

# reason

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# editor's notes

• **EDITORS' ACTIVITIES.** Robert Poole's book, *Cutting Back City Hall*, finally appeared in May. In recent months Poole has spoken at a number of conventions and conferences on the theme of the book, privatization of local public services. On June 2, his essay on privatization vis-a-vis the tax-cutting movement appeared in the *New York Times*.

Poole has also been speaking and writing on other issues. In March he appeared on a panel on the Moon Treaty at the annual Goddard Conference of the American Astronautical Society. That month he was also elected to the Board of Directors of the Santa Barbara Futures Foundation, a local public policy educational organization. He and associate editor Marty Zupan have also been active in the Community Research Council, a local citizens' group studying housing issues.

Senior editor Manuel Klausner is serving as chairman of the Committee for Educational Tax Credits, a group attempting to qualify such a measure for the California ballot. In April he addressed the Chancery Club, a group of prominent Los Angeles attorneys, on the topic of libertarianism. That month he also served as moderator for the Reason Foundation/Liberty Fund Symposium on Virtue and Political Liberty. And in May he spoke at the Constitutional Rights Foundation's Law Day program.

REASON's other senior editor and the Reason Foundation educational programs director, Tibor Machan, served as director of the Virtue and Liberty conference, by all accounts a highly successful and intellectually stimulating affair. He has also been busy setting up the Foundation's summer seminar in legal and moral philosophy, which began in mid-June. During the spring quarter, Machan taught another course, on the history of economic thought, to economics students at the University of California at Santa Barbara. His *Human Rights and Human Liberties* book is being translated into German by Philosophia Verlag, Munich.

• **REVISING REVISIONISTS.** If you want to know why today's generation of college students and young adults seems to have no conception of the notion that "eternal vigilance is the price of liberty," it helps to know that such republican precepts have been systematically snuffed out by 20th-century history textbooks. A good overview of this process is Frances Fitzgerald's *America Revised: History Schoolbooks in the Twentieth Century* (Little, Brown) and a masterful summary

is Walter Karp's interpretive review in the May *Harper's*. Karp minces no words when he concludes that the record demonstrates that "a powerful few, gaining control of public education, have been depriving the American republic of citizens, and popular government of a people to defend it. And the American history textbook, so innocent-seeming and inconsequential, has been their well-chosen instrument."

• **ALTERNATIVE CONSUMERISM.** If you've ever been troubled by *Consumer Reports'* persistent bias toward government intervention in the name of consumer protection, you may be pleased to learn of an alternative. For some 50 years there has been a little-noticed but fairly well-done competitor called *Consumers' Research*. Now, in a move that could be significant, the magazine has taken on a new publisher—conservative columnist M. Stanton Evans—who promises to broaden the magazine's scope to include consideration of public policy issues affecting consumers. Unlike its better-known competitor, however, Evans's magazine will not look to government intervention as the consumer's salvation; indeed, it will look skeptically at such efforts (as in its May report on automobile air bags). Those interested should contact Consumers' Research, Inc., Bowerstown Road, Washington, NJ 07882 (\$15/year).

• **CARTOON KUDOS.** Cartoonist John Trever, whose work graces our Brickbats or Trends pages, has won the 1979 Sigma Delta Chi Distinguished Service Award for editorial cartooning. His winning entry consisted of six cartoons dealing with the Ayatollah Khomeini, the gasoline crisis, nuclear power, and other current affairs topics. The award was presented at a ceremony in Seattle on May 10.

• **NEW STAFFERS.** We are pleased to welcome to the Reason Foundation staff a new office manager, Cynthia (Cindee) Huff. A native Texan, Cindee comes to us from *Robotics Age* magazine in Los Angeles, where she was office manager and production manager. Also joining the staff is our new Spotlight columnist, Patrick Cox. A free-lance writer, Cox holds a bachelor's degree in economics from Boise State University and has written a book explaining the free market to children. He is currently at work on his second book, on immigration policy.

—R. P.

The U.S. was founded by a group of individuals who rebelled against the oppressive policies of King George in England. Today, this same spirit of independence, a uniquely American phenomenon, underlies a growing displeasure with government tax and spending policies. This viewpoint is a healthy sign. Our society can remain the freest and most prosperous in the world if government power is held in check by us, the citizens who make up the country. Recent passage of laws (such as Proposition 13) are an indication of a growing wave of protest against wasted tax dollars. The effort is getting stronger and more vehement every day.

# Wage Your Own Personal Tax Revolt

**Like the early pioneers who started this country, many people are rebelling against the near confiscatory taxation at all levels of government. The federal government consumes the taxpayer's cash at the rate of over \$800,000 per minute, and the amount that is wasted is scandalous. The citizens are mad as hell and they're not going to take it any more.**

**There is but one answer left!**

The largest tax each one of us pays is Federal Income Tax. Yet, the largest corporations and the wealthiest individuals often pay the least amount of tax. According to an article in a leading newsletter, 17 huge corporations paid no federal income tax in a recent year, although they had a world-wide income of \$2.5 billion. Numerous tax loopholes were used. The list includes United States Steel, Bethlehem Steel, Armco Steel, General Dynamics, Singer, Phelps Dodge, American Airlines, Philadelphia Electric and The Chase Manhattan Corporation. The burden caused by these non-taxpayers must be assumed by "somebody." "Somebody" is always the wage earner. There is, therefore, a major inequity under the law which favors the wealthy and, most especially, corporations. In America today we have what could be called a "Corporate Society."

Some individuals have become so upset with these startling inequities, they have stopped paying taxes and have in many cases even ceased to file tax returns. This approach, however, is fraught with danger and has resulted in stiff fines or prison sentences when the government locates and prosecutes the courageous individuals.

## You Can Become Part of "The Corporate Society"

Rather than break the law and suffer serious consequences, there is a safer and more viable alternative. You can use the same type of smart thinking as those who own and control great wealth. The big corporations are not necessarily immoral. However, they do get the best advice available on tax matters.

You, as an individual, can now use all the tax loopholes for your own self interest. Thus, you legally gain the advantages yourself as do the huge corporations. Rather than break the law, you can use it to your advantage. Perhaps the best way to accomplish this, as well as reduce your tax burden is through incorporation, the legal form of tax rebellion.

Surprisingly enough, the government encourages incorporation with a number

of favorable laws, especially in the area of taxation. In fact, it is rare to find a successful individual who is not incorporated. Incorporation is favored by nearly all millionaires. It is one of the causes of wealth, not its effect. Think about it. Can you think of a single wealthy individual who doesn't own and control his own corporation? It is rare indeed. Let's face it, the first step toward achieving the American Dream in our corporate society is probably incorporation.

To add even more impetus to the idea of starting your own corporation, passage of the recent Revenue Act makes incorporation the ultimate tax shelter. This act and the earlier ones close the door to practically all other tax shelters and loopholes. The tax rate on corporations (especially smaller ones) has been substantially reduced, to as low as 17%.

Favorable laws such as the investment tax credit are most helpful when buying equipment. Even if you incur losses in one year you can deduct those losses over several profitable years.

## More Advantages. . .

You can set up a corporate medical plan wherein you deduct from your taxes every dollar spent on medical and dental care, drugs, and health insurance for yourself and your family. You can also get tax deductible group life insurance even if the "group" consists of only one person.

