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NOTES

This special double issue is REASON's annual financial issue, a tradition begun in 1974. REASON had been around for six years at the time, the economy was in turmoil, and previously novel hard-money investments were becoming the norm. Two free-market-minded investment advisors, Robert H. Meier and Edward H. Crane III, put together a blockbuster financial issue that covered everything from bullion to yen. The readers liked it, and liked it in the ensuing years; and so here we are.

The cover story this month is the second in Jack Wheeler's series of investigations of Third World guerrilla movements that are opposing Soviet-backed Marxist governments. For our April story, Wheeler had traveled with Jonas Savimbi and his UNITA troops in Angola. And for this one he slipped into Nicaragua with some of the Contras operating out of Honduras. He relates his findings and some background on the situation in Nicaragua beginning on page 28.

Mark Skousen debuts on page 74 as the magazine's new investment-advice columnist. REASON has had a Money column since February 1973, and financial writer Steve Beckner, author of *The Hard Money Book*, did the column bimonthly since 1980. Steve's own work (financial and investment reporting for the *Washington Times*) is less advisory than reportorial these days, so we're bringing on board investment expert Mark Skousen. Besides having authored several investment books (*Mark Skousen's Complete Guide to Financial Privacy* and *High Finance on a Low Budget*), he is the editor of the newsletter *Forecasts & Strategies* and consulting editor of several others. Coincidentally with this change, we have renamed the column "Investments." We hope you look forward to Mr. Skousen's thoughts every other month, and we wish Steve Beckner well in his work.

REASON is continuing to evolve on other counts, as well. A new department in the back of the book titled "Life & Liberty" appears on page 78. We thus end a long tradition of monthly movie reviews and the recent addition of occasional theater reviews. Our plan in Life & Liberty is to continue to cover the cultural terrain, sometimes with reviews of current offerings and sometimes with more broadly inspired pieces on the arts. But we also want to have a forum for other sorts of reflections and analyses on the things that concern and delight human beings outside the political realm. We hope you enjoy the department as it unfolds over the coming months.

If you care about personal freedom, where are the best and worst places in the country to live? The editors are thinking about doing a story on just that subject, and you could help. Do you know of instances in which your state or locality makes it particularly difficult—or easy—to do what you want to do (set up a business, operate a private school, work out of your home, incorporate, provide a service such as gardening or child care . . .)? If so, you might let us know, with a newspaper clipping, a short note, whatever gives us information about the law or policy. Send it to: WHERE TO LIVE, Reason, Box 40105, Santa Barbara, CA 93103.

For a song, you can win $100! The Rampart Institute is sponsoring a contest for the best original ballad, sing-along, or folksong celebrating individual liberty. Details can be obtained from P.O. Box 4, Fullerton, CA 92623.

—M. Z.

Readers who want a good overview of the progress of privatization in Great Britain (a subject covered here in John Blundell's February 1983 article) may want to order a new report on the subject. It's called "Privatisation in Britain: The Threat Turns into a Promise—of Higher Efficiency," and is written by Michael W. Imeson. It is available for $3.00 from the Council for International Urban Liaison, 1120 G Street NW, Suite 300, Washington, DC 20005.

Just since last issue's announcement of our new Reason Foundation radio program, *Perspective on the Economy*, REASON readers have helped us add four more stations to our network, for a total of 159. Within the next month you'll be receiving a letter explaining how you can help to keep *Perspective* on the air and growing. We'll enclose a copy of our new brochure that you can take to your favorite radio station to tell them all about the program. We hope to have *Perspective* on 200 to 250 stations by year-end.

—R. W. P.

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Do what investors and bullion dealers in 30 countries do: Use the Fisch. It's the quick, accurate way of detecting any known fake of the **Krugerrand, Maple Leaf, Mexican 50 & 20 Peso** and six other of the world's most traded gold bullion coins and small bars. Easy to use, the Fisch is a gauge that checks the weight, diameter, thickness and shape of a coin in seconds. These checks will detect all common metal fakes — the only kind ever found.

