets described as a deeply religious man with some strong feelings about things but no particular political acumen. The real politician—for the *Post* and *Le Monde*—was, of course, the man who won the "elections," Bani-Sadr. (The French also find him the most attractive figure because he speaks their language perfectly and looks like Peter Sellers playing a bumbling French detective.)

So the press has been rooting for Bani-Sadr against Khomeini. This is easy to understand, but it hopelessly distorts the Iranian realities, since Khomeini is the only man in the country who can fill the streets simply by making a speech on television (or by ordering the mullahs to give a certain speech in the mosques). Bani-Sadr has no comparable power. The newspapers decided that "our guy" had beaten the "other guy" (or the "other guys"—the students), but they forgot that in a theocracy the top priest always wins against the top lay spokesman.

A final Iran note: It would be nice if the newspapers would identify accurately the major participants. Thus, Henry Villalon should not be called—as he was by Jonathan C. Randal in the *Washington Post* on 16 April—"a

political exile of sorts in Paris as a supporter of Argentina's late president Juan Perón." Villalon is part of the menagerie of lawyers who acted as secret intermediaries between the United States and Iran. But Villalon is under indictment in Argentina, which makes him something other than "a political exile of sorts." The second character who is invariably mis-labelled is Hilarion Capucci, who often passes as the "Greek Archbishop of Jerusalem," as if he were a Greek Orthodox prelate. In reality, Capucci is an archbishop of the Greek Catholic Church, which is tied to the Vatican, and not Orthodox at all. Moreover, Capucci's main claim to fame is that he was convicted of terrorism in Israel, where he ran weapons for the PLO from Lebanon to Jerusalem. One rarely sees this in print.

Jack Anderson Department: Last month we found our hero attacking the Pentagon for throwing away money on gadgets and generally spending too much. This month, in the April 10 *Washington Post*, he bemoans (and rightly so) the sorry state of the Navy:

The Pentagon's plight can be summed up in these stark statistics: During the past two decades, the Navy has shrunk from 900 ships to fewer than 500. The reserve fleet is down from 2,277 ships to 317, many of them fit only for the scrap pile.

Yet the need for sea power has increased dramatically, as U.S. bases around the world have dwindled from more than 100 to less than 30 and as the Russians have assembled the world's largest Navy.

But then, in one of those illogical jumps that characterize his writing, Anderson says: "Ironically, the Navy has tried to obstruct the sea lift build-up, preferring to spend every available tax dollar for fighting ships." What is so strange about that? With the Navy on the way toward 300 ships, one has to conserve at least some hard core of firepower and hope that existing sea-lift capacity will get us by. You can be sure that if the Navy had opted for more



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sea lift and fewer fighting ships Anderson would have announced the discovery of a secret memorandum showing that the Pentagon was neglecting fighting ships. The point, of course, is that the Navy is being cruelly and dangerously reduced. And, as the *Wall Street Journal* (followed a bit later by the *New York Times*) discovered in early April, the President is now fudging the figures on the defense budget: cutting this year's in order to make next year's little budget look like a 3 percent increase.

It's hard to know what to make of Jack Anderson. On the one hand, he has some of the best information in the country. On the other, he rarely spends the time necessary to digest and analyze it thoroughly. I suppose the conclusion is, read Jack Anderson for the data—very high quality ore—but swallow slowly the packaged product.

"All The News That's Fit To Print" Department: The *New York Times* has some bad habits it would do well to scrap. Among these bad habits is that of acting as if any story printed in the *Times* is its own. Thus, readers of the Sunday, April 20 *Times* saw a front-page story dealing with the mission of General Robert Huyser to Iran in the final days of the Shah's rule. In it, readers heard that the American government was contemplating a military coup d'état in Iran in late January and early February, 1979. They also heard that Huyser's mission had followed a recommendation from National Security Advisor Zbigniew Brzezinski that James Schlesinger be sent to Teheran to encourage the Shah to defend himself. For those who read the whole story, it emerged around paragraph nine (on the inside of the paper) that there was also an article on the same subject in the spring issue of the

Washington Quarterly, written by me and Professor William Lewis of George Washington University.