It is important to note that potential tax savings are not the only reason to incorporate. Another chief value is that it limits your liability to the assets of the corporation in the event of a lawsuit. If you do business as an individual or partnership, you can be sued personally,

*"Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands; taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant."*

**Judge Learned Hand**

which could put your house and other assets in jeopardy

You can put more money (25% and more of income) into your corporation pension plan. This is more than a traditional "Keogh" plan which has a maximum contribution of \$7,500 a year, or even an I.R.A., where the maximum that can be sheltered under special circumstances is only \$1,750.

In these times of growing inflation and periodic ups and downs of the economy, your own corporation is probably the only way that you may maintain control over your economic destiny. And you can often benefit from incorporation without leaving your present job. More about that in a moment.

## You Can Incorporate Simply, Easily and Inexpensively.

Up until now, throughout the majority of history, incorporation had one major drawback: high legal fees. Lawyers today charge stiff fees, up to \$2,500 for incorporation. The truth is that you can easily incorporate yourself for under \$50. A remarkably easy and inexpensive method of incorporating is contained in a book called *How To Form Your Own Corporation Without A Lawyer For Under \$50*. It comes complete with all the tear-out forms required to start your own corporation . . . minutes . . . bylaws . . . everything you will ever need. The author, Ted Nicholas, has helped thousands of people start their own corporations and has saved them millions of dollars in the process — and many millions more in taxes.

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# editorial

The Three Mile Island accident has led to a welcome reassessment of the system which supposedly makes sure that nuclear power plants are designed, built, and operated safely. And while all five major studies of how TMI happened have concluded that nuclear power generation should continue, their findings on safety mechanisms are cause for alarm.

The most important study was that of the President's Commission, headed by John Kemeny. What it found was a Nuclear Regulatory Commission that is incompetent to the task. Prior to TMI, "there was no systematic method of evaluating [plant operating] experiences and looking for danger signals of possible generic safety problems." Supervision of safety issues is "confused, inadequate, and haphazard." The mind-set of those supervising nuclear safety is dangerously flawed; an attitude of complacency prevailed before TMI.

These findings were echoed two months later by the Rogovin report, commissioned (at a cost of \$3 million) by the NRC itself. The NRC, it concluded, is "not so much badly managed as it is not managed at all." There are "many institutional disincentives to safety." Once again, Rogovin found "an attitude of complacency pervaded both the industry and the NRC."

What about the myriad NRC rules and regulations? According to the Kemeny report, "The existence of a vast body of regulations by the NRC tends to focus industry attention narrowly on the meeting of regulations rather than on a systematic concern for safety." Added the Rogovin report, many utilities "regarded bare compliance with NRC minimum regulations as more than adequate for safety."

If those charges sound disturbingly familiar, well they should. Precisely this same tale of bureaucratic incompetence, inability to identify potential hazards, and the substitution of mountains of regulations for meaningful safety efforts applies in full measure to the Federal Aviation Administration (see "Is This Any Way to Run an Airway?" REASON, Jan. 1979). The most recent assessment of the FAA, by the General Accounting Office, found that the agency *lacks* "effective systems for identifying safety hazards, a comprehensive planning process to address safety issues, an adequate system for planning and approving individual safety programs, a proper system of controls to govern the implementation phase of safety projects, or sufficient evaluation of safety programs and projects."

Yet in the light of these facts, what remedy did both Kemeny and Rogovin urge? The replacement of the independent Nuclear Regulatory Commission, made up of five commissioners, with a nuclear regulatory *agency*, headed by a single administrator and located in the executive branch of the government. In other words, an agency modeled explicitly after the FAA! Among those supporting a nuclear agency modeled after the FAA and EPA is consumer advocate Ralph Nader. "You always want to go that way," he told reporters last fall. "That's how you focus responsibility and accountability."

Yet what Nader, Kemeny, and Rogovin have all missed is the underlying *reason* for the failure of our nuclear safety regulatory system. It is not the lack of a dictatorial administrator or adequate funding. It is rather, as Adam Reed points out in this month's cover story (p. 16), the lack of the feedback mechanism provided in other fields by the insurance industry. In other complex, risky process-control operations (oil refineries, chemical plants, etc.), insurance company safety experts work cooperatively with plant designers, builders, and operators to ensure

that the very best safety technology is employed. They have every reason to do so—their own money is at stake. And those who *don't* cooperate fully pay the price in higher accident risks and higher insurance premiums.

In the nuclear industry—as Dr. Reed makes disturbingly clear—this vital feedback of information has not existed. Because the *government* has assumed responsibility for safety standards and inspection (and has taken on the principal insurance role, as well), what exists instead is an *adversary* relationship. Utilities must obey every jot and tittle of NRC regulations—or *else*. The stick (of NRC license revocation) has been substituted for the carrot (of lower insurance rates). And the tragic results are that bureaucratic minimum standards become maximum standards, and even those are evaded at times, since the NRC must *prove* violations in order to take action.

No, the answer is not to replace a commission bureaucracy with an agency bureaucracy. It is, instead, to turn the safety standard-setting and enforcement process over to the private sector—just as has always been done in the other process-control industries. By abolishing the NRC and repealing the government insurance program (the Price-Anderson Act), normal market mechanisms would come into play. A safety standard-setting organization, reporting to the insurance industry, would motivate compliance with state-of-the-art standards by appealing to the self-interest of reactor designers, builders, and operators.

Impractical? Fanciful? Guess again. In January the prototype of just such a mechanism was created by the utility industry. A new organization called the Institute for Nuclear Power Operations was set up in Atlanta with an \$11 million annual budget. INPO is developing safety criteria for the operation of nuclear power plants. It will provide operator training courses and emergency management capabilities. And it will conduct an annual inspection-audit of each participating nuclear power plant.

But the key to making INPO work is the link with insurers. Two such links are in prospect. The first, about to be implemented, will link compliance with INPO inspection and recommendations with eligibility to participate in an insurance pool to cover the cost of replacement power in the event a reactor is disabled. Up till now no such insurance has been available, but the pool has just been organized on an industry-wide basis.

Once this INPO-insurance link is functioning, the next step—*already being considered by insurers*—would be to use INPO audits for setting rates for liability and property damage insurance. That would close the loop which decades of federal regulation have left gaping open.

The scientific consensus supports nuclear power as a practical, efficient, and potentially safe method of producing electricity. What is urgently needed is to create an institutional framework that will motivate the effective use of the best available safety technology. The present bureaucratic framework has failed to do the job. A private, marketplace framework *could* do it, as it is already doing for oil refineries and chemical plants. The time to act is now.

Robert Proh. J.

# letters

## Who Holds Sway Over the FDA?

Regarding your article on the FDA and human body glue (May), the most startling inconsistency of the FDA which authors seem to miss is that the FDA denies use of a well-studied item for medical purposes shown to have a high safety factor but permits countless items in food additives, colors, and flavors with well-known adverse effects for a huge part of the population. Not only do they allow them, the FDA does not even require that many of these items be stated on the label, causing hardship (and illness) for many.

With food additives, they lower the public health; and by withholding medications, they obfuscate the cure. One can speculate on whose side the FDA stands.

Jack P. Prince, D.D.S.  
Tacoma, WA

## FDA Diagnosis

Mr. Mathisen's alarmist treatment of the cyanoacrylate debacle (May, "Whatever Happened to Human Body Glue?") was well-researched but illogical. Everybody loves a good old-fashioned bit of muck-raking, especially when it involves that lumbering scapegoat, Uncle Sam, and comatose bureaucracies like the FDA. However, credit (and blame) should be laid at the feet of those ultimately responsible for such unfortunate occurrences.