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The only metals with a density comparable to gold that could theoretically be used to make a fake correct in both weight and size are certain platinum group metals and tungsten. Platinum group metals are too expensive to use. Tungsten is an extremely hard brittle metal that would be difficult to work into a passable fake. No tungsten based fake gold coins or 1-oz. bars have ever been reported.

Modern Fakes are Dangerous. Visually identical to a genuine coin, the modern fake is a serious threat to your money. The biggest bullion dealers in the world do not underestimate the danger: The Fisch has been bought by major dealers and banks throughout the United States and Canada as well as in London, Zurich, Hong Kong, Frankfurt, Tokyo, Johannesburg, Nassau and Buenos Aires — their names read like a 'Who's Who' of the world's bullion dealers. They have bought the Fisch because they know that the modern fake is a top quality fake. Every coin needs to be checked carefully. The Fisch checks a coin in seconds and there is no room for error — a coin either passes all 4 checks of weight, diameter, thickness and shape or it is rejected.

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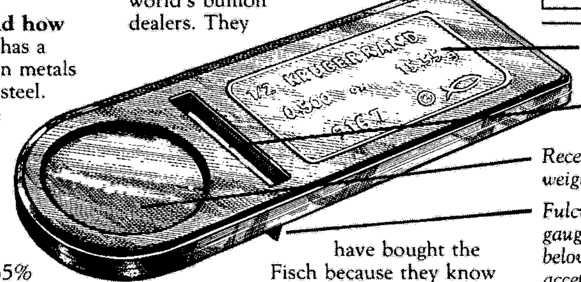

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Robert W. Poole, Jr.

Rethinking NATO—For Real

All of a sudden the idea that Western Europe should take on the burden of its own defense (a recurring theme in REASON) has moved into the mainstream. In March, *Time* magazine gave five pages to Henry Kissinger's plan to "reshape NATO," suggesting a phased withdrawal of up to half the US troops and the transfer of greater control to Europeans. Irving Kristol has gone further, in the *New York Times Magazine*, suggesting the "shock treatment" of complete withdrawal to force creation of an "all-European NATO." Defense analyst Earl Ravenal, economist Melvyn Krauss, and columnist William Safire have all been sounding similar themes, and *Harper's* ran a long panel discussion, "Should the U.S. Stay in NATO?" in April.

The principal arguments have by now become well-known. First, the credibility of the American "nuclear umbrella" over Europe has all but evaporated. What US president would actually unleash a nuclear strike on the Soviet Union (thereby risking the survival of this country) in an attempt to save Europe from a Soviet invasion? Second, long-term dependence on American troops and dollars has undermined Europeans' willingness to take seriously their own defense, as indicated by their relatively low levels of defense spending—and their susceptibility to naive peace movements.

Interestingly, even some European leaders seem to appreciate these points. French president Francois Mitterrand has said that " one must not give oneself up to the protection of a country outside our continent." His rival Jacques Chirac has spoken out strongly in favor of "European defense." David Owen, leader of Britain's new Social Democratic Party, has called for Europe to take control of its own defense, freeing itself from US domination. And even former West German chancellor Helmut Schmidt now agrees that America's dominance of NATO is unhealthy and that a partial withdrawal of US troops "would not necessarily be a misfortune."

Unfortunately, inherent in the thinking of nearly all of these people is a basic fallacy. What's essential, agree Kissinger and Kristol, is that the Europeans engage in a massive buildup of their conventional forces, so as to be able to withstand a Soviet invasion—without resorting to nuclear weapons. (The dismal alternative, says Kristol, is a Finlandized detente with the Soviet Union.)

Generals are notorious for preparing to fight the last war, and statesmen and intellectuals are prone to make the same error. Overwhelming evidence indicates that the most likely Soviet threat to Europe is a decapitating surprise attack on (unprotected) NATO military installations—using nuclear, chemical, and conventional munitions, along with "Spetsnaz" sabotage teams.

