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editor's notes

REASON articles continue to attract interest from many quarters. Our famed Love Canal exposé is being reprinted for distribution to the stockholders of Occidental Petroleum, parent company of Hooker Chemicals & Plastics, the firm involved in the story. And the Chicken Little Club, which called the article a "painstaking analysis," has awarded its Cluck of the Year award for 1980 to journalist Michael Brown. It was Brown, you'll recall, whose book *Laying Waste: The Poisoning of America by Toxic Chemicals*, erroneously blamed the Love Canal seepage on Hooker instead of the city.

Another REASON story has made history, of a sort. Our May 1976 article on the highly successful Arizona private fire protection firm, Rural-Metro Fire Department, Inc., was later picked up by CBS's *60 Minutes*. That exposure, in turn, has led to creation of similar operations in Illinois and Georgia. But now comes the ultimate compliment: Rural-Metro has become the subject of a Harvard Business School case study. And on March 23 Rural-Metro founder Louis A. Witzeman and vice-president Ron Butler took part in a series of classes at the Business School, conducted by Prof. David H. Maister. By sheer coincidence, I was in Boston that day and was able to participate in the afternoon seminar. Privatization of public services has come a long way since 1976.

The Reason Foundation recently helped to bring together economists and philosophers to discuss relationships between the two disciplines—for example, can economists really operate as "value-free" scientists, or do such basic tools of their trade as "value," "trade," and "property rights" carry with them normative overtones? Cosponsored by the Foundation for Advanced Studies in Liberty and the Institute for Humane Studies, and coordinated by Leonard Liggio of those groups and Tibor Machan of the Reason Foundation, the conference took place March 28 at California State University, Northridge. Among those participating were Foundation trustees William Niskanen and Norman Karlin, advisory board members Cheri Adrian, William Allen, and John Hospers, and economists David Fried-

man, Jack High, and Thomas Hazlett. While no consensus was reached on the conference topic, the discussions stimulated a great deal of thinking.

Our editorial staff members continue their public activities. Senior Editor Tibor Machan had an op-ed page article published in the *Washington Star* in April called "Countering Corporation Phobia"; it was timed to commemorate (anti) Big Business Day. Assistant Editor Christine Dorffi had an article on abortion in the March issue of *Liberty*, published by Students for a Libertarian Society. Meanwhile, I addressed the Los Angeles Chamber of Commerce in April on the subject of privatization of public services. I also spoke at the Future of Freedom conference in May on new applications of private property rights and have also joined the board of advisors of Human Action to Limit Taxes, a Vancouver, BC organization. The other advisors are economists Henry Hazlitt and Hans Sennholz.

Robert Chitester's Public Communications, Inc., the innovative producer of the Milton Friedman *Free to Choose* TV series and the Stan Freberg *Federal Budget Revue*, is off on another project. Called *Jamaica in Transition*, it will be a one-hour television special on the shift toward a free-market economy in that island nation since last fall's election of prime minister Edward Seaga. Co-producer of the program is the University of Miami Law and Economics Center.

The Reason Foundation's major study of deregulation will be published this September. Nearly two years in the making, the book presents evidence and arguments for substituting marketplace arrangements for major government regulatory agencies like the FCC, OSHA, the FDA, and the EPA. Called *Instead of Regulation*, the book is being published by D. C. Heath/Lexington Books. It will be introduced at a congressional and press briefing in Washington this fall. Contributions to help us publicize this important book would be most welcome (and, of course, are tax-deductible).

—R. P.



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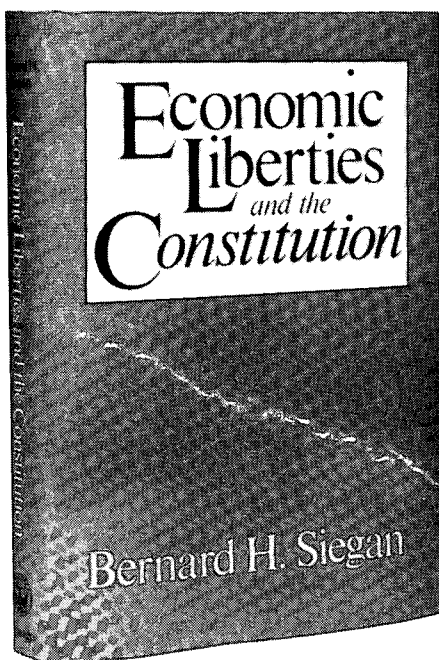
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shows how far we have drifted from protecting basic liberties that the Framers of the Constitution sought to secure. I recommend it highly"— **Edwin Meese**, Counselor to the President



ECONOMIC LIBERTIES and the CONSTITUTION

Bernard H. Siegan

In this challenging book, Siegan declares that, if the Supreme Court were doing its job as the Framers of the Constitution and the Fourteenth Amendment intended, the nation would be much less burdened with excessive economic regulation. He points out that, while the Court is zealous in terminating state laws that threaten free expression, sexual privacy, or religious observance, since the 1940s it has done nothing about laws that limit the right of individuals or private corporations to engage in legitimate economic activities.

The result has been to give governments at all levels much greater power over the economic system and to harm society by inhibiting production, raising prices, curtailing competition and creating unemployment. Those most often harmed, concludes Siegan, are those who were supposed to be protected—people on the lowest rung of the economic ladder.

383 pages. \$19.50

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Rethinking Foreign Aid

editorial

LAST JANUARY, OFFICE OF MANAGEMENT AND BUDGET Director David Stockman proposed cutting \$2.6 billion in federal subsidies to farmers, aircraft manufacturers, international banks, and multinational corporations. The proposal promptly ran into a buzz saw of opposition—not just from the interest groups themselves but from... the State Department. For the subsidies in question go by the name of *foreign aid*.

Mention this term to the average person, and you create an image of starving children in the Sahel, CARE packages, and courageous doctors wiping out malaria. That's a very convenient image for Chase Manhattan Bank, Boeing, and General Electric to cultivate. But it's a fraud on the American taxpayer—a fraud that is long overdue for exposure.

The fact is that the major foreign aid programs serve the interests of large corporations, the foreign service bureaucracy, and ruling elites of the recipient countries. Individual citizens of those countries benefit little, if at all, from these billion-dollar boondoggles.

You'd like specifics? The Food for Peace Program (PL 480) was created specifically to dispose of agricultural surpluses generated by the government's farm subsidy programs. Further tax dollars are used to buy up this food (which would otherwise remain in the marketplace exerting downward pressure on prices) and send it to places like Bangladesh—where it is not given to the poor at all but sold by Bangladesh's government to the urban middle class.

Aid dispensed by the International Monetary Fund and the World Bank serves primarily to prevent Third World governments from defaulting on their loans from Citibank, Chase Manhattan, and Manufacturers Hanover Bank. Direct US aid—even its supporters admit—is spent largely on contracts with US multinationals to construct huge government-owned infrastructure projects, thereby helping to increase the power of ruling elites in those countries—witness the Shah of Iran.

And two other components of foreign aid explicitly subsidize big business. The Export-Import Bank provides subsidized loans to foreign governments so they can buy US-made products; in recent years, the major beneficiaries have been Boeing and McDonnell-Douglas. And the Overseas Private Investment Corporation (OPIC) provides taxpayer-funded insurance against nationalization for facilities constructed overseas. Half of all OPIC's coverage extends to just 10 giant firms, including Chase Manhattan, General Electric, Manufacturers Hanover, Hooker Chemical, and International Paper. (Smaller firms, interestingly enough, are increasingly finding that they can purchase political risk insurance in the private marketplace.)

The critics of this giant con game span the political spectrum. Liberal agricultural specialists William and Elizabeth Paddock spent 10 years working in Guatemala in the 1960s; their 1973 volume on foreign aid and the attempt to promote development was titled, aptly, *We Don't Know How*. Classical economist P. T. Bauer, in *Dissent on Development* (1972), showed how aid programs *inhibit* development because they are based on economic misconceptions. More recently, in *Aid as Obstacle*, leftist writer Frances Moore Lappé reluctantly concluded, as well, that “the aid we give is actually making development in dozens of countries worse, not better.”

Even if foreign aid did what its supporters claim it does—im-

prove the lives of people in Third World countries by promoting economic development—it is not a legitimate function of the US government to do so. So argues economist Dwight Phaup in the Heritage Foundation's *Agenda for Progress* (1981). Stating that spending for foreign aid must be judged on the same basis as domestic spending programs, Phaup concludes that “the taxpayers should be able to have a reasonable expectation that foreign affairs programs will generate some benefit which clearly accrues to the citizens of the US (and which would not otherwise be provided through private arrangements).” Nearly all of the existing foreign aid programs, Phaup concludes, fail this test.