As a regulatory agency, the FDA follows the congressional mandate originally created by the Food and Drugs Act of 1906, and later by the Food, Drug and Cosmetic Act of 1938. Granted, that agency has interpreted the law in a questionable manner at times in the past. However, the many benefits afforded American consumers by the FDA go unheralded. The author's attitude seems to be that Americans enjoy the best health care in the world in spite of, rather than because of, the FDA's efforts.

Mr. Mathisen states, "Americans believe they can make responsible assessments of risk independently of government." Such ludicrous statements are common among the uninformed, regardless of the issue. If the lay public and consumer groups were responsible for such decisions, the American health care system would degenerate into a national swap meet of second-rate pharmaceuticals and practices of dubious value. If "to-

day's...enlightened, educated public" feels the FDA's actions are "detrimental to (their) health, safety, and general welfare," I assert most Americans, including the author, are ignorant of the benefits of FDA actions. Consider the plight of people living in underdeveloped countries in which those few pharmaceuticals available, if not made in the US or another such country, are poorly formulated, manufactured, and labeled.

If we must throw stones because of bureaucratic bumbling, cast them at Congress. It was that hallowed body that originated the Act, that spawned the now-infamous Delaney Amendment outlawing any carcinogenic substance in food or drugs (especially pertinent in the case of cyanoacrylate), and that now sits with ears deaf to the outraged cries of the American public and medical community. Just as one would not logically vent frustration on a law officer for enforcing the law, Americans cannot logically assail the FDA for enforcing laws that are perhaps now antiquated.

Paul W. Pratt, V.M.D.  
Santa Barbara, CA

## Who's Guilty in Iran?

I was amused at Rothbard's "Collective Guilt in Iran" (Viewpoint, Mar.), wherein he condemned Americans for being angry that American territory and personnel had been seized in Tehran. In a nutshell, his thesis is (a) we should not blame all the Iranians for the crisis, (b) Americans are racist, arrogant, hysterical, jingoist, irrational, imperialist warmongers. Far from living up to Rothbard's 1960s' image of the United States, the latter has behaved with an overabundance of restraint to what amounts to an act of war. Furthermore, it is the Iranians themselves who have poured collective guilt (and insults) on Americans, using the same words as Rothbard's above. Iranians in America, instead of keeping a low profile, have chosen to break our laws, gloatingly supporting the seizure in rallies, and other-

wise rubbing our noses in it—and Mr. Rothbard is upset that we are angry with them. Yet, even with all of the above, they have been allowed to depart peacefully (in contrast to the government-sanctioned looting mobs that greeted the departure of Americans in Iran), and asylum has been granted to many who asked for it.

It is curious that he did not criticize the Tehran seizure—almost the whole world has—nor any of the somewhat irrational actions emerging from that bastion of libertarianism. And what is the purpose of the hostages? Ostensibly, the hostages were seized in order to trade them for the shah (blackmail), yet neither the Bahamian, Panamanian, nor Egyptian embassy has been seized, even though the shah has been there for medical treatment. Why? In 1968, the *Pueblo* was seized by North Korea with the purpose of withdrawing troops from Vietnam into Korea just before the Tet offensive (the US thus having a two-front war). The Tehran provocation would have, ideally, resulted in American military action, thereby providing a justification for peace-loving Russia to have invaded Afghanistan, in order to protect it from Yankee imperialism—having also been invited by the Afghan dictator (just so he could get himself murdered by the Russians). Ideally, again, no international objection would have resulted, and the ayatollah's government would have then crumbled under American action, resulting in a vacuum of power with the Marxist faction possibly stepping in. Khomeini, not playing with a full deck, has repeatedly given the impression that he would welcome an apocalyptic bloodbath. Keep in mind further that it is the Communists themselves who have a long history of violating international law, including the murder of diplomats.

The perpetrators of the hostage crisis probably did not expect that the harshest American action would be an infantile mailing of X-mas cards (again, remember Rothbard's view of Americans). The obvious solution to the crisis would have been a lightning-like rescue à la Mayaguez and Entebbe instead of the one-half-year wait. That would have been the

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COMMENTARY

The L.T. PATTERSON STRATEGY Letter



Retief solution. However, "negotiations" is the order of the day, since it has proven time and again to be the security blanket of the unimaginative and has had a long and proven history of successes: Munich, Yalta, SALT, Paris Peace Accords. Now, we are left with the options of abandonment, limited war, major war, embargo, blockade, paying ransom, or counter-blackmail (i.e., "return our people or Iran glows at night"). I know Rothbard is opposed to any measures that will inconvenience Iranians opposing the embassy seizure, but does he have any practical solutions?

Armando Simón  
Houston, TX

## Whose Prosperity Counts?

I read Tibor Machan's editorial in the May issue with great interest and, for the most part, agreement. However, I became puzzled with the statement that the most powerful, yet unchallenged, premise feeding the anti-business clique is the view that "it is wrong for human beings to seek to prosper in their lives because we all have a duty to enhance, first and foremost, *others'* lives." Sure, the idea that it's wrong to seek to prosper personally is silly, to say the least. But isn't the whole

idea of commerce to *prosper personally through serving the needs of others*? I mean, the only way I know of to prosper without serving the needs of others (and getting paid for it) is by the use of force—as in robbing a bank or creating confiscatory tax policies.

I should think it would be obvious that the anti-business people are using the premise as quoted as a smoke-screen to hide their real motivations—envy at the prosperity that comes of serving others and the desire to serve self without serving others. This being the case, wouldn't the cause of liberty and commerce be better served by taking back the premise that we have a duty to enhance the lives of others, dusting it off, and reconnecting it with its other half, "that ye may prosper in the land" than by challenging it?

Theresa Holmes  
Romulus, MI

**Mr. Machan replies:** It is true that *usually* my own prosperity will be gained by providing what some others desire. But suppose I am an artist—a good one—whose work is totally unappreciated by those around me? My true prosperity under these circumstances may well consist in pursuing my artistic excellence in spite of the material hardship occasioned by my not serving the present needs of others. But even if there were no such counter-examples, I still maintain that the cause of liberty would not be helped by focusing on the way in which human beings prosper and turning that into a duty. Because then, one would be open to this line of argument: since each person's primary duty is to serve the needs of others, each should be able to keep, from the proceeds of such service, only so much as is essential to staying alive and fit enough to continue in the service of others; the "excess" must be turned over to others, who are, after all, the primary objects of our moral attentions. That, I submit, spells the opposite of liberty.

## Small-Scale Energy

I was pleased to read "Gasohol: The 10% Solution" in your January issue. The State of Arkansas has offered a substantial incentive to the production of gasohol in the state, a full exemption from the 9.5 cent per gallon motor fuels tax for gasohol produced from farm or forest products. The first gasohol plant in the country, using the Chambers process, recently opened in Van Buren, Arkansas, and will be producing about 3 million gallons of alcohol per year. We anticipate many more plants in the coming years.

Your comments on energy balances were to the point, but I would like to add an additional perspective on this issue.