This type of scenario is clearly spelled out in Soviet military literature, which makes no distinction between "conventional" and nuclear/chemical/biological operations. (See Joseph Douglass and Amoretta Hoeber's *Soviet Strategy for Nuclear War* and Viktor Suvorov's *Inside the Red Army* for details.) A lightning strike that destroyed NATO's military capability before it could be used would avert nuclear retaliation while opening the way for Soviet domination of a disarmed—but intact—Europe. That has to make far more sense to the Soviets than a World War II–style tank invasion.

Thus, a massive buildup of conventional or even high-tech nonnuclear battlefield weapons would have little real military usefulness—or deterrent value. There are also serious questions about the vulnerability of the much-touted high-tech weapons to spoofing and other countermeasures. Moreover, because conventional weapons are much more costly, kiloton for kiloton, than nuclear weapons, the conventional-forces alternative is much less likely to be judged "affordable" by European politicians. So if that really is the only alternative to Finlandization, the odds for Europe's independence are not great.

What most advocates of rethinking NATO have not faced up to is the nuclear alternative. What would *actually* deter a Soviet surprise attack on Europe? Not thousands of useless antitank weapons. What the Soviets fear most is survivable nuclear retaliatory forces under European control—especially West German control. If a European Defense Force is to be credible, *that's* what's going to be required.

To be usable, such nuclear forces must meet several criteria. First, they must be mobile so that they have a realistic chance of surviving a surprise attack. Second, they must be highly accurate, so that they can be used solely against military targets without wiping out cities (thereby inviting counterstrikes against Bonn, London, and Paris). Third, they must be of low yield, especially when aimed at Soviet forces in Eastern European countries, whose people should be reassured that *they* are not the targets, only their Soviet occupiers. Fourth, many of these weapons should be capable of reaching the Soviet Union, whose military installations should be a prime target of retaliation.

What's striking about these requirements is how closely they parallel the attributes of the Pershing II and cruise missiles now being installed in Europe (unfortunately, under US control, paid for by US citizens, and at vulnerable, fixed sites). These attributes are sadly lacking in the present British and French nuclear forces, which are mostly inaccurate city-busting ballistic missiles and very short-range tactical nukes. What's needed is to replace these dangerous, obsolete weapons with new-generation nuclear weapons solely under European control.

Armed with credible nuclear weapons, Europe could easily defend itself. And the Western world would be much safer if it did. As Harvard's Adam Ulam, a respected Sovietologist, puts it, "The Soviet nightmare is that Western Europe will unite politically and rearm itself vigorously, thereby leaving the Soviet Union facing two superpowers instead of one." Our self-protective aim, as Melvyn Krauss has declared, should be to help make that nightmare a reality.

Robert W. Poole, Jr.

The Top Performers

Which Investment Advisor Will Make You The Most Profit Over the Next 12 Months?

No one can answer that question for certain. But Mark Hulbert can answer the next best questions. For certain. Such as which investment advisor made the most profit during the *last* 12 months? How did he do it? What level of risk was involved? And, most importantly, who's making the most money *now*?

Hulbert, a graduate of Oxford University, became convinced a few years ago that investors lose millions of dollars because they lack information.

"They tend to follow the advice of one investment advisor without any sure way of judging the quality of the advice," he says.

Hulbert, who has spent years analyzing investment performance, decided to put his talents to work scrutinizing investment advisory services.

He admits that he didn't know what to expect. But he knew what questions to ask. And now he has more answers than most people could imagine. He can tell you which of the more than 90 portfolios he follows made the most money last year, for example. The answer: a publication called *The Prudent Speculator*, with a profit of 73% for the year.

Hulbert can tell you in any given month which advisor is doing best for the month...and which has the best *long-term* record. He also keeps track of the performance, adjusted for risk. "So you can make sure that you're not taking an unreasonable risk as you pursue extraordinary profits," he explains.

Hulbert's figures come out each month in his own newsletter called *The Hulbert Financial Digest*. This maverick publication digests the advice of other financial experts – including such well-known advisors as Jim Dines, Howard Ruff, Harry Schultz, Joe Granville, Martin Zweig and many others.