But Phaup's basic point—that aid should involve a quid pro quo—all too easily provides a license for interventionism. “*If you don't have foreign aid, you don't have a workable foreign policy*,” an alarmed diplomat told *Time* in the aftermath of Stockman's proposed cutbacks. In other words, if the government's aim is to control and manipulate affairs in other lands, foreign aid is an essential lever. By the same token, if one's aim is to end that sort of intervention, getting rid of foreign aid is an essential precondition. Only where buying off other governments can directly contribute to the defense of this country should such quid pro quos even be considered.

What about the plight of the world's impoverished masses, then? Isn't there anything our government can legitimately do? In fact, there are several things it could do. One would be to eliminate the laws that prevent Third World peoples from selling their products to Americans—tariffs, import quotas, “orderly marketing agreements,” etc. Another would be to get rid of tax and regulatory policies that discourage US firms from investing capital in other countries.

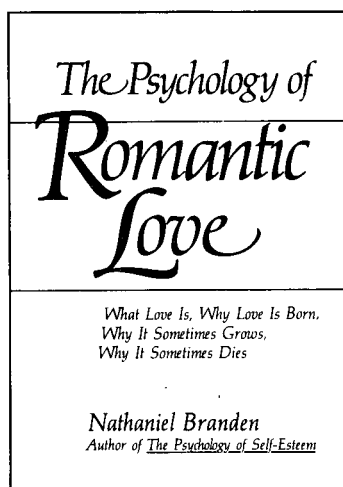
But the most important efforts lie in the intellectual arena. Through participation in international forums and through its own communications media (for example, the Voice of America), our government could educate Third World people on what it takes for *real* development to occur. As Jude Wanniski and other supply-siders have pointed out, the countries that have prospered have been precisely those that did *not* follow the advice of “development economists” of the IMF and the World Bank by imposing progressive income taxes and building up a costly governmental infrastructure (see Bruce Bartlett's article on p. 48). Instead, places like Hong Kong, Taiwan, and the Ivory Coast created a climate that fostered entrepreneurship: low taxes, minimal regulation, and secure property rights.

What a tremendous success story we have to sell, if only those who make US foreign policy could be brought to understand it themselves! As long as they remain the captives of the status quo interests of Boeing and Chase Manhattan, our policymakers will continue to promote big government in the Third World. Only a rediscovery of the principles of individualism and free enterprise will make possible a radically different foreign policy—one that offers hope for creating real wealth by unleashing entrepreneurship around the world.

Robert Pool, Jr.

A NEW CLASSIC BY NATHANIEL BRANDEN

Romantic love," writes psychologist Nathaniel Branden, "is a passionate spiritual-emotional-sexual attachment between a man and a woman that reflects a high regard for the value of each other's person."



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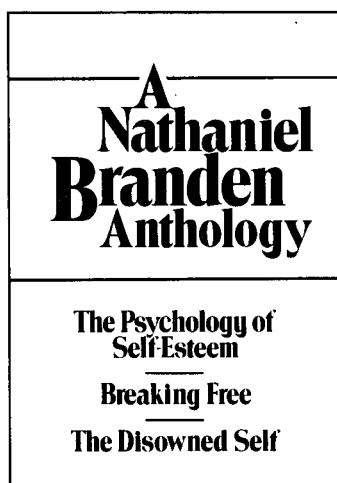
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Nathaniel Branden is a distinguished psychologist in private practice in Los Angeles. He is Executive Director of the Biocentric Institute, through which he gives self-esteem and romantic relationship workshops in major cities throughout the U.S.

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letters

Nothing Sinister

Some concern has been expressed that my article, "The Plot to Take Over America's Railroads" (Mar.) may have implied in some people's minds that Federal Railroad Administration officials have accepted payoffs from the industry they regulate. It is worth emphasizing that I have encountered no evidence for such a suggestion.

Indeed, I want to separate myself from the simplistic and unjust interpretation of events that leads to "conspiracy theories" about government activity. My article, readers should note, acknowledged an overt official policy of promoting progress in the transportation sector. It also posed a contradiction in such policies: when an agency commits itself to funding, promoting, and defending a given set of innovative ideas, it necessarily positions itself in the marketplace, impacting approaches not so favored. Therein lies the "plot" of the story—one entirely consistent with good intentions on the part of the regulators. We all know that governmental activity should be evaluated in light of its unintended as well as intended effects. Such consequences of economic regulation are usually far more important in the scheme of things than either the personalities involved or the stated policies themselves, and in the case of the FRA we need not question the integrity of public officials in order to prove our point about regulation.

William D. Burt
Greenwich, CT

Enlightening Editorial

I thought that your April editorial was very good. I think it is very important to show in fact what we know in theory—that the Soviet Union is increasingly vulnerable due to its economic system. Recent studies, both by the Pentagon and private groups, indicate the overall superiority of the NATO Alliance over the Warsaw Pact armaments. For example, the Soviets keep outmoded non-jet aircraft in their main force, while the United States puts them in storage and does not count them in the defense estimates.

More important, your point for the

necessity to make the moral case for capitalism needs to be placed in the center of discussion. Since the beginning of the Cold War, the West has made the case for various forms of noncapitalism—welfare state, democratic socialism, etc. Those making the case for capitalism want to emphasize the efficiency side. That is an argument that has been made very well in theory and practice. Yet, if people are not convinced of the moral case, they will be hostile to capitalism.

Again, the editorial was first-rate.

Leonard P. Liggio
Menlo Park, CA

Hands Off, Period

In his May editorial, "Facing Reality in Latin America," it really seems strange that Mr. Poole should reject a suggestion that the United States should have destabilized Somoza while setting forth his own suggestion that we should exchange our farmers' right to sell their products to the USSR for the removal of Soviet bases in Cuba and a promise of non-interference in El Salvador. I was not aware that embargo was a libertarian tool of foreign policy or that Soviet activities in Cuba were any of our business.

The Soviets have nuclear subs, ICBMs, and orbital missiles. How can they possibly be any greater a threat to our legitimate interests than they already are? Mr. Poole's "reality in Latin America" is obviously a watered down form of realpolitik for Latin America. If embargo is a legitimate tool in peacetime, where do we draw the line? Or is Mr. Poole tacitly endorsing the Cold War?

I have no qualms about building up our defensive capabilities by developing new weapons, as was suggested in an earlier editorial, but this tough talk about "tough diplomacy" seems out of place in an editorial that preaches a US policy of "hands off" and "mouths closed." Mr. Poole seems to me to sometimes go overboard in his effort to find compromise solutions. If the free market works so well, then why hamper our economy with an embargo every time the Soviets invade a client state? Why should our farmers' livelihood and our balance of payments depend on tough diplomatic bargains?... It seems very unrealistic to me to expect the Soviets to abandon their

only advanced base, when we have them encircled with bases, in exchange for food and technology that they can buy elsewhere.

I believe that Poole's editorial only blurs the reality in Latin America by quoting State Department figures. The El Salvadoran's primary sources of guns are the United States and Western Europe. And I would take with a grain of salt the new fantasy about running guns which we abandoned in Ethiopia and Vietnam. Even if it was 800 tons, and if, as Poole failed to mention, most of it was second-hand US goods, those Soviet devils sure found an ironic way of screwing Uncle Sam this time.

Steven B. Vandervelde
Columbia, SC

What to Do about Progressivism

The article by Paul Ciotti ("Socialism... On the Street Where you Live," Apr.) sounds a warning we must heed.

Here in Philadelphia, the Democrats control city government through a traditional machine that lives off patronage and favors. The Republicans are totally bankrupt intellectually and exist only on the crumbs left them by the Democrats. The only "new ideas" come from the "progressives" organized in the Consumer Party, a collection of mostly intelligent leftists masquerading as "friends of the people." Their chief issues are a takeover of the electric company monopoly, imposition of rent controls, taxation of business while preventing them from leaving the city, and forcing suburban taxpayers to further subsidize urban transit and education.

Mr. Ciotti leaves open the question of what we can do to stop these new power-seekers. In talking with Consumer Party people, I've found that their analysis of what is wrong matches the libertarian analysis in many respects. But, while we seek to roll back government intervention—for instance, by ending the electric company monopoly—they want to increase the power of government, as long as the power is in the right (that is, their) hands.