The economics and net energy balance of large-scale alcohol facilities may differ substantially from small on-farm systems. Imagine, for example, a farmer using corn to produce alcohol on the farm, feeding the distilled dried grain to his cattle, and using the cattle manure in an anaerobic digester to produce his methane gas to operate the alcohol installation. "Energy balance" in such a system takes on a whole new meaning. I suspect that many farmers will be more impressed with the products of this kind of system than theoretical "energy balance" equations might otherwise indicate.

Paul F. Levy, Director  
Arkansas Department of Energy  
Little Rock, AR

## Desegregation Reply

I fear that you have missed my point with your summary of a news story concerning my testimony in the San Bernardino school case (Trends, May). I have never considered court-ordered school desegregation as constituting "might." In many districts it still poses the only worthwhile means of gaining compliance with the *Brown* decision. In many other districts, however, it should not be the method of choice. San Bernardino and Los Angeles are two districts where more attention to black schools would be a more viable alternative.

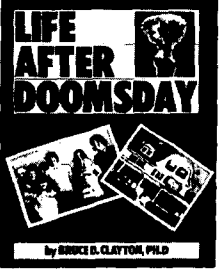
Derrick Bell, Professor of Law  
University of Washington  
Seattle, WA

## Moral Objections

I do not expect ever to challenge Tibor Machan on moral philosophy or even to challenge his contention that libertarians need a "clearly conceived and articulated moral frame of reference." However, I think it is time to blow the whistle when he insists that everybody who tries to write on any aspect of freedom must articulate such a frame of reference as a part of his presentation. This is what he seems to be saying in his review (Apr.) of Milton and Rose Friedman's book and television series, *Free To Choose*.

I am not defending the mistakes the Friedmans made in their effort to show that the free market achieves the statist's declared goals better than the statist's own declared means. I agree with some of Professor Machan's criticisms, and I have others that he overlooked. What I am objecting to is misplaced purism, of which Professor Machan's demand for an articulated moral framework for all libertarian efforts is but one minor example.

(Continued on p. 49.)



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# brickbats

□ **Here it is**, the news story you've long suspected. A well-known nationally circulated American monthly, under the headline "F.B.I. Nabs Senate, House," reports in its June issue: "The FBI has announced that it possesses 'incontrovertible evidence' linking some 535 public officials with such criminal acts as vote buying, influence peddling, libel, slander, fraud, and misuse of public funds. The alleged criminals, known collectively as 'Congress,' are expected to be summoned before a grand jury sometime this fall.

"While many Justice Department officials were openly triumphant over the successful culmination of the 'Congressing' operation, there were those who voiced misgivings about its implications.

"It creates a false public image," said one attorney. "They get the impression that everyone in government is corrupt. Sure, there are a few rotten apples: Congress, obviously. The departments of energy, commerce, treasury, state and transportation. The IRS and the executive branch. Many of the courts. A lot of the military. But not everybody is a criminal."

The magazine? The *National Lampoon*, which may prompt you to say, "Phooey." But just compare the *Lampoon's* "News on the March" feature, for example, with the factual content in any Jimmy Carter press release.

□ **A bill to repeal** the oft-handly "not guilty by reason of insanity" alibi as a defense in criminal transgressions is sailing through the California legislature and may make it into the books. The reform would also deprive the misunderstood elements of society of the excuses of "intoxication" and "diminished capacity." The Dan White murder case in San Francisco, where a crazed county supervisor and former police hero took the lives of two ardent supporters of criminal rehabilitation and leniency for first-time offenders (George Moscone and Harvey Milk), has prompted several liberal Democrats (and born-again law and order enthusiasts) to push the measure.

□ **Tito is dead.** He was immediately, upon his demise, hailed by President Carter as a "towering figure on the world stage." British Prime Minister Thatcher called him "a great statesman." Queen Elizabeth II dubbed him "a man of outstanding courage and tenacity." French President Valéry Giscard d'Estaing

praised him as "an international leader who...preserved the liberty and independence of his country." And UN General Secretary Kurt Waldheim mourned him as "a true hero." His real name now quite obscure, Tito earned the name "Tito" from the manner in which he barked out orders to his subjects. The Serbo-Croatian words "ti to, ti to" translate into "you do this, and you do that."

□ **Pope John Paul II** has ordered all Catholic priests out of politics. The directive came as quite a blow to the fabled Fr. Robert Drinan, who immediately announced his decision not to seek reelection. Congressperson Drinan "very graciously accepted...the intention of his Holiness," according to a high-ranking source (not himself), and claims to have never even considered the notion of defrocking. It is little wonder that the prospect of going to heaven weighs more heavily than the chance to hang out with the Washington 535, yet the Pope's ordinance raises all kind of hopes. If we could only get the America Bar Association to declare that no lawyer shall...

□ **On the subject** of heaven and hell, nine persons were trampled to death while attempting to catch wind of the Pope while he blessed the soil in Kinshasa, Zaire. The effort by the Polish potentate brought him just short of the record established last year by the slightly more popular rock group, The Who.

□ **"We have talked** of the communist ideal for so long, and yet the country is so poor and the lives of the people so bitter. What good are ideals? We can't eat them." Oops. Possibly a miscalculation by government planners—which will certainly be corrected with the very next Five Year Plan—is all the disgruntled 27-year-old grumbler of the above curse of socialist vision really meant to attack. But such mean things are being bellowed from the People's Republic of China with regularity. As the *Los Angeles Times* notes, "The growing dissatisfaction with the government is apparent wherever young urbanites gather. At universities, in smoke-filled teahouses, over bowls of steaming noodles in dingy cafes, youthful Chinese pour out their grievances and voice their disappointment that the regime has failed to deliver on many of its promises."

But what of Party doctrine? Class consciousness? Peasant solidarity? "Some

people think Marxism-Leninism no longer works," according to a "brutally accurate summary" of China's political crisis in the Shanghai newspaper *Wen Hui Bao*. "They are unwilling to study it any more. In school, political lessons are not well-received. Offices and factories often hold political and theoretical study classes in a happy-go-lucky fashion. To them, they are just occasions for killing time." And a Chinese Communist newspaper itself notes, "People thought that once national policies began to change, they could expect speedy action on their problems and a significant improvement in their living standards. And, of course, they're disillusioned that nothing of the sort has happened."

Politicians not delivering on their promises? They *do* have an inferior system.

□ **Some nauseating Soviet** slime buckets (that is, the Russian government) have accused Nobel two-timer Aleksandr Solzhenitsyn of being a "fascist," a "traitor," and worse, a CIA stooge. "Operation Solzhenitsyn was launched by the CIA in full opposition to the Soviet order, to that which is dear to all Soviet people," says *CIA against Russia*, a new "book" by Kremlin collaborator Nikolai Yakovlev. If ever you hear some Cro-Magnon utter "takes one to know one," throw this book at 'im.

□ **Ah, yes, the pyramid craze.** Naturally, it hit California numero uno—and has baffled the local Keystone corps. The cops have run every which way, pointing out that if some guy wins \$16,000 then somebody else (or elses) has got to lose at least \$16,000. But, of course, they won't let it go at that. They've got to go and arrest some traders in the marketplace. (You don't want them to mess with murderers and rapists with "diminished capacity" out there in the streets, do you?) They can't really understand why the citizenry doesn't respond to its warnings. "We've gotten excellent publicity and it has had no effect whatsoever," claimed local police bunco squad member Lt. William Mossman. "In the past, you told the public this is illegal and most people took it as good information and realized an endless chain was just that. For some reason we have not been able to make a dent in the problem. It's all over Southern California now."