(It may interest you to know that one of that group has a portfolio that made a profit of 151% during the first quarter of this year alone! Who has the hot hand?)

The Hulbert Financial Digest presents a summary of the advice offered by the experts he covers, along with an analysis and commentary from the editor.

In effect, the reader gets thousands of dollars' worth of financial advice for the relatively low price of $33.75, which is what Hulbert charges trial subscribers. (A substantial savings over the regular $135/year price.)

Since Hulbert began work on this project five years ago, *The Hulbert Financial Digest* has been extremely well received by the hard-pressed investors who have tried it. That is probably because it virtually guarantees access to the best investment advice around at a very modest price.

"This is a way to make sure you're getting your money's worth out of an investment advisory service," says Hulbert. "We'll tell you who is making money and who is not."

One of the investment advisors who has made a lot of money for his subscribers lately is Jim Dines. Dines has four portfolios followed by Hulbert. In a recent 12-month period, one of these portfolios made a gain of 336%. Overall, his portfolios averaged more than 80% profit.

Another star performer in the beginning of this year was *The Option Advisor*, with first-quarter gains in its two portfolios of 89% and 98%. It should be pointed out, though, that *The Option Advisor lost* more than 90% of its value during the preceding year.

"The investors who subscribe to my service," says Hulbert, "have a clear advantage over those who don't. Not only does *The Hulbert Financial Digest* tell investors which investment advisors are doing best, it also distills huge amounts of verbiage into a simple, straightforward summary. This enables the busy investor to get the most useful information in the least time."

Mark Hulbert stands behind his figures...and his service. He offers an iron-clad guarantee to anyone who takes advantage of his trial subscription offer.

"If anyone is not completely convinced that this publication is a great benefit in choosing the most profitable investment strategy after he's read one issue, I'll refund every penny of his subscription money. No questions asked."

This guarantee allows curious investors a chance to try Hulbert's publication *without risking a penny.*

"It would be foolish for an investor not to give this offer a try," Hulbert maintains. "The average investor has thousands and thousands of dollars at stake."

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Letters

The Health Hazards Of Government

Edith Efron's "Behind the Cancer Terror" (May) overlooked one of the biggest causes of cancer in our society—one that, fortunately, can be quickly eliminated by bold government action.

Consider this syllogism: scientific research has established that stress potentiates and in some instances "causes" cancer. One of the biggest causes of stress in our society is government—its oppressive taxes, secret police, intrusive regulations, and the like. Therefore, government causes cancer.

As Efron noted, certain scientists and government regulators have sought to ban chemicals judged hypothetically able to cause cancer only in the single most susceptible person in our nation. Would any scientist deny the possibility that stress caused by, say, the Internal Revenue Service has caused cancer in susceptible taxpayers? How many will die 30 or 40 years hence because of the stress the IRS causes today? Does an environment polluted with government-caused stress react synergistically with otherwise-harmless chemicals to cause cancer?

Until science better understands the subtle links between government and stress and cancer, the only prudent and responsible policy is for government health agencies to impose rules forbidding all stress-causing activities by all government tax, police, and regulatory agencies. Surely those who have long and loud professed concern with public health and well-being will agree, will take up the "Stop Government-caused Cancer" banner, and will support lawsuits by millions of cancer victims against our stressful government. It's time the scientific community acknowledged that the bigger government gets, the more hazardous it is to our health.

Lowell Ponte
Carlsbad, CA

Communicate with REASON. Box 40105, Santa Barbara, CA 93103. We appreciate receiving your letters typed double-space and limited to 200 words. Letters sent to REASON will be considered for publication (unless otherwise noted) and may be subject to abridgement or editorial comment.

Ideas, Not Dollars The Ultimate Defense

Congratulations on your April editorial ("Defending Everyone?") wondering why—and how—the Pentagon is committed to defend more than 40 nations strung around the globe. It reminds me of Henry Hazlitt's classic of the late 1940s *Will Dollars Save the World?* published by the Foundation for Economic Education. I don't mean to minimize the need for national defense but you and Hazlitt are correct—neither dollars nor guns will save the world. But ideas can, for, as Richard Weaver reminded us, they do have consequences.