The fact that more and more intelligent people have identified these problems makes it easier for libertarians to have their ideas accepted by those who

have not yet been sucked into the "economic democracy solution." We have to do a much better job of demonstrating why a society modeled on the free market, and not on State capitalism or socialism, is more just, more compassionate, and more healthy for all individuals. Once we do that, the Tom Haydens and other power-seeking elitists will be finished. And, if we don't make the intellectual fight, who will?

David K. Walter
Warminster, PA

A Wordy Disclaimer

A review in REASON (Mar.) by Geoffrey Nathan of a book by Geoffrey Sampson attributes to me the following positions: I claim that my socialist anarchist political beliefs "flow out of [my] discoveries about the nature of human language"; I "virtually equate" behaviorism with empiricism; I claim that since empiricism is wrong, "liberalism (libertarianism)... must also be wrong"; I claim that "empiricism leads necessarily to totalitarianism."

I quite agree with Nathan in criticizing these positions. In fact, a person who advocated them would merit sympathy rather than criticism, since they verge on cretinism. The same may be said of anyone who is so deluded as to believe that ideas concerning social and political organization "flow out of" discoveries about the nature of human language. I also do not doubt that Nathan received the impression that I hold these ridiculous views from the book that he is reviewing, combined with his own gross misreading, e.g., of the single passage of mine that he cites. Nathan describes the book he is reviewing as a contribution to scholarship of a "libertarian orientation." If he had taken the trouble to compare its fabrications with my own writings, he would arrive at a rather different conclusion. However, it is not my purpose here to discuss the level of "scholarship" in this study, but rather to disassociate myself from the nonsensical views that Nathan, relying on Sampson, attributes to me.

Noam Chomsky
Cambridge, MA

Prof. Nathan replies: Having spent the last week comparing Sampson's allegations to Chomsky's actual writings, I am forced to conclude that Sampson is in fact correct. First, it is clear that Chomsky (as well as virtually all practicing

linguists, myself included) believes at least some variety of rationalism "flows out of" his discoveries of the nature of language. Now, in the introductory pages to *Language and Responsibility*, Chomsky explicitly denies any connection between his linguistic theories and his political views. This denial is contradicted, however, in numerous places, by the strongly implied equation of capitalism with behaviorist doctrine. For example, in *For Reasons of State*, he equates "differential wages" with the variable reinforcement schedules of Skinner, and he twice equates capitalist ideology and behaviorism. As just one further example, in *Language and Responsibility* Chomsky asserts that the resilience of empiricism as a philosophical tenet is due to its usefulness in maintaining "capitalist ideology and capitalist institutions." Thus it is quite clear that Chomsky feels there is an intimate connection between political ideology and the basic epistemological dichotomy of empiricism versus rationalism. It is also beyond doubt that Chomsky (any many others) considers his discoveries about the nature and organization of language to have substantially refuted the empiricist view of learning. Perhaps the connection is not always explicit. Nevertheless, it is there.

An Amtrak Defense

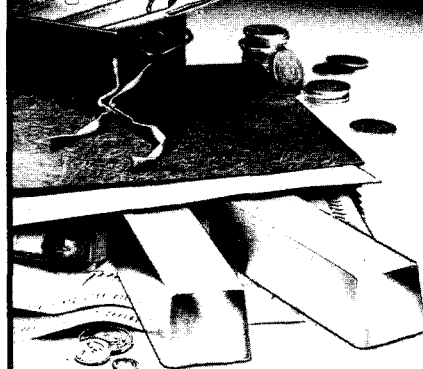
Your attack on Amtrak in the "Congress's Toy Trains" article (May) has brought me to the reluctant resolution that I shall not be renewing my subscription to REASON at the end of its present term.

Firstly, I do not like the discussion of any serious subject with pejoratives and denigration. But the substance and the selection of this target also leave me discontented. Amtrak holds together a skeleton network of transportation that will be needed someday and will be re-expanded. But the cost of reestablishment will far overshadow the cost of its maintenance. If it requires current subsidies, they at least result in reducing the cost of the subsidized service. By contrast, consider the cost of the agricultural price support program, which not only costs tremendous sums for the direct price support operation, but also even greater indirect charges in the form of higher prices for consumers.

When you devote so many pages to the attack on Amtrak, while leaving more egregious problems untouched, it leads me to the belief that you select your

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targets on the basis of the estimated political clout of the reaction likely to be produced, rather than the measure of damage to the country. I think it is the latter which should be controlling. Amtrak was done much harm by its abandonment of center city stations. Consider Norfolk, Jacksonville, and Cleveland, for example. Certainly, the outrageous featherbedding practices should be stopped. But the whole thing seems to cost less than the cost overrun on one Trident submarine. The article touched on the subject of the highways, but not on the fact that the 40-ton trucks that are the reason for most of the highway system's construction and maintenance costs do not pay any significant part of these incremental costs demanded by their legalized presence.

George V. Eltgroth
Stamford, CT

Reading Report

Thank you for Scott Palmer's article (May) on public education. In the area where I live there are only two choices of schools: public school or the school operated by the Pentecostal Church. When gasoline was cheaper, I brought my daughter to a Montessori school 20 miles from here. She attended Montessori for three years; as a result she was eager to learn and had a positive attitude toward "going to school."

Most of your readers are familiar with the Montessori method of teaching and know of the wonderful results they achieve. When Fara was three, she could recognize the alphabet letters and began reading simple words at age four. However, in first grade at the public school, I was told Fara could not read. In second grade, she was placed in a reading lab for slow learners. She finished the lab reading on a fourth grade level while still in second grade. Yet in the third grade, she once again began to get bad grades in reading. I found this hard to understand because Fara could read anything at home that she wanted to read. I asked Fara to bring home her reading text book and there I realized what the problem was. The story she read to me was about a turtle named Theodore who kept losing his clothes from room to room and could not seem to get himself together enough to go out. Halfway through the story Fara stopped and said, "Mommy, it's just so boring." I had to agree. I give Fara money to buy books of her own choosing now, and I pay very little attention to her report cards.

I very much wish I had a better choice of schools to send my children to. Taxpayers are being ripped off for public education to the point of the whole thing being a very sad joke; no one is laughing.

Cheryl Boswell
Denham Springs, LA

Conservatism's Contradictions

Columnist George Will has finally said openly, in his syndicated column, what many ex-conservative libertarians realized for ourselves some time ago. Conservatism as a political philosophy *requires* a strong central government. Mr. Will was totally correct when he said that calling oneself a libertarian-conservative is akin to being a promiscuous celibate.

I can speak from personal knowledge as a former Goldwater Republican and an ex-Bircher. The Bircher slogan, "Less Government, More Responsibility," sounds good. As always, we must look beyond the slogan to the underlying philosophy. That philosophy requires near-total control.

To insure the type of military security beloved of the conservative movement requires covert espionage services as well as widespread domestic surveillance. After all, who knows which of our countrymen are plotting against national security unless we watch them all of the time? In this type of atmosphere legitimate dissent is stifled because any type of dissent may be grounds for suspicion.

Worse yet is the tie-in between conservatism and fundamentalist religion. My moral standards are my own. I have no desire to compel others to live by them, nor do I want others to compel me to live by their standards.

I hope that now that a prominent conservative writer has admitted just what conservatism is all about, the remaining "libertarian-conservatives" do as I and many of my fellows have over the last eight years—leave and join a movement that is dedicated to unhyphenated freedom.

Robert M. Dugger
Apache Junction, AZ

Vested Virtue

Robert James Lee's reply (Apr.) to George Will is welcome, of course, but it raises a quite different question from the one it addresses. This is whether Mr. Will is really worth replying to. There are certain people, Galbraith on the left

and lesser-known individuals on the right—for example, Sen. John P. East, Gerhart Neimeyer, Stephen Tonsor—who simply won't pay attention to facts regardless of how often one hammers away with them. George Will is becoming one of these people. They seem to be so convinced of their virtue that they are totally blind to self-criticism and the suggestion from others that they might reconsider their views.

In Will's case, for example, there seems to be no hope whatsoever of having him admit that there are defenses of the fully free society that rest every bit as much on moral considerations as do his political views. He keeps on making it appear in his writings that morality favors only his politics and that every detractor is some kind of barbarian, not worth listening to. This way, of course, Will spares himself the trouble of having to test his moral views against anything. After all, who would expect anything worthwhile from barbarians! Their arguments must be beside the point, mustn't they?