But back in Washington the real big boys have got to be laughing. They know there's no mystery. Sure it's a scam. Sure some poor folks are gonna lose their shirts. But it *is* a credit to the US government and its long-cultivated powers of persuasion: The Social Security System has finally caught on.

—Thomas Winslow Hazlett



# trends

## One Step Forward, One Step Back

Federal judge Mariana Pfaelzer ruled in September last year that California cannot collect unemployment insurance and disability taxes from church-operated schools (Trends, Jan.), the first time a federal judge had ruled against the Department of Labor in favor of religious schools. In May, Judge Pfaelzer broadened her injunction to include religious schools that are separately incorporated and schools that are operated either by employees of the church or an association of churches. (The original injunction had included only schools run by a church and not separately incorporated.)

The judge further criticized Department of Labor Secretary Ray Marshall for DOJ's interpretation of a 1978 amendment to the Federal Unemployment Tax Act which exempts only those workers who perform "strictly church duties" for more than half of their working time. Pfaelzer said that, "The states must do what he says, and he is wrong.... It is unconstitutional." The case is being fought on First Amendment grounds by veteran constitutional lawyer William Ball of Pennsylvania, who calls it a test case that will probably end up in the US Supreme Court.

On the other hand, the state of New York has set an ominous precedent—attempting to define what constitutes a church—by suing the Life Science Church for allegedly marketing ministers' credentials as a tax-avoidance device. It is requesting that the church be prohibited from operating in the New York area and that its assets be frozen in local banks, to be used in repaying its 5,000 members. New York has further wielded the trendy accusation that Life Science is operating a pyramid scheme by telling members they can earn up to a million dollars by recruiting new members.

## Congressional Scoreboard

The Council for a Competitive Economy, a free-market advocate, rated a commendatory editorial in the *Wall Street Journal* for its score sheet on members of Congress based on their pro- and anti-competition voting records. The CCE emphasizes that its stand is *pro-competition* rather than *pro-business* per se. This distinction is most important where, as in the Chrysler bailout, the government inter-

feres in the free market by either regulating or subsidizing business.

In its report on members of Congress, the CCE first lists the major bills that were voted on during the first session of the 96th Congress that are relevant to economic competition and recommends a nay or yea. A separate list of representatives and senators follows, with their average voting score based on these bills.

Rep. Ron Paul (R-Tex.) scored highest in the House, with 91 percent of his votes being pro-competition; lowest scorer was Rep. Augustus Hawkins (D-Calif.), with a dismal score of 16 percent. Sen. Gordon Humphrey (R-N.H.) led the Senate with a score of 89 percent; two senators, Paul Sarbanes (D-Md.) and Paul Tsongas (D-Mass.), tied for bottom rank with scores of 17 percent each. The delegations with the best and worst scores, respectively, were: House—Idaho (72 percent), Connecticut (26 percent); and Senate—Utah (84 percent), New York (18 percent).

## The Grass Is Greener . . .

Alaska takes pride in being rightfully viewed as one of the last frontiers of rugged individuality. And despite their solid, almost "square," image, the Alaskans have proven that their concern for the right to control one's own life extends even as far as the use of marijuana in one's home. Law enforcement agencies have a problem with this, though: determining *how much* marijuana a person can grow at home without being under suspicion of growing for the purpose of selling.

Two recent cases say: *a lot*. A grand jury in Anchorage recently refused to indict a gardener who admitted to owning 350 large marijuana plants, equivalent to a 50-pound harvest, or 45,500 cigarettes. Another jury, despite being informed that the defendant grew enough plants to make 20,000 cigarettes, acquitted him when his lawyer argued that the defendant "smokes like a chimney."

This tolerance is backed by the Alaska Supreme Court's 1975 decision that police enforcement against the possession of marijuana in homes is a violation of the constitutional right to privacy. Alaskans can now grow and smoke marijuana at home, although it is still a misdemeanor to use it in a public place and a felony to sell it. Tolerance is further supported by Anchorage superintendent of schools John B. Peper, who says that there was more drug use in the 1960s (when any possession was a felony) than there is

today. The school system now relies on vigorously enforcing antidrug rules on school grounds.

Unfortunately, the state administration has introduced a bill to make possession of an ounce of marijuana *anywhere* a felony. If it passes, which is doubtful, it is bound to be challenged as unconstitutional. Alaska's chief prosecutor, Daniel Hickey, laments that "in Alaska there's absolutely no consensus of opinion on anything." Except perhaps individual rights.

## The Real Thing—Maybe

When Trends reported in March that the Senate had passed a bill to allow private mining of seabed mineral resources, we didn't anticipate the long arm of Elliott Richardson, US ambassador to the Law of the Sea Conference, descending upon Congress to strangle the House version of the bill in April. Then, when the United Nations conference ended at yet another stalemate, Richardson made an about-face and testified before the House Foreign Affairs Committee to urge the passage of a unilateral mining bill.

So, once again, the committee approved in May, without dissent, a bill establishing the federal regulatory machinery to issue mining permits and sent it off for consideration by the full House. Rep. Jonathan Bingham (D-N.Y.) was confident that the measure would pass, especially since it postpones the actual commercial mining date to 1988.

The UN Law of the Sea Conference is mainly quibbling over a treaty being pushed by underdeveloped countries that would create a monopoly company called the "Enterprise," (which Mr. Spock would call quite illogical) to be controlled by the United Nations. Delegations from industrialized countries such as the United States have been holding out for at least parallel mining rights for private companies.

## Truckers Fight California Deregulation

When the California Public Utilities Commission decided last year to abolish minimum freight rates (see Trends, Nov. 1979), it set the California Trucking Association on its ear. The rate deregulation took effect in April, and various portions of a companion deregulation measure on trucking permits have been implemented.

The CTA, however, with the apparent support of Gov. Jerry Brown, appealed to the legislature to protect their industry.

A CTA-backed bill that would have blocked the PUC deregulation—and given the CTA time to come up with a less-generous alternative—passed the Assembly by 63-6 and the Senate by 29-4 but was vetoed by Brown in May. While the bill was working its way through the legislature, eight members of the CTA had filed a federal court suit seeking to block the PUC action and asking for \$1 million in damages should it be carried out. This, Gov. Brown whined, showed “a lack of good faith,” forcing him to veto the measure.

The CTA, not one to give up its favored position, is now seeking a veto override in the legislature. Judging by the substantial campaign contributions from the trucking association in recent months, as reported by Common Cause, it will probably clear the legislature, to the detriment of manufacturers and consumers who stand to save some \$300 million a year from deregulation just in California.

## Cutting Labor Costs

Gradual deregulation of the labor market seems to be easing the bite of inflation, reports the *Monthly Labor Review*. Labor costs were reduced last year where state legislatures voted for changes in labor laws.

Some examples of these changes are the elimination or weakening of compulsory retirement laws, the lifting of restrictions on child labor, and the repeal of minimum-wage legislation in Florida along with its moderation in Alabama, Wyoming, Connecticut, New Mexico, and Colorado. To further widen the market for employment, employers in several states were encouraged to allow more-flexible working hours and flexible employment situations.