As many careful readers deduced, the *Times* had been given an advance copy of the *Washington Quarterly*, which was the starting point for the *Times* article. Starting from our analysis of Carter administration policy during the Iranian crisis, Richard Burt and Phil Taubman (who himself had been working on the story for months, but with the understanding that he would publish nothing until the hostage crisis had been resolved) gathered additional information and developed their own story. This was sent to the editors in New York, who re-worked the article, producing the final product. I am given to understand that the original version properly credited the *Quarterly* with the original breakthrough and also indicated those areas in which Burt and Taubman had done their

own work. The final story made it appear that virtually all the information had been dug out by the *Times*.

You may think this is small potatoes, but in reality it reflects a small-mindedness and lack of professionalism on the part of the *Times* that ill-befits the "newspaper of record." For on several other occasions in the past, the *Times* has refused to give the *Quarterly* (and the Center for Strategic and International Studies that publishes it) proper credit. On one occasion, the *Times* quoted an entire paragraph from the *Quarterly* without attribution, and on another it failed to mention that the conference at which Henry Kissinger delivered his famous speech on the strategic balance was organized by the Center for Strategic and International Studies. Is it all sloppiness, or is there an unwillingness at the *Times* to give proper credit to an institution it may not admire? □



THE PUBLIC POLICY

AN IMMINENT ELECTRIC ORGY

by Fred D. Baldwin

Naturalists bestow their names on out-of-the-way flora and fauna, giving us Fowler's toad and Nuttall's cockle. Economists seek a duller immortality by lending names to things that are under our noses, for example, that there is a trade-off between employment and inflation (Phillip's curve). This spring, while strolling past toads and cockles, and while listening for Swainton's thrush, pause to consider the Averch-Johnson effect. If you do, you may reflect that the anti-nuclear people aren't all crazies.

The Averch-Johnson effect, A-J for short, refers to a tendency in a regulated industry to over-invest in whatever factor of production determines its rate base.* It's about as startling an observation as Engel's law: that poor people spend proportionately more of their money on food than do rich people. To do the economists justice, however, we often overlook the economic distortions

caused by regulations until they are given a name, because they are as common as toads.

What has the A-J effect to do with nuclear power? Quite a bit, as it turns out. The electric power industry is a regulated industry, treated as if it were a monopoly, and its investors are supposedly permitted to earn a return on their capital investment, up to some designated percentage, which varies from state to state. (The "supposedly" is necessary because utilities have not been allowed returns that look attractive at recent interest rates nor do they always earn even as much as they are allowed, which is why some utility stocks are selling below book value. Although the rationale for regulation is that electric utilities are monopolies, this may arise from a misdefinition of

*The A-J effect takes its name from two economists, Harvey Averch and L.L. Johnson, authors of "Behavior of the Firm Under Regulatory Restraint," *American Economic Review*, December, 1962. It is sometimes called the A-J-W effect because of a subsequent article by S.H. Wellisz.

their business, as will be discussed later. The remarks here refer most obviously to investor-owned utilities, which account for about 80 percent of the nation's electric generating capacity, but they apply in some cases to publicly-owned utilities as well.)

Now if you are allowed to earn, say, 8 percent profit on whatever is in your rate base and, at best, will only be allowed to recapture costs outside of your rate base, you will try to shove as much into your rate base as possible. You will have an incentive to reduce labor and other operating costs, which is a good thing for your customers, but you will have little incentive to reduce capital investments, which may or may not be a good thing for them. More precisely, you will have a strong incentive to make the ratio of capital to operating costs as high as possible in favor of capital. Moreover, what Messrs. Averch and Johnson stated, and what others have attempted to document, is that you will almost certainly go further in this direction than if you were forced to optimize your investments based on market competition.

A large power plant, whether coal-fired or nuclear, is one of the most capital-intensive forms of investment in our economy. Something like \$250,000 must be invested for every job created. A typical advertisement for nuclear power shows a single engineer in a bright yellow hard hat gazing out over acres of shiny plumbing, or a white-coated technician facing a bank of computers. The message is subliminal A-J: Pipes and tubes and wires are in the rate base; employees aren't. We may be grateful for the latter, of course. If utilities were permitted to base their profits on their payrolls, their ads would show plants swarming with smiling workers. Utility executives would make speeches about the importance to the economy of direct job creation, and suggest that electricity, like homemade ice cream, would be better if cranked out by hand.

That utility executives instead make speeches on the virtues of nuclear power does not mean they are wrong, of course. It is, however, important to keep their economic

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