Instead of concentrating on trying to reach people such as George Will, what seems to be needed is every effort to scale similar heights in journalism. Those who realize that the argument is between different moral positions, not between the moral among us and the lowly barbarians, as seen by Will, must practice the eternal vigilance required to reach the sort of prominence that Will and his cohorts have managed to reach. And remember, in a world known for massive corruption and lack of good will, it is not surprising that George Will and his sort are more welcome in the powerful institutions than are Mr. Lee and other people who are fair-minded in their journalistic endeavors.

Tibor R. Machan
Senior Editor

Antitrust Allegations

The April REASON includes on page 14 (Trends) a paragraph concerning my alleged public turnabout on antitrust. The paragraph has an unreasonably high density of errors per line.

I was not chief economist of the Federal Trade Commission in 1971. Indeed, the position of chief economist does not exist. I was director of the FTC's Bureau of Economics from 1974 to 1976. The estimate of monopoly loss, with its alleged relationship to antitrust, came out in a book I published in 1970. I say

(Continued on p. 66.)

WHAT'S REALLY GOING ON IN THE LIBERTARIAN MOVEMENT?

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It's getting harder and harder to keep track of today's expanding libertarian movement. While the Libertarian Party mounts ambitious campaigns for public office, groups like SIL, SLS, HALT, the Radical Caucus, the Cato Institute, and the Libertarian Foundation carry out educational and activist efforts on behalf of liberty.

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□ **Farsighted, broad-minded,** and deep-thinking actress Joan Hackett has hosted a Hollywood gala that could very well signal the dawning of an entirely new way of life for every single one of us—or, at the very least, a new government program to study a new way of life for every one of us. The scientifically inclined Ms. Hackett was the hostess of a “solar celebration” at her fashionable hill-top home recently, where enough stars were in orbit to power Skylab II. The celebs pigged out on zucchini, toast, and quiche—all browned, of course, in solar-ignited ovens. With the help of a government-subsidized Solar Lobby, the gathered solarities were discussing their strategy for getting American citizens to voluntarily pay several times as much money for energy production. The group, in addition to eating quiche with actresses, promotes their philosophy of radiation-worship mostly through meetings with writers of game shows and by appearing on academic panels hosted by TV personality Mike Douglas. “Movie stars and celebrities can get people to investigate technology,” observed solar-promoter Ty Braswell. And that is exactly what Pam Dawber, star of the popular sit-com *Mork and Mindy*, aims to do. “It’s so damn obvious,” said the formerly sighted actress while looking at the sun. “And we’re not using it.” Thank you, Mindy, for bringing the sun to our attention.

□ **A new federally funded** study for the National Center for Education Statistics (a franchise of the Department of Education) reveals that "Catholic and other private high schools provide a better education than public ones do, and in some respects are less racially segregated." The research was conducted by the eminent James S. Coleman, a University of Chicago sociologist whose earlier work was used by federal courts to justify orders for mandatory school busing to achieve racial integration. "The evidence," claims Coleman today, "is that private schools do produce better cognitive outcomes than public schools. When family background factors that predict achievement are controlled, students in Catholic and other private schools are shown to achieve at a higher level than public-school students." The Coleman report was instantly attacked by many scholars who work for the public schools—or sell them studies on a commission basis.

☐ **Reba Malamud**, what kind of thoughtless person are you, anyway? You may have a big heart in continuing to work at age 66 and supporting your son who is 40 years old and suffers from irreversible brain damage. But, selling candy, tobacco, and newspapers? It might be *your* road to riches, but think about the disadvantaged.

Well, it's good to know *somebody* does.

Because that spot taken up in that Michigan-owned Detroit office building will soon be taken by a more worthy individual: the state of Michigan has evicted Reba Malamud as of July 31, 1981. State law prohibits her profiteering in such a way, for Ms. Malamud is *not blind*. So you can go poke your eyes out, Reba, but you'll just have to reap your monopoly profits elsewhere until you do. Because *somebody* cares about the less fortunate. Justice is blind—but *you're not*.

❑ **An alarming statistic** has been uncovered in the recent crime epidemic: “65% of young women in this country own guns and keep them in their households,” according to the women’s publication *Glamour*. No comment (just a warning).

□ **Those crafty little devils** in the IRS enforcement division have nabbed yet another innocent American citizen. James L. Coburn, of Chicago, Illinois, was pinned with a \$15,000 fine and three years' probation by the taxacrats—and only his advanced age (70 years) precluded sterner measures. The trouble for this American patriot began in 1977, when the then 66-year-old Mr. Coburn filed his first income tax return. He was soon investigated for a file-cabinet full of violations and convicted of understating his income by \$81,000 during the 1974-76 epoch. But Coburn may get the last smile, for his income was easily several multiples of such a sum, his employment being of the most rewarding sort. Jimmy Coburn was "assistant state's attorney" for Cook County, prosecuting criminal tax fraud.

❑ **Criminal behavior** plagues still another American institution: the US Postal Service. In an embarrassing blow to post office professionals, Mr. Robert Handelsman (27 years of “service”) was busted in New York City for taking pay-offs to speed mail deliveries. A federal court heard all about the bribes from such corporate customers as Westinghouse Broadcasting, Revere Copper, and the law firm Dreyer and Traub. The practice is highly illegal, and authorities quickly stepped in to eliminate the extortion and freeze delivery time to its normal pace.

—Thomas W. Hazlett



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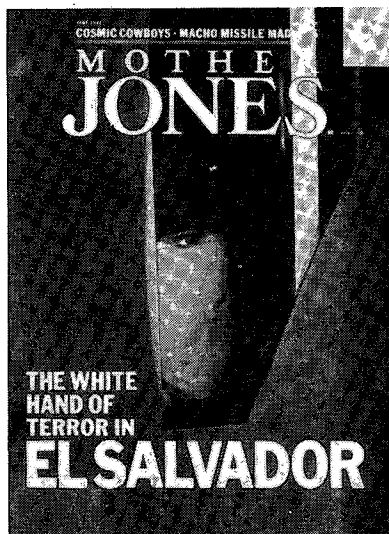
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Econometrics under Fire

Q: What set of companies grosses \$100 million a year giving people wrong advice?

A: The purveyors of econometric models.

How can this be, you ask? What the econometric firms offer, of course, is to forecast the behavior of the entire economy. When inflation was three or four percent a year and GNP increased fairly steadily, it wasn't hard to throw a few thousand equations into the computer representing the continuation of historical relationships and come out with something not too far off the mark. Whether the result was actually a *forecast*, of course, is another question.

Today, however, with inflation and taxes at record levels and all sorts of incentive and disincentive effects at work in people's decisions, using historical data to make forecasts isn't working at all. In the four quarters of 1980, the big three econometric models were dramatically wrong all four times: in the first quarter their average GNP growth rate forecast was a negative 4.3 percent; actual GNP *increased* 3.1 percent. For the second quarter they predicted a 2.0 percent drop; the actual decline was 9.9 percent. By the third quarter they forecast 1.1 percent growth, but reality was out there at more than double—2.4 percent. In their fourth-quarter pick of 2.7 they came closer—slightly. The actual growth was 4.0 percent.

Given such dismal performance, it has now become fashionable to state the obvious about the limitations of such forecasting, as *Business Week* did in its March 30 issue. Besides being tied to possibly irrelevant historical data, the forecasts of these supposedly objective, scientific models "also are largely judgmental." You read that right! "In practice, a model that is run mechanically generally produces poor forecasts and is brought back to reality largely by *judicious manipulation* of equations" (emphasis added). At last, the truth is out! "To be sure," notes *Business Week*, "the model builders do not deny that they tinker."

All of which reminds us of the criticisms of econometrics long raised by the Austrian school of economics—namely, that the subject of economics is in-

dividual human action, motivated by individual value judgments; that the salient characteristic of a free or semi-free economy is *change*, not "equilibrium"; and, consequently, that a study of historical relationships among actors in the economy can't be expected to be of much use in projecting what the future will be like. We hate to say "We told you so," but . . .

Defense— without Bankruptcy

Amidst the rush to increase the US defense budget, many sober voices are being raised. Generally, they are pointing out that more is not necessarily better, that the Pentagon has the same—or worse—money-wasting proclivities as any other bureaucracy, and that tens of billions of dollars could be saved each year by changing the way the Pentagon does business.

One list of such changes was released in February by the General Accounting Office. Outgoing Comptroller General Elmer B. Staats listed 15 major areas where such savings could be made—for example, consolidating duplicate maintenance facilities of nearby army, navy, air force, and marine bases. The "absolute minimum" savings from the 15 changes would be \$4 billion a year; other GAO recommendations could increase the annual savings to \$10 billion, says Staats.