## Curbing OSHA

A bill to severely curtail the Occupational Safety and Health Administration's power to conduct safety inspections has been introduced in the US Senate by an unexpected duo—Sen. Richard S. Schweiker (R-Penna.) and Sen. Alan Cranston (D-Calif.), both long-time liberals. “The reality is that after nine years under OSHA's present regulatory scheme, we are left with no real evidence that it works, and with a bad taste all around from the experience,” Schweiker was quoted—another surprise—by syndicated columnist William Raspberry in the *Washington Post*. Joining Schweiker and Cranston as a cosponsor is Sen. Harrison Williams (D-N.J.), author of the original OSHA legislation.

The bill would exempt approximately 90 percent of all workplaces from routine safety inspections. The lucky workplaces are those with above-average safety records, thus freeing the 1,000 OSHA safety inspectors to concentrate on problem places. There are at present about 4.3 million workplaces subject to inspection.

The AFL-CIO is objecting to the proposal. According to a spokesperson, “We feel the bill would result in needless deaths.” The AFL-CIO has made defeat of this bill a high priority on its legislative “kill” list this year. The labor campaign will be matched, however, by an equally serious one waged by the US Chamber of Commerce on behalf of the bill.

While Schweiker explains his support

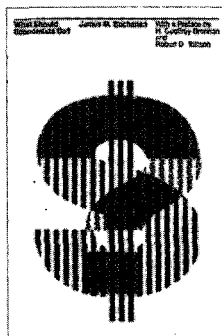
of the bill in political terms, saying that OSHA “has become probably the most despised federal agency in existence,” Cranston is allegedly cosponsoring the bill to save OSHA from extinction. “The hostility to OSHA is so great that Congress will kill it unless we can make some reforms,” his administrative assistant said.

## Competitive Care

The concepts of profit and efficiency are reluctantly being allowed into the health care and day care fields, and several examples demonstrate that it's a good thing.

National Medical Care, a Boston-based company, now owns 120 proprietary dial-

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### What Should Economists Do?

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James M. Buchanan is University Distinguished Professor and General Director of the Center for Study of Public Choice, Virginia Polytechnic Institute and State University. As a founder of the burgeoning subdiscipline of public choice, and as a public finance theorist and father of a modern school of public finance, Buchanan's work has had worldwide recognition.

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ysis centers, treating 17 percent of the country's 48,000 dialysis patients. It also owns a subsidiary that does the laboratory tests on these patients. Nmc has been so successful that it is branching out into obesity control centers, psychiatric care centers, and possibly overseas dialysis centers.

It now faces competition from a San Francisco firm, however, that started off with centrally administered psychiatric hospitals in the U.S. and is looking into acquiring a psychiatric hospital in London. The firm, Community Psychiatric Centers, owns and operates 12 psychiatric hospitals in five states with approximately 1,000 beds, and one more with 110 beds. These specialized centers do not need to maintain expensive surgical or emergency units, nor do they need to hire staff other than psychiatric specialists. Costs are therefore usually at least 10 percent less than other local facilities, which are commonly units in a general hospital. CPC has branched into hemodialysis care and is currently operating 23 kidney dialysis centers.

Three other firms offer specialized psychiatric facilities. General hospital-management companies are now looking into the obviously profitable market.

Another rapidly growing market, given the prevalence of two-career couples, is day care centers. The largest operator of private day care centers for children is Kinder-Care Learning Centers, with 500 branches in 31 states. Each center takes care of between 70 and 120 children ranging in age from 6 weeks to 12 years, and charges about \$40 per child per week. Kinder-Care has recently acquired a Canadian firm with 88 day care centers. Baby food giant Gerber Products has also entered the day care field and now operates about 30 centers.

The concept of child nurseries in shopping malls, in the meantime, is slowly gaining acceptance. These provide temporary child care while the parent is shopping. Anyone who has ever tried to do intelligent shopping with a understandably bored and fidgety child in tow will certainly welcome the concept!

## A Question of Pirates

Who owns the television signals that are sent out over the airwaves in coded form by pay-TV companies? According to the companies, they own these signals and have the right to charge people a monthly rate to rent the decoding device that allows them to make use of the signals.

According to Mackenzie Davis and John Sampson, once the signal is sent out into the air (Congress declared in 1934 that "the public"—that is, all of us—owns the airwaves), anyone can use it. Sampson and Davis, though not the only

ones to do it, are the first to publicly advertise their decoding devices that pirate pay-TV airwave signals. They call their companies, in fact, Pirate TV and Pirate Electronics.

Sampson is quick to point out that this has nothing to do with cable TV. "People who steal cable signals are stealing a signal that is the result of heavy investment, a lot of physical labor, and long-term planning," he says. The "signal people," he argues, need only some \$30,000 to set up a station and have no big capital investment (because they use the publicly owned airwaves, not privately owned cables). Sampson adds that his device also offers competition to subscription TV and keeps prices relatively low, since, at a cost of about \$400, the pirate decoder will not be worthwhile to the average viewer if subscription prices are kept down.

It's an interesting question. There are currently about 86 licensed pay-TV signal stations, and permits have been issued for over 130 more. Are broadcast signals truly a part of public domain, as the pirates argue, or do the pay-TV stations have a legitimate cause for suing the pirate firms?

## Gold Standard Proposed

A specific blueprint for a new US gold-based monetary system has been developed by economist Arthur B. Laffer of the University of Southern California. If adopted, says Laffer, the plan would slash inflationary expectations, boost the value of the dollar in world markets, stimulate domestic economic activity, improve the government's fiscal health, and restore the United States to being the world's central banker.

Laffer's proposal includes a three-month transition period, during which the Federal Reserve and the US Treasury would "take a vacation" while allowing the market to set the price for gold convertibility. Thereafter a specific mechanism would have the Fed buy or sell gold to maintain an average dollar value of gold reserves equal to 40 percent of the dollar value of its liabilities.

Laffer's report, "Reinstatement of the Dollar: The Blueprint," paints a key role in restoring gold convertibility for Federal Reserve chairman Paul Volcker. While Volcker is considered staunchly anti-gold by such gold bugs as Dr. Harry Schultz, Laffer notes that in the early 1970s "Volcker was reported to be the last to abandon the need for maintaining the dollar's convertibility into gold" and was later rumored to be in favor of a return to convertibility. Laffer's blueprint is designed in accordance with the general principles of the US proposals at the 1972 International Monetary Fund meetings—drafted by Volcker.

Since Laffer is one of the key economists in the Reagan camp, his plan could get a serious airing if Reagan were to become the next president. Single copies of the Laffer study are available on request from the Institute on Money and Inflation, Suite B-1, 314 E. Capitol St., Washington, DC 20003.

## Freeing Telephones

As reported here in June, both the Federal Communication Commission and the Congress are moving rapidly to deregulate portions of the telephone business; the FCC deregulating the terminal equipment market as of 1982, and the House voting to deregulate long-distance communications. But the basic principle of telephone regulation—the idea that at least local telephone service is a natural monopoly and must therefore be provided by a single firm, regulated so as to achieve a specified rate of return—has remained unchallenged until recently.

But the challenge has now been issued, by none other than the FCC itself. The agency's Office of Plans and Policy has issued a working paper entitled "Social Objectives and Competition in Common Carrier Communications: Incompatible or Inseparable?" The paper's authors argue that the supposed social goals of a regulated monopoly situation—"such as benefits for rural interests, the poor, or other favored groups" actually "may be unattainable without competitive forces." Noting that present policies reflect a contradiction between universal service and efficiency, they argue that "elimination of entry controls offers a potential solution."