William H. Peterson
University of Tennessee, Chattanooga, TN

Water, Not Walls For Mideast Peace

I was glad to see that REASON had the editorial courage to publish a controversial proposal such as Sam Cohen's "Wall Against War" (March)—even if it is questionable on technical, military, economic, political, and moral grounds.

Technically, it is difficult to understand how Cohen's radiation barrier could be made to work as described: innocuous to bystanders 3,000 feet distant, but instant death to aggressors at point-blank range. Militarily, it seems that a barrier of this sort would be only marginally effective: incapable of impeding air attacks, but substantially impeding (if not precluding) the Israelis' heretofore highly successful strategy of counteroffensive action. Economically, it is difficult to believe Cohen: a complex of multiple underground reactors; radiochemical processing, treatment, and disposal facilities; several thousand miles of leakproof piping; and over 2,000 square miles of modern Maginot Line, but constructed for "roughly several billion dollars."

Even more significant, perhaps, are the political and moral shortcomings of Cohen's wall. Politically, he would treat the symptoms of a problem (warfare) without bothering to deal with the problem itself (conflicting territorial claims). The willingness of Arab nations to aggress against Israel does not stem from their misperception of Israel as a weak nation. Indeed, Israel has demonstrated the contrary fact consistently over the past 30 years. How can the presence of a new barrier deter the Arabs from aggression, when its most likely effect will be to intensify their discontent over territory they feel is being unjustly withheld from them? And morally, Cohen's proposal takes for granted the notion of irremediable racial conflict and seeks only to *perpetuate* the animosity between Israel and its neighbors by erecting a deadly fence between them.

Is there no solution that would attempt to reconcile the Arabs and the Jews by an appeal to their mutual interests? One of the greatest needs, and most prized resources, of the Arab nations is fresh water. The discontent over land stems partly from the scarcity of this commodity. Instead of developing a massive atomic technology to produce millions of gallons per day of radioactive poison, why couldn't Israel instead apply that technology to the large-scale desalinization of seawater, wherewith the Arab lands may be made to bloom? Surely, the Arabs would welcome such a miracle and would be reluctant to raise arms against such beneficence. But this path to peace would require a policy based on reconciliation with and respect for the lives of one's enemies—a path that, of all paths, should surely harmonize with the Hebrew faith.

Michael J. Dunn
Auburn, WA

Fine Reading

From Jack Wheeler's article on Angola to Steve Beckner's Money column, REASON's April issue is the best ever. A copy should be in every home and office in the United States.

Writers Julian Simon, Charles Kelly, Nathaniel Branden, James Davidson, Steve Beckner, and William H. Meckling were all in top form with lots of important information and ideas on what has happened to the Republic and its people.

Since I am an old man who started to school in 1909, I have a small bone to pick with Mr. Meckling in spite of his very fine article ("American Capitalism at Sunset"), with which I am in complete agreement, except for what seems to me his overemphasis of "democracy." When I began school (to get the day

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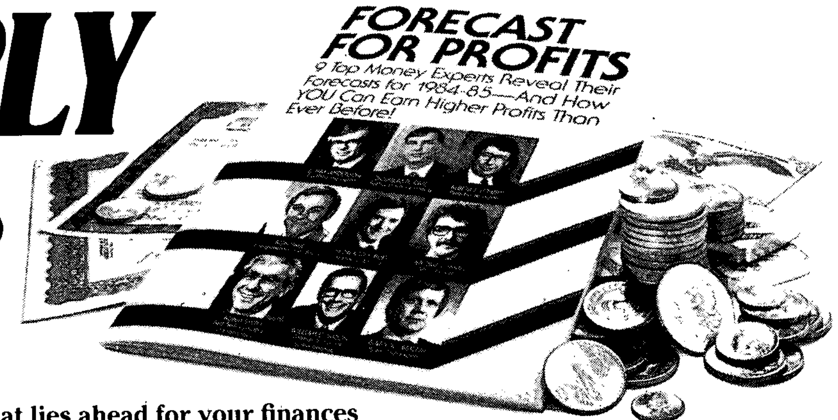

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LETTERS

started) we were taught a patriotic song which ended, more or less, "and for the Republic for which it stands. . . ." For quite some time after I left that little school, "the Republic" still stood for our bit of America. I've read the Constitution several times lately and the word *democracy* is not to be found. "The Republic" is everywhere.