A private organization, the Committee on National Security, has come up with a \$32 billion list—enough savings, columnist Jack Anderson has pointed out, "to absorb [Defense Secretary] Weinberger's entire budget increase, with money left over to buy a few F-15s or nuclear submarines." Using data from the Republican Study Committee and GAO, the group identified a number of changes that could each save \$1 billion a year or more by eliminating wasteful practices and using more businesslike procedures.

The Heritage Foundation has also examined defense economics. Among its recommendations are that US allies—NATO members and Japan—pay a greater share of the cost of maintaining US forces overseas, that the military retirement system—which allows retirement after only 20 years and "double-dipping"—be reformed (potential savings: up to \$4 billion annually), that pro-

curement be done on a multiyear basis and with multiple contractors, and that US general-purpose forces be restructured for greater flexibility and maneuverability, potentially saving billions.

The general theses (1) that the US military has become overly dependent on costly, complex, hard-to-repair, and not very combat-suitable technology, (2) that Pentagon-industry relationships have become far too cozy, thereby greatly escalating weapons systems costs, and (3) that we need to move away from Maginot Line-style dependence on massive systems with overwhelming firepower and toward larger numbers of more flexible, lower-cost weapons systems—these ideas are being worked out by a loose-knit group of military reformers whose membership cuts across liberal/conservative lines. Among the books incorporating these views are Jacques Gansler's *The Defense Industry* (MIT Press, 1980) and James Fallows's *National Defense* (Random House, 1981). Both liberal Sen. Gary Hart (D-Colo.) and conservative Rep. Newt Gingrich (R-Ga.) are advocates of these views.

All in all, the new defense critics are a welcome change from the sterile alternatives of "give the Pentagon whatever it wants" and "oppose any military spending request."

Cutting Back the Credit Trough

If you thought the federal deficit for fiscal 1980 was the \$59.6 billion reported by the government, guess again. Total federal government borrowing in the credit markets last year was \$124.4 billion—over 35 percent of all borrowing by everyone. What accounts for the invisible half of the true deficit is "off-budget agencies" such as the Federal Financing Bank (which purchases the obligations of such subsidized lenders as the Export-Import Bank, the Farmers Home Administration, and Tennessee Valley Authority) and "government-sponsored enterprises" like the Student Loan Marketing Association and the Federal Home Loan Mortgage Corporation.

Direct federal loans and loan guarantees outstanding have soared from under \$200 billion in 1970 to over \$800 billion

today. And new commitments have been increasing at between \$100 billion and \$150 billion per year. As economist Murray Weidenbaum points out, such government credit is no free lunch. Government programs don't *create* credit, they just spread it around, taking funds out of the private credit markets and allocating them to politically favored recipients. "Government loans and loan guarantees are nothing more than an elaborate shell game in which only a few people or companies win," wrote Weidenbaum last winter. "The rest of us are losers."

But now at last there are efforts under way to cut back on these credit subsidies. Office of Management and Budget Director David Stockman has proposed to chop \$13.6 billion from the Carter administration's credit budget for fiscal 1981 and \$21 billion from the fiscal 1982 budget. That would bring new 1982 federal loans and loan guarantees "down" to \$128 billion—still a huge amount, but a dramatic reversal of the trend.

Among the specific cuts urged by OMB are a 20 percent reduction of the Federal Housing Administration's \$40 billion mortgage guarantee program; elimination of the loan-making Economic Development

Administration (\$300 million/year), of the National Consumer Cooperative Bank (\$130 million/year), and of the business and industrial loans of the Farmers Home Administration; and cuts in loans for merchant ship construction, loan guarantees for alcohol stills, and loans by the Small Business Administration and Export-Import Bank.

One cut being made administratively concerns government loans for college students. Since the program was made available to everyone, regardless of financial need, costs have soared, reaching \$5 billion a year at present. Today, one out of every three college students participates, compared with one in seven a decade ago. Starting July 1, however, students will have to start paying the subsidized (nine percent) interest charges while they are in school, instead of having the government pay the interest until six months after graduation. In addition, it will be back to the old criteria by which parental income and support are included in figuring eligibility. These changes are expected to save \$2 billion over the next five years.

Besides cutting back on subsidized credit, the other need is to make sure that the recipients pay back what they

borrow. The General Accounting office points out that about \$25 billion of the \$139 billion owed to the feds by Americans (and \$52 billion owed by foreigners) is delinquent. A bill by Sens. Charles Percy (R-Ill.) and James Sasser (D-Tenn.) would permit the government to report the names of delinquent debtors to credit bureaus, which—amazingly enough—is not presently done.

Another provision would allow the government to garnishee up to half the wages of its own employees who are delinquent debtors to Uncle Sam. Some 18,000 federal employees have defaulted on their student loans but go merrily about their way receiving federal paychecks; likewise, thousands of veterans are delinquent on their VA loans. In addition, Att. Gen. William French Smith announced in April that the government will now allow federal agencies to hire private collection firms to go after the deadbeats.

OTRAG Revisited

When the Soviet Union and East Germany cranked up a propaganda campaign in 1978 to try to discredit an in-

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■ The neurosciences have shown that the structure of our nervous system determines what we are visually aware of. A blow to freedom? On the contrary, argues Thomas Russman, who also discusses the now-popular view that scientific observations are theory-laden, not objectively based.

■ Karl Marx was not from the working class, and there are socialist millionaires. Does this square with the Marxist view that our ideologies arise inevitably from our economic class? James Rolf Edwards discusses this paradox of determinism.

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novative West German rocket-development firm, REASON provided an in-depth refutation of the charges (see "Rockets in Africa," July 1978). Briefly, the contention was that the firm—OTRAG—was actually developing cruise missiles rather than, as it claimed, low-cost satellite launchers. No evidence for the Soviet view was ever presented, but political pressures led the West German government to get OTRAG to terminate its contract for a launch site in Zaire.

REASON has followed the firm's progress since then, including its relocation to a base at the Seba Oasis in the Libyan Sahara Desert last year. On March 1 OTRAG made its first test launch from Libya—its fourth developmental launch—and announced two more launches for 1981, with the first satellite launch scheduled for next year (*Aviation Week*, Mar. 23). But then, on March 20, came the NBC bombshell.

NBC Magazine on that date broadcast a report on OTRAG charging that the company has offered to sell ballistic missiles to Syria, Saudia Arabia, and Pakistan. As evidence, NBC showed memos allegedly documenting meetings and deals for such projects, none of which came to fruition. When confronted with copies of the memos, OTRAG president Frank K. Wukasz angrily denied that such meetings had taken place and claimed that the memos must be fabrications. The only corroboration NBC provided was confirmation from A.E.G. Telefunken Chairman Heinz Duher that a meeting which included representatives of Telefunken, another company, OTRAG, and Saudia Arabia did take place and that sale of OTRAG missiles to Saudia Arabia was discussed.

NBC reporter Garrick Utley came away convinced that OTRAG is in the ballistic missile business. We have to admit that that may be the case—although NBC's evidence is hardly conclusive. This could be another, more sophisticated disinformation campaign—or it could be the truth. The answer, as they say, remains to be seen.

Free World PR Committee Formed

A group of 400 men and women have organized the Committee for the Free World to defend "the values, the achievements, and the institutions of Western civilization." In a statement released in February, the committee vowed to wage this battle "in the world of ideas." Accordingly, most of the

members of the group are intellectuals, writers, publishers, and the like, with neoconservative leader Midge Decter (formerly of Basic Books) as executive director, \$125,000 pledged in start-up money, and offices in both New York and London. Other members include international chairman Raymond Aron, Leopold Labedz, Saul Bellow, Jeane Kirkpatrick (the new US ambassador to the United Nations), Norman Podhoretz, George Will, Tom Stoppard, A. Lawrence Chickering, David Brudnoy, Edith Efron, and Thomas Sowell.

The committee warns of the "rising menace of totalitarianism" and of Soviet expansionism. Decter said it would sponsor conferences in the United States and abroad, monitor news reports, and publish a monthly bulletin. The statement emphasized that the "struggle for freedom may in the end be won or lost not on battlefields but in books, newspapers, broadcasts, classrooms, and in all public institutions where the determination to remain free is enhanced or undermined."

What Price Rail Regulation?

Does regulation really make much difference to the operation of railroads? Questions of this sort are difficult to answer definitively because of the absence of side-by-side comparisons of controlled and uncontrolled conditions. Yet it turns out that such a comparison—and a dramatic one, at that—has been staring us in the face for over two decades: the United States versus Canada.