Complete laissez-faire raises four potential problems, say the authors: interconnection problems, predatory pricing, oligopoly supply, and monopoly in smaller markets. But none of these "provides sufficient justification to maintain traditional regulation of the telephone industry. Indeed, except perhaps for the problem of pricing interconnection, price and entry controls may make the problems more severe." In fact, the authors contend that rate-of-return regulation does not curb monopoly power: "in the long run, such regulation only serves to perpetuate monopoly at the expense of cost-reducing and service-improving innovation."

About the only form of intervention the authors would tolerate is a requirement that separate subsidiaries of major telephone firms be set up for each of the principal markets—terminal equipment, local service, and long distance—and that these subsidiaries deal with one another on an arms-length basis. The idea is to prevent cross-subsidization, which they consider an abuse of monopoly power.

Just such a policy underlies the FCC's April decision to overturn the 1956 con-

sent decree barring AT&T from offering computer services (and, in exchange, allowing computer firms into data communications on an unregulated basis). That action has now been challenged, however, by a trade group, the Computer & Communications Industry Association, which fears that the proposed AT&T subsidiary (dubbed "Baby Bell") will not be truly separate. But the FCC plans to stick to its guns, contending both that it has the authority *and* that the decision makes sense. The outcome will significantly shape the telecommunications industry of the future.

## Tax Cuts vs. Balanced Budgets

A Heritage Foundation survey of over 70 economics professors showed the majority (43-26) preferring tax cuts over balancing the budget. The tax cuts should be designed to stimulate investment, they recommend, echoing the tenor of the suddenly popular supply-side economics.

As Tom Bethell explains in an excellent article in *The American Spectator* (May): *Beginning around the early 1960s, the United States became less and less a country whose business was business, and more and more a featherbed for those whose lives were spent on the demand side: consumers, taxeaters of various stripes, government payrollers, welfare recipients. No matter, the economists continued to assure us: Demand creates supply. And so the ever-growing non-productive sector continued to rest comfortably on the back of the economy, reassured by the Keynesian oracles that its weight was not a burden so much as an inducement to make more and more goods.*

And then, of course, those high tax rates began to discourage investment, and supply could not meet demand.

Supply-side advocates like Bethell point out how common phraseology can mislead. We say "a tax cut of \$1 million," for example, but we are actually talking about a tax-rate reduction, which may or may not cut government revenue. In the same manner, raising the tax rate does not guarantee increased revenue because people will react differently: some may stop filing forms, others may move, some may work less. And that's what economist Arthur Laffer's famous "wedge" is all about.

Some 56 percent of the university economists who responded to the Heritage survey favored the Kemp-Roth tax cut plan, which would provide a 10 percent cut in personal income taxes in each of three successive years. A similar number (55 percent) would index the income tax system. The respondents also stressed changing the focus of demand in favor of

the private sector (74 percent), and many would limit the use of the budget solely to the provision of public goods and services, cutting out all economic manipulation. One of the more exasperated respondents, Prof. G.C. Wiegand of the University of Illinois, noted: "What we need is not a fiscal 'reform,' but a fiscal 'revolution.'"

## Taking the Offensive

When the Emergency Highway Energy Conservation Act was passed in 1974 as a reaction to the first major halt in oil shipments from the Middle East, there was no outcry against the federal imposition of a 55 miles per hour speed limit. Legislation cut off federal funds to states that had a maximum speed limit higher than 55 mph, and the national limit was indefinitely extended one year later.

Today, six years later, there is a growing swell of opinion questioning the federal speed limit. Montana, for instance, levies only a token \$5 fine on anyone driving between 55 and 75 mph. It was one of several western states to rebel against federal limits recently but backed down when the feds threatened seriously to withhold highway funds.

Three articles in car magazines have also taken the offensive against "the 55 mph myth," as one piece called it. The May issues of *Car and Driver* and *Road and Track* magazines carry similar critiques of the speed limit. The *Car and Driver* piece, subtitled "How the Federal Government Was Able to Legalize Blackmail," goes through the history of how the courts began to erode the constitutional mandate of state power and give the power to the federal government through the catch-all phrase, the promotion of "interstate commerce." The *Road and Track* report lists the supposed benefits of the 55 mph limit (fuel conservation, safety) and shows—with graphs and figures—how that limit is not providing those benefits.

But probably the most entertaining piece is a February *Car and Driver* article called "Jamming Police Radar," whose tone is that of a defenseless citizenry against the military. Patrick Bedard, the author, reports that the technology for jamming radar is now available, but its illegality makes it difficult to sell. Kits are available for about \$300, however; when assembled and installed, the device sends out a microwave frequency that overrides the police radar's own reflective beam and tricks the radar into reading the car's speed as a perfectly acceptable 55 mph. A brief box at the end of the article suggests ways to prove that radar is *not* a reliable criterion as "ironclad evidence of speeding," one of the ways being to contend that amateur jammers *are* able to manipulate radar readings.

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As Matthew C. Sielski, a traffic engineer who did extensive studies on selected midwestern highways, reports, "Most motorists drive at a reasonable and proper speed, and are capable of recognizing conditions that warrant lower speeds." Perhaps a little more rebellion from states and individuals will shake up this federal monopoly.

## Nongovernmental Monitor

Who makes sure that unexpected side effects of prescription drugs are monitored and reported, to ensure the safety of patients? Most people would assume that the Food and Drug Administration takes care of this. But although "postmarketing surveillance" is an FDA responsibility, it turns out that the agency isn't doing a very good job of it.

That was among the conclusions of a three-year study carried out by the Joint Commission on Prescription Drug use—a body appointed by the federal government but funded by eight private medical and pharmaceutical groups. The commission found that although the FDA has a drug monitoring program, it lacks the

staff, the mechanical support, and the mandate to do its job effectively. While it can generally spot major problems with newly introduced drugs, the agency drops the ball on delayed side-effects, the interactions between drugs and combinations of diseases, unexpected therapeutic effects, and unhurried, objective study of common patterns of drug use.

What's the solution? Surprisingly, the commission did *not* recommend either beefing up the FDA or creating a new government agency. Instead, it proposed creation of an independent, nongovernmental institution devoted entirely to pharmacological research—and funded from a variety of sources so as to avoid undue influence from any special interest. According to study director Kenneth Melmon of Stanford University's Department of Medicine, the main reasons the new organization should be private are as follows:

- It would be more flexible and less goal-oriented than a government bureaucracy.
- It would be able to use the expertise of specialists who cannot work for government, under current conflict-of-interest laws.

- Its diverse funding sources would keep it free of outside influence—for example, from consumer lobbies or industry.

- It would have to seek out funding each year, thereby avoiding the complacency that comes with being tax-supported.

- Because of having no enforcement powers, it would be more likely to be trusted, both as a recipient of possibly sensitive data and as a source of advice.

The commission's recommendation is a welcome change from the past few decades, when the answer to every perceived problem seemed to be a new government bureaucracy. And it's interesting to consider that the commission's arguments for a private, noncoercive entity could be applied not just to "postmarketing surveillance" but to the entire field of drug safety. Of course, that would be too radical—or would it?

## Freedom in the Skies

Laissez-faire in aviation? We're getting closer, as the Civil Aeronautics Board in May removed all controls on airline fares for routes of under 200 miles and expanded "fare flexibility" for longer routes. (For routes of 200 to 400 miles, fares may be increased up to 50 percent over "standard" levels without CAB approval; over-400-mile routes may have increases up to 30 percent.) Delta Air Lines senior vice-president Robert Oppenlander says the new policy amounts to the "complete pricing freedom" the carriers have been asking for.