For some time I've been wondering why "the Republic" was dropped and we became a democracy, and if this change had any influence over the downfall of our once great Republic. After all, the House is, and has been for much too long, preponderately Democratic—which is probably beside the point, since both Democrats and Republicans seem equally dedicated to the proposition of robbing the productive to pay the nonproductive.

John H. Yaple
Ranchos de Taos, NM

Spencer Misunderstood

I thoroughly enjoyed Nathaniel Branden's "The Self-Fulfilling Polity" (April), but his view of Herbert Spencer's defense of capitalism was off the mark.

Spencer's law of equal freedom—"that every man has freedom to do all that he wills, provided he infringes not the equal freedom of any other man"—is the central point of his philosophy, as magnificently expressed in *Social Statics*, *The Man vs. the State*, and part four of *The Ethics*. Spencer's defense of laissez-faire capitalism is clearly founded in the ethics of individualism and voluntarism. What Branden mistakenly identifies as Spencer's purpose—that is, the improvement of the species, etc.—is not Spencer's reason for approving freedom; it is, rather, a natural consequence of the operation of freedom.

Branden's view of Spencer sounds more like a view derived from the reading of critics of Spencer rather than a reading of the works of Spencer—clearly a mistake.

Robert Slomovitz
Plainview, NY

The Medical Marketplace

Regarding the Trends report on the doctor supply in the March issue ("The Market Resuscitates," page 18): The growing supply of doctors in the United States is indeed driving down the price of medicine. Despite the bah-humbuggers who refuse to acknowledge the positive effects of a competitive marketplace, the cost of many standard medical procedures—including birth-delivery, cancer-detection tests, vasectomies, and many other routine surgeries—is declining.

Still, there are representatives of many medical associations who insist the growth in the number of doctors should be restricted. We can only speculate what would have happened 10 years ago had it been decided that we have an "oversupply" of lawyers, and policies had been adopted to dramatically curtail their numbers. Access to legal assistance would still be limited. Legal advice would have remained a luxury. And a simple divorce might still cost $5,000.

Becci M. Breining
National Center for Policy Analysis
Dallas, TX

Cheers to Davidson

One for the road to you for publishing Jim Davidson's April Viewpoint column. He gives a good description of America that many in our pragmatic culture have ignored. Davidson's optimism is very much the 19th-century optimism of capitalist glory.

But Davidson ignores altruism as a motive for many and so is led to think people want tyranny because of benefits. The unhappy truth is that the desire to sacrifice oneself, so insidiously influential, leads people to obey a collectivist government.

It's an unusually well-written piece, and I say this despite being stoned and ready to leave for my favorite bistro, hear some good rock music, and have one for the road.

Stephen Grossman
New Bedford, MA

Want Competitive TV? Remove Entry Barriers

Joseph Martino's discussion of the challenge that direct broadcast satellite (DBS) television presents to broadcasting regulation ("Signal Victory for the First Amendment?" March) was highly informative. However, DBS, cable television, and other technological advances do not eliminate the problem of scarcity in the broadcasting industry—they just help us cope with it better. The broadcasting spectrum will continue to be limited for the foreseeable future.

Sadly, Martino's assessment of the Federal Communications Commission's (FCC) direction under Mark Fowler's chairmanship is misguided. The most important element of economic deregulation is the relaxation of entry restrictions. The Fowler FCC's key test came when it considered creating slots for 400 to 700 new radio stations by reducing the spacing in the AM band from 10 kilohertz to 9, as recommended by the Carter administration's FCC and most experts. Fowler and his colleagues declined the opportunity by a vote of four to two.