In 1956 the Canadian government granted considerable pricing freedom to that country's railroads. And its National Transportation Act of 1967 further deregulated Canadian rails. US railroads, by contrast, have remained largely under the Interstate Commerce Commission's thumb during this time period. This natural experiment suggested itself for detailed study to three economists: Douglas Caves and Laurits Christensen of the University of Wisconsin and Joseph Swanson of Northwestern. Their findings appear in the January/February issue of *Regulation*.

As a measure of overall economic performance, the economists looked at total productivity—revenue ton miles carried for a given expenditure. Since Canada has a harsh climate, they expected productivity there to be lower; in addition, Canadian railroads are required by law to

haul at a loss grain and flour destined for export. Productivity was, indeed, lower for Canadian railroads in 1956; at that point US railroads' average productivity level was 24 percent higher than that of Canadian railroads. But after nearly two decades of Canadian deregulation, during which Canadian railroad productivity growth averaged 3.3 percent annually, while that of US railroads averaged a dismal 0.5 percent per year, the picture reversed completely. By 1974 US railroads were only 82 percent as productive as Canadian ones; even well-managed US roads like the Santa Fe and Southern Pacific were only 81 percent and 94 percent as productive as the Canadian Pacific, respectively.

Why has Canadian performance been so superior? "The evidence strongly suggests that the answer is the greater regulatory freedom in Canada," say the economists. Canadian freight cars are moved around to where they are most needed and make fewer empty return trips, all because of largely free-market pricing. As a result, Canadian railroads have been able to handle large increases in traffic without having to add large numbers of cars—in marked contrast to US railroads.

We're paying a heavy price for continued rail regulation—\$6.7 billion in 1974 alone, according to Caves, Christensen, and Swanson. Eliminating that kind of waste would make us all better off.

In Housing, Time Is Money

How much does government red tape drive up the cost of housing? And what can be done to reduce that red tape? Those were the questions a recent research project set out to answer. Conducted by the federal Department of Housing and Urban Development, it involved demonstration projects in three locations: Shreveport, Louisiana; Hayward, California; and Allegheny County, Pennsylvania.

In each case developers and builders were asked how they would *like* to build, with the aim of holding down costs. And local governments were asked to approve minor deviations from zoning ordinances; subdivision regulations, and building codes. Costs of the completed projects were then compared with what comparable projects would have cost under normal red-tape conditions.

The results were dramatic. In Shreveport the cost of innercity townhouses was cut by 21 percent; in Allegheny

County single-family homes were built for 24 percent less; and in Hayward the cost of a 58-unit townhouse was cut by 33 percent.

What accounted for these savings? In the Shreveport project, half of the savings resulted from a doubling of the normally allowed density—from 9 units per acre to 18. A small amount came from relaxing building code requirements on such matters as window area, use of plastic pipe, etc. But the remainder of the savings came from having cut the total approval-and-construction cycle to just *five months* instead of the usual 12 to 18 months. And on the other two projects, similar cuts in time were responsible for the *majority* of the savings. The point is simply that, the longer a developer's or builder's capital is tied up in the project because of regulatory delays, the more he ends up paying in interest on that capital. And that expense gets factored into the price charged for the housing.

These results are well documented in HUD's report, "Housing Cost Reduction Demonstration." As far as HUD's analysts are concerned, the cost savings "can be duplicated in most communities in the United States." When even a federal bureaucracy is showing how to slash red tape, it's about time local governments got their act together and did likewise.

Dancing for (Nongovernment) Dollars

There has been quite a bit of fluster and flummery over Reagan's planned cutbacks in the area of arts subsidies by some 50 percent for both the National Endowment for the Arts and the National Endowment for the Humanities (Trends, Mar.). And for those of us who appreciate flights of fancy, the concern may be understandable. But let's look at the facts: Will government subsidy cutbacks really result in a cultural vacuum?

According to the Mobil Corporation, itself a substantial contributor to the arts, art organizations raise an average 55 percent of their funds from ticket sales and subscriptions. Individual contributions make up another 33 percent, business contributions 6 percent, private foundations 1 percent, and state and local governments 3 percent. Federal subsidies make up the last bit, a mere 2 percent from the NEA and the NEH. With that total, one wonders just how much of NEA's \$159 million this fiscal year goes to the artists—and how much to bureaucrats and administrators.

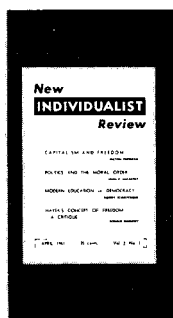
The Fusion Dance Company in Miami, Florida, is one organization that used to be funded almost entirely from government grants. In 1974, Wally Lord began the dance company and struggled along for several years. Four years ago, Fusion hit the jackpot: a \$200,000 federal arts grant, amounting to four-fifths of its total annual projected budget. "Right away it made us feel fat," Lord recalls, "it gave us a phony feeling of security." Lord says the grant served as a disincentive for Fusion's board to go out and raise money from other sources. Realizing the danger, the staff quickly decided to wean the group from such substantial govern-

ment grants. "We don't depend on them, we don't budget them into our plans," says Lord, noting that bureaucrats may in fact promise a grant and then change their minds when it's too late to go elsewhere.

Fusion's board is committed to raising \$250,000 a year; this year it raised all but \$30,000 of that amount. Lord stresses that it hasn't been easy, especially when things get tight at the end of the year. "There is no magical answer," he says ruefully.

But having to raise funds for the company has given Lord a measure of business savvy. He realizes the value of

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marketing his product. "Having a good product is not enough," he has learned. "The bottom line to success is having an exciting social event that people will want to come to, to contribute to." Things are going well enough for Fusion that Lord is planning a national tour in about two years.

Any bureaucratically determined distribution of art support, one might add, is playing with fire. First, it may serve to set up false competition for the really *good* companies and artists by subsidizing the untalented ones. And then, that very necessity to be selective in an area that is so attuned to individual tastes means that some people's preferences will always be given short shrift. Thank heavens (we say) our tax dollars today are not responsible for the survival of such punk rock groups as the Plasmatics (they're the ones who chop up a live television on stage with an axe). But—funny thing about political money—it could be different tomorrow.

Private vs. Public Education

In mid-April, prominent sociologist James Coleman released a new report on public and private schools based on a survey of 58,728 students in 1,016 high schools. His major conclusion: that even after allowing for differences in family background, private schools turn out better-educated students than public schools do. In reading, vocabulary, mathematics, science, civics, and writing, Coleman found, the 1.4 million private students do better than the 13.5 million public students. The reason? Coleman concluded that private schools maintain better discipline and provide more exacting academic demands.

Coleman also said that "the constraints imposed on schools in the public sector... seem to impair their functioning as educational institutions, without providing the more egalitarian outcomes that are one of the goals of public schooling." The report was prepared for the Department of Education and, as Diane Ravitch wrote in the *Washington Post*, "shows that on the whole, public schools have lowered their requirements, decreased their expectations, made basic courses optional and learned to tolerate intolerable behavior."

Coleman's conclusions are suspect to some because of his reputed support of educational tax credits. Indeed, his results come in at a politically opportune time. Sens. Patrick Moynihan (D-N.Y.)

and Robert Packwood (R-Ore.) have reintroduced their tax credit bill in the current session of Congress. The bill would grant credits covering half of tuition and fees (up to \$500 a year) for pupils in private elementary and secondary schools and for students in public or private colleges. For low-income families whose total tax bill is less than \$500, the bill would provide cash instead of credits. A worrisome aspect for some: the Treasury would take in from \$2 to \$4 billion less in the first year.

Europe's Private Broadcasters

Dull, ponderous television programs on government networks in France, West Germany, the Netherlands, and Italy are fast losing their formerly captive audiences to private competition. The French and West German governments may be the first of some half a dozen European states to loosen their stranglehold on broadcasting to programming beamed via satellite from the Compagnie Luxembourgeoise de Telediffusion (CLT) in Luxembourg.

CLT, the biggest commercial broadcasting operation in Europe, is setting up a consortium for the venture that, much to the dismay of German Chancellor Helmut Schmidt, will include the Association of German Newspaper Publishers. Schmidt seems to dislike television *per se*; among other indications, he has blocked federal attempts to link German cities via cable.

The satellite project would broadcast three channels simultaneously in French, German, Dutch, and English. CLT has already put down deposits with NASA and the European Space Agency to reserve launch spots on the Shuttle and the Ariane boosters, respectively. Customers will merely need to buy a small-dish antenna and adapter at about \$400 to receive the signals.