Congressional reaction was mixed. Some supporters of airline deregulation criticized the CAB for going too fast. Others viewed the CAB action as providing further justification for an "early sunset" for the agency. Sen. Ted Stevens (R-Alaska) introduced legislation to abolish the CAB before the current 1985 deadline.

Some deregulation critics are upset by rising air fares and the cutbacks in service by major airlines to small communities. But these criticisms fail to consider how high fares would have risen (due to soaring fuel costs) in the absence of deregulation and the accompanying growth of discount fares. The latest manifestation of discounting is Eastern Airlines' entry to the New York-Los Angeles market at a \$149 daytime fare—compared with previous day coach fares of \$328.

Critics of service cutbacks tend to ignore the rapid growth of replacement service by commuter airlines. Between Youngstown, Ohio, and Pittsburgh, for example, United formerly provided two jet flights per day, averaging 120 daily passengers. The replacement carrier, Crown Airways, is providing seven daily round-trips in smaller turboprop planes.

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In its first month, April, the average daily passenger count was 204. In the Northeast, one "certificated" carrier—Air New England—is on the verge of bankruptcy, despite large-scale subsidies. But some 20 unsubsidized commuter carriers are poised to serve the carrier's routes, in many cases at lower fares, according to CAB analyst William C. McCamant.

Thus, contrary to the fears of opponents, airline deregulation seems to be working.

## Milestones

- **If Only He'd Campaign.** None of the Above captured one-third of the vote versus Kennedy and Carter in the Nevada Democratic primary in late May. We knew those Nevada folks had sense!
- **The Slippery Slope to Bankruptcy.** In March, President Carter magnanimously raised the Federal Deposit Insurance Corporation's coverage of bank accounts from \$40,000 to \$100,000, instantly lowering the ratio of FDIC coverage from the 1979 level of \$1.22 per \$100 to \$1.11 per \$100 of deposits. Officials reassured worriers by noting that the Federal Reserve Board is committed to *create* whatever money is needed to keep a major bank afloat. The FDIC is also asking Congress to allow "emergency" acquisitions of banks across state lines, to give support to its policy of merging a failing bank with a healthy one.
- **Transit Sense.** The House Surface Transportation Subcommittee voted to approve a bill letting states provide special services to the handicapped rather than mandating full access to all transit systems. The vote softens Transportation Department regulations issued late in May requiring subway, rapid transit, commuter rail, and bus systems to refit their cars and stations for access by the handicapped. The DOT passed the buck on to HEW, saying that HEW guidelines had forced them to require the expensive changes.
- **Smash the State.** The Citizens Against Taxation group in Gregory, Michigan, is fielding an initiative to amend the state constitution to stop all taxes. The amendment states that "no tax shall be imposed by the state or any of its political subdivisions" and that state revenue would come from gifts, lotteries, interest, criminal fines, and the sale of public assets, among others.
- **Auto Correction.** Responding to US accusations of unfair trade practices, the Japanese government has tentatively decided to eliminate tariffs on imported auto parts. So said the Kyodo news service on April 29. The current tariffs are 10.4 percent on chassis and 5.3 percent on the other parts. Repeal would take place in April 1981.

- **Interferon Update.** Life Sciences, Inc., a small biological research company, has said it will begin selling interferon to Florida cancer specialists who submit an application to the company describing the potential patients. Interferon is classed as an experimental new drug by the FDA and cannot be shipped across state lines. Florida, however, has given approval to its sale within the state. Interferon is a protein that has recently been cloned and may be valuable in helping the body fight cancer cells and viruses (Trends, May).

- **Interdistrict Desegregation.** The US Supreme Court upheld a lower court decision to bar "interdistrict" desegregation of area schools. The case arose when advocates of a metropolitan school system in Atlanta wanted to combine the heavily black city public school system with the mostly white system of the neighboring suburbs.

- **Statehood USA.** Dick Collver, former leader of Saskatchewan's Progressive Conservative Party, resigned in order to lead a movement to make four Canadian provinces—Manitoba, Saskatchewan, Alberta, and British Columbia—American states.

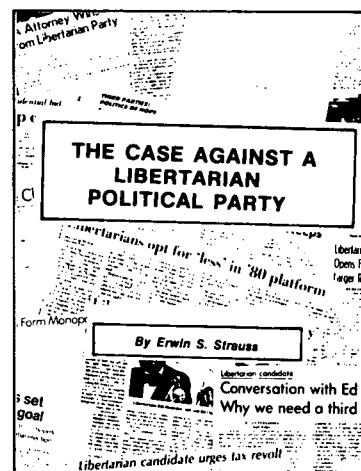
- **Capitalists Unite!** Socialist Prime Minister Michael Somare of Papua New Guinea was voted out of office after five years and replaced with Julius Chan, leader of a business-oriented party.

- **A Cable Fable.** The Bell System can no longer forbid cable television operators from using its utility poles, a federal appeals court ruled. The decision stated that Bell itself had recognized cable television as a competitor, particularly in the development of the picture phone, and was therefore violating the antitrust laws by refusing to let other firms use its poles.

- **Liquor Price Controls.** The situation in New Jersey is classic: its attorney general and Alcoholic Beverage Control board have been trying to eliminate price controls on alcoholic beverages for more than a year, but a group of small liquor retailers has challenged the deregulation. In February, the state supreme court finally ruled that the ABC could deregulate prices; two days later, the court agreed to delay the decision while the liquor groups appealed to the US Supreme Court. But it may be pending for some time, according to a source in New Jersey.

- **Political Freedom Defended.** The California Supreme Court ruled that city council members could not be prevented from voting on projects on the grounds that they had received campaign contributions from developers. A flat prohibition, said the court, threatened the constitutional right to freedom of speech and association; other laws already protect against corruption and bias.

—Robert Poole, Jr. and Christine Dorffi



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# WHO CAUSED THREE MILE ISLAND?

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After five major investigations, the real reason for the Three Mile Island accident has remained a mystery. Reason's reporter has found the missing link.

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BY ADAM V. REED

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Three Mile Island, March 28, 1979. Because of maintenance procedures elsewhere in the building, several indicators on the main control panel of the TMI nuclear power plant are temporarily inoperative. In compliance with an order from the Nuclear Regulatory Commission, identifying cardboard tags hang from the inactive indicators. These tags are large enough to obscure several other parts of the control panel.

It is 4:00 A.M., and an indicator on the control panel shows an unexpected pressure transient. The plant operators check the auxiliary feedwater valves. Although a control panel light indicates that they are closed, that light is covered by one of the maintenance caution tags hanging from another control. The operators react to the pressure transient on the assumption that the valves are open. As a result, there

is an increase in heat, which causes activation of the emergency core cooling system, which functions perfectly.

But now comes a red light. There is a universal code of green for safe and red for dangerous. The operators conclude from the red light that the water level in the reactor is dangerously high. In fact, a red light here means that the water level is what it should be. (On this night it may even be a bit low.) The operators shut off what they believe to be excess water, thus stopping the emergency cooling system from functioning. The reactor is damaged, with serious consequences for the entire area for which it has been supplying electricity. Even more serious consequences ensue in the panic afterward, when government agencies close or delay the opening of nearly two dozen additional nuclear power plants.