The situation in the Netherlands is somewhat different because that country has an unusually high number of cable systems—some 60 percent of all homes are hooked up to local cable systems. Because of the existence of cable, pirate broadcasters are transmitting such light fare as westerns and comedy serials into cable systems after the government shows go off the air at midnight. Pirate broadcasters are also able to broadcast commercials; under Dutch law the broadcasting of a commercial does not prove that it was ordered and paid for, so all the businessman has to do is deny that he

bought commercial time. In addition to the television broadcast pirates, there are over 10,000 radio pirates reputedly operating in the Netherlands, transmitting basically pop music.

Meanwhile, Italy's state monopoly, Radiotelevisione Italiana (RAI), is facing competition from some 600 local television stations. These stations are legal under a 1975 court ruling, although they cannot broadcast nationally. They are beginning to offer better-quality fare, including films and documentaries imported from abroad, which worries RAI officials. RAI has been criticized for offering too many dull political discussions and documentaries and not enough popular fare. Unfortunately, Minister of Posts Michele de Giesi has announced that legislation to control the number of private stations allowed to operate will be introduced in parliament soon.

Space Savings

Does the Space Shuttle have to be paid for by taxes? Not at all. Besides charging those who use it to launch satellites, NASA (or a private shuttle operator) could raise revenues in several other ways.

New West Contributing Editor Tom DeVries wrote in the *Los Angeles Times* that a good way to rekindle American enthusiasm for the space program would be to set up a lottery offering a seat on the Shuttle as the grand prize. (We reported a similar idea from Jeff Vale of the L-5 Society in this department in December.) DeVries figures that if the tickets are pretty enough, people will throw in \$10 for their souvenir value alone. NASA would need to sell only 6,000 tickets at \$10 each to cover the cost of sending 200 pounds into space (a 180-pound person plus camera and other tourist accouterments), and he's positive millions of people would participate.

On another front, advertising salesman Bob Lorsch is advocating the sale of Shuttle advertising space. Lorsch proposes to sell small plaques for \$1 million apiece to some 50 companies, each bearing a "tasteful" message that would be beamed back to earth for 30 seconds during future Shuttle flights. Lorsch plans, of course, to have his company act as advertising manager for the plan.

Whatever the merits of these particular proposals, it is enlightening to note that they at least are revenue-producing ideas—a principle NASA would, naturally, look down its nose at, but which keeps the rest of the world going around.

Regulatory Review in California

In its first six months of existence, the new California Office of Administrative Law (OAL) rejected, on one ground or another, one-fifth of all proposed new state regulations. That isn't much, considering the miasma of overregulation surrounding us, but it is at least a start.

OAL was set up by the legislature to stem the "unprecedented growth in the number of administrative regulations in recent years" by reviewing all new regulations issued by state agencies before finalization to check: "(a) Necessity. (b) Authority. (c) Clarity. (d) Consistency [with existing laws]." OAL will also review all existing regulations for revision or rejection over the next six years, subject to governor veto except in the case of "emergency" regulations.

Agencies are also free to repeal regulations on their own, but they must get OAL approval to add or amend regulations. Best of all, state agencies must reimburse OAL for the cost of its review services. OAL's enabling legislation further forbids state agencies from taking it to court. The only fly in the OAL ointment is a provision that it not "substitute its judgment for that of the rulemaking agency as expressed in the substantive content of adopted regulations," a self-contradictory jumble of words if we ever heard one.

It will be interesting to see whether a government agency can, despite its own nature, cure overregulation without the medicine being worse than the disease.

Private Protection Proliferates

Various agencies of the federal government have recently turned to private contractors to perform services formerly provided by government employees or not at all.

The Federal Protective Service, for instance, is being cut back from 2,300 officers to 600 and is turning over the remainder of its protection services to private guards. About 3,700 private guards already look out for half of all federal property, compared with 107 private guards covering only three percent of federal property in 1960.

At the Kennedy Space Center at Cape Canaveral, Florida, a private team of war veterans and ex-policemen guards the 144,000-acre area housing, among other things, the Space Shuttle. The guards

are employees of Wackenhut Services, Inc., and were initially hired to offset any terrorist threats. They have extensive special weapons and tactics (SWAT) experience, and, noted one reporter, can be quite sobering in appearance, what with their paratrooper boots, jungle camouflage suits, mirrored sunglasses, and automatic weapons.

Meanwhile, the US Navy continues to turn to private contractors for the maintenance related to its business-flying and for operational and pilot support in noncombat missions. The Navy's switchover is based not only on satisfaction with private contractors' performances in the past but also on a shortage of trained personnel and on long-term cost savings. Flight International of Atlanta, Georgia, has taken over utility missions since October, with 30 pilots providing training aid in more cost-efficient aircraft than the navy had used. The navy is also using civilian pilot instructors. Enlisted navy personnel have been released from the work that is now being handled by private contractors to cover more specialized duties.

Spirited Deregulation

So far only good news has surfaced over the deregulation of wine and liquor prices in California, New York, and New Jersey. Recent reports on New Jersey's deregulation, in particular, demonstrate substantial savings to the consumer.

Until last year, New Jersey's Alcoholic Beverage Control board (ABC) had set minimum price levels and disallowed such things as quantity discounts, except to restaurants. Wine was marked up by 50 percent, liquor by 30 percent, and beer and soft drinks by 25 percent. After deregulation, certain stores have dramatically cut their markups; in one Clifton, New Jersey store, wine is now marked up by only 25 percent and other products by 20 percent. Volume at that store has doubled, although the store owner only gets half of the profit margin that he had under regulation. Ironically, it is the ABC board that is staunchly defending deregulation before a group of store owners lobbying for a return to controls. Because of the landmark 1980 US Supreme Court decision striking down wine-price controls in California, it seems that the ABC need not worry.

In New York, the magazine *Cooking for Profit* recently noted, competition has also drastically lowered some wine prices. Soave Bolla, for example, which wholesaled at \$3.13 at the time of the ar-

ticle, had been given a minimum "fair trade" price of \$4.69; it sold at sale prices of \$3.23 after deregulation.

"The point," wrote columnist Rosenthal in that magazine, "is that bureaucrats have no more business interfering in the wine market than they would have interfering in grocery or restaurant prices." Well said!

Progressives Lose 2, Win 1

The advocates of "economic democracy" in local housing markets (see "Socialism: On the Street Where You Live," Apr.) strengthened their hold on Santa Monica, California, in April but lost big in two other California cities.

Most surprising was the progressives' loss of control in Berkeley. In what UPI called a "stunning election defeat," leftists of Berkeley Citizens Action lost all four of the city council seats at stake to "moderates." The latter now have a 5-to-4 council majority. The future of Berkeley's rent control ordinance was an important campaign issue, but whether the moderates will try to repeal it or simply water it down remains to be seen.

Meanwhile, a measure proposing stringent Santa Monica-style rent control and a virtual ban on condominium conversions was crushed at the polls in Pasadena. Opponents of the measure garnered 70.7 percent of the votes after a hard-fought campaign, despite the fact that tenants make up 55 percent of the city's residents.

The left's only victory occurred in Santa Monica, home of the nation's toughest rent control law. There, a slate of progressives organized by Derek Shearer and backed by Tom Hayden's Campaign for Economic Democracy swept the city council election, winning all four open seats and giving them a 5-to-2 council majority. At their first postelection council meeting, the new majority enacted an emergency ordinance clamping further controls on the city's beleaguered housing market. The measure bans all new high-rise construction and condominium projects for six months.

Meanwhile, pressure against rent control at the federal level continues to build. Seconding the recommendations of three national study groups (see Trends, Feb.) is Sen. William Proxmire (D-Wisc.), who now favors withholding federal housing grants from all rent-controlled cities. "Rent control is futile, counterproductive, and results in less rental opportunities," says Proxmire.

San Diego Mayor Pete Wilson says he thinks rent control is such a serious matter that it justifies federal preemption, despite President Reagan's inclination toward local control.

Patent Legitimacy

A US Court of Appeals has ruled that Xerox Corporation's acquisition of basic copier patents in 1956 did not violate antitrust laws, as charged by SCM Corporation in 1973. Lawful acquisition of the patent entitled Xerox to hold that patent for 17 years without the obligation to license it to others. Even if Xerox anticipated dominating the copier market it was creating, the court ruled, that was insufficient evidence to prove restraint of trade, lessening of competition, or monopoly building.

An earlier court had found in 1978 that Xerox had restrained trade and tended to create a monopoly, awarding SCM damages in the amount of \$37.1 million (automatically trebled to \$111.3 million). In 1979, US District Court Judge Jon Newman threw out the damage verdict on the grounds that antitrust laws do not permit monetary awards under the circumstances of the case. The most recent decision reiterated that Xerox had lawfully acquired the patents when no market existed for copiers.

Energy Outlook

Despite our disappointment over the Reagan administration's failure to abolish the Department of Energy, as had been promised, a few crumbs do offer some consolation. For one, the administration has announced that public buildings no longer have to set their thermostats at federally mandated temperatures—burying forever, we hope, the spectre of an Energy Police Corps.

The administration has also said that it is dropping Carter administration conservation plans, which included: odd-even gasoline sales, shortened work weeks, and carless days. Mandatory energy-efficiency standards for major home appliances were also set aside as "unwarranted government intrusion into the marketplace," the administration said. The standards, proposed by DOE last year, would have cost manufacturers and consumers between \$317 and \$443 million a year, the DOE itself estimated. The DOE had also noted that those standards could have put some small manufacturers out of business.

Energy Secretary James Edwards vowed too that future gasoline prices will not be controlled. In addition, he said that the government will not allocate gasoline supplies except in a "severe, critical shortage." Edwards said that the long gasoline lines during past fuel shortages were in fact caused by the lack of a free market. In any future cutoff, he stressed, "I would let the market run free.... Private sector forces... can allocate better than any of us here in Washington can do."

Peru, Argentina: Cautious Capitalists

The new government of Peru has joined the ranks of those attempting to reinstate the marketplace, inspired by University of Chicago-style economics. Peru's first civilian government in 12 years, led by President Fernando Belaunde, was elected in July 1980 and is having to find a way to decrease a 60 percent inflation rate, cut its deficit, and revive over-protected, previously nationalized industries.

Belaunde is being assisted by a team of American-educated technocrats who "want to circumscribe the role of the state to the minimum necessary to the efficient operation of the economy," as Vice-Minister of Economy (and University of Chicago graduate) Sergio Malaga puts it. The government has therefore abolished food and gasoline subsidies, raised interest rates and cut import tariffs and expects to scrap a 17.5 percent sales tax on domestic and import sales. It is also trying to attract foreign investors by offering hefty tax credits.

After his reelection (Belaunde was the president ousted by a coup led by Marxist generals in 1968), one of Belaunde's first acts was to return government-seized newspapers to their former owners. Things are not going too well for the president, however, since the prices of consumer goods, formerly held down by political fiat, have risen dramatically. Furthermore, Belaunde does not intend to return certain "important" expropriated facilities, such as oil wells and refineries now maintained by Petroperu and sugar estates.

That very refusal to depoliticize certain State-owned industries is thwarting another supposed attempt at a free-market economy, this one in Argentina. For five years, Economy Minister Jose Martinez de Hoz, who retired in late March, had tried to reshape decades of Peronist fascism. He did manage to

bring inflation down from over 176 percent in 1977 to 88 percent in 1980, but he did this mainly by raising taxes and streamlining collections. What he could not do, unfortunately, was reduce the subsidies to industries run by members of the military government. These military men insist that their production is of crucial importance to "national security"—that old catch-all sanction—and therefore untouchable.

A new military government led by a General Roberto Viola has named an obscure economist, Lorenzo Sigaut, the new economy minister. Things don't look very promising on the Argentinian front.

Milestones

- *Castro Cold-Shouldered.* In March, Colombian President Julio Turbay Ayala announced that he was severing diplomatic relations with Cuba because its government continued to interfere in Colombia's internal affairs—most recently via an attempted uprising several days before by a group of 100 Cuban-trained guerrillas. Two days later, the Panamanian government said that it, too, was reconsidering relations with Cuba. That same day, five Costa Rican pilots told a legislative assembly commission that they had ferried arms originating from several countries, including Cuba, to Sandinista (Nicaragua) rebels based in Costa Rica—with the permission of Costa Rican President Rodrigo Carazo, who says he feared the consequences of not cooperating with Cuba. But on May 11 the Costa Rican government, too, broke off relations with Cuba.

- *Louisiana Income Tax.* If Rep. Woody Jenkins is successful, Louisiana may become the third oil-producing state without an income tax (the others are Texas and Alaska). Jenkins contends that state income taxes account for only three percent (\$200 million) of total state revenues; furthermore, state revenues will increase by 20 percent in the next fiscal year while individuals face declining real incomes because of higher Social Security withholding and bracket creep caused by inflation.

- *Solidarity Newspaper.* The Polish independent trade union Solidarity has begun publishing a weekly 16-page newspaper of the same name, with a first printing of 500,000. Editor Tadeusz Mazowiecki, a prominent Roman Catholic intellectual, wrote in its first issue that "if it is not always able to tell the whole truth, it will not lie" and stressed that both the union

and the newspaper are committed to "solving conflicts...without bloodshed."

- **Limits on the 55.** If you're driving up to 70 miles per hour in Nevada these days, you will be subject only to a five dollar "energy wasting" fine. Nevada has joined Montana in effectively flouting the 1974 Emergency Highway Energy Conservation Act imposing a national speed limit of 55 miles per hour, while Arizona and North Dakota legislatures have moved to raise their speed limits if the federal maximum is raised or repealed.

- **Import Curb Surveys Split.** Responses to surveys on import restrictions on Japanese automobiles may depend on how the question is asked, the *Los Angeles Times* suggests: "If the survey is put in terms of jobs, respondents are patriotic. If the talk is just about cars, they like the Japanese." An ABC News-Harris Survey last year, asking respondents in highly loaded terms whether they favored strict import restrictions, elicited 58 percent in favor. But a more recent J. D. Power & Associates survey showed only one in three supporting restrictions. And a National Federation of Independent Business membership poll showed 68 percent opposing auto import restrictions.

- **Hasta la VISTA!** The Reagan administration has apparently decided to eliminate the VISTA volunteer program in late 1983. VISTA was formed in 1964 as part of Lyndon Johnson's "War on Poverty" program.

- **Bipartisan Budget Bill.** House Majority Leader Jim Wright (D-Tex.), Rep. Phil Gramm (D-Tex.), and Rep. Trent Lott (R-Mass.) have joined forces to co-sponsor a bill requiring a balanced federal budget by 1984.

- **British Health Care.** Despite vehement and sometimes violent objection from the unions, private health care in Britain is expanding. The three largest private health insurance associations now cover some three million people and report a 13.7 increase in membership over the last year. Quite a few new private hospitals are being built, several by a British subsidiary of American Medical International. A new government directive further allows National Health Service authorities to go into partnership with private groups, although knowledgeable sources are pessimistic about any substantial changes.

- **Bargaining for Rents.** A Rand Corporation study concluded that the federal government would save about \$210 million a year if it allowed federally

assisted low-income renters to negotiate their rents directly rather than use a government intermediary to talk to landlords. The particular program studied (Section 8) subsidizes privately owned housing for low-income persons.

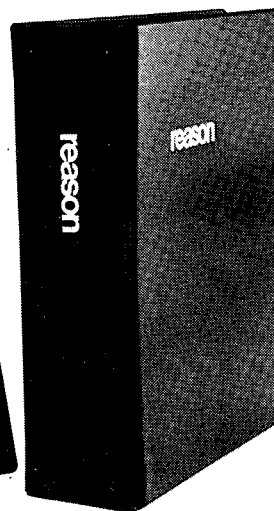
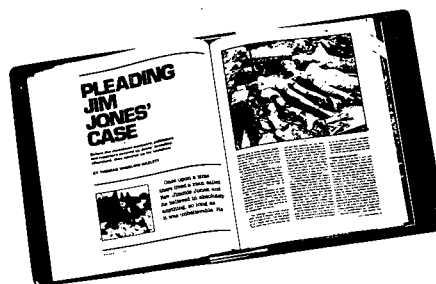
- **Computer Program Patents.** The US Supreme Court voted 5 to 4 in March that an industrial process using a computer program may be patented, even if the use of a computer is the only new part of the invention. An industry spokesperson commented that software companies will probably continue to rely on trade secrecy rather than patents because patents require disclosure of information.

- **Legislative Veto Opposed.** Atty. Gen. William F. Smith said that the Reagan administration will oppose the power of a legislative veto as unconstitutional when it encroaches on the president's own veto power. The administration may, however, approve a law giving Congress legislative veto power over independent regulatory agencies that do not report to the president. A definitive Supreme Court ruling on the question may be sought.

—Robert Poole, Jr., and
Christine Dorffi

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