An FCC that really wanted to deregulate broadcasting would refuse to abolish archaic rules except as part of a package deal that would reduce entry restrictions on a firm schedule. The current commission's policy of eliminating rules that inconvenience broadcasters, without extracting a price, will only prolong the life of broadcast regulation, enable broadcasters to continue to collect monopoly rents, and delay the arrival of a truly competitive market. The viewing public is the loser.

John V. Buffington
University of Delaware
Newark, DE

True Security Through Stability

I was pleased to read Daniel T. Connolly's letter "I'm Ready to Deal—If the Politicians Are" (March). I, too, am a retired Social Security recipient and share Mr. Connolly's concern. Those of us in this group, I would think, would be well advised to eschew ever-increasing demands on the Social Security system in favor of setting an example for government restraint, thereby stabilizing our economic balance. Whereas the American Association of Retired Persons is constantly striving for ever increasing SS benefits and medicare payments, the National Alliance of Senior Citizens takes a contrary view that retirees are better served by sound fiscal policies and government economy.

I. W. Tucker
Louisville, KY

Communism, American-Style

Upon reading Prof. James Payne's treatise on basic economics ("When the

(Continued on p. 93)

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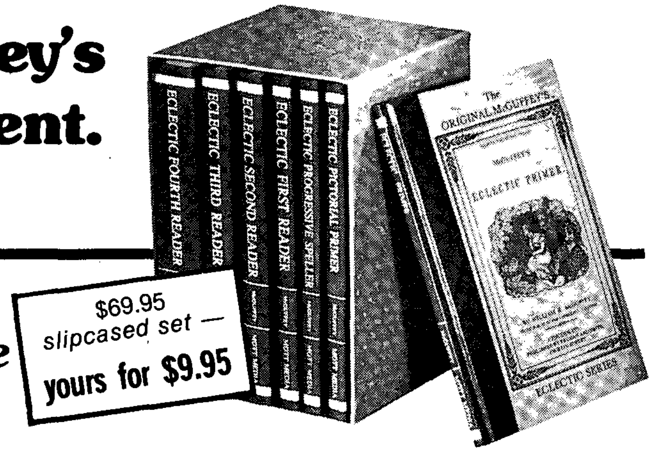

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R-20

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brickbats

Federal marshals armed with .38-caliber revolvers stormed into a little candy factory in St. Louis and seized and destroyed 19 pounds of chocolate. And it wasn't even laced with cyanide. No sir, this candy was *really* dangerous—it contained Grand Marnier liqueur. It's against federal law to transport across state lines for sale bonbons that contain more than 0.5 percent of alcohol. The goons from the Food and Drug Administration acted under a 1938 law pushed by die-hard prohibitionists fearful that candy-loving toddlers would enslave themselves to Demon Rum. The saddest part of this story is that the FDA admits it couldn't enforce this foolish law if not for candy makers snitching on each other. "Once we slap somebody's fingers, they become real tattletales," said FDA official Raymond E. Newberry.

Turnabout is fair play? A gunman entered a Florida prison dormitory and robbed an inmate serving an armed-robbery sentence of a stereo, radio, TV set, and $30 in cash. "The whole inmate population is still in shock," said the superintendent of the minimum-security Pompano Beach Community Correctional Center. "If you're not safe in prison from armed robbery, where are you safe?" The center, which provides a work-release program to its 140 guests, has no bars, no barbed wire, and no armed guards. The suspect is a convicted robber and former inmate at the center who failed to return from work on the outside. He didn't return to *stay*, that is.

New York Gov. Mario Cuomo has been toiling in the vineyards for too long without a hat. Sales of New York State wines are down because of heavy competition from inexpensive California and European brands. So Cuomo thinks New York grocery stores should be prohibited from selling anything but New York wines. Sounds like sour grapes to us.

Don't ever cross a Minnesota social worker. These public servants managed to have a couple involuntarily committed to separate detoxification centers on the say-so of the couple's 15-year-old daughter, who told the social workers that her parents were alcoholics. So without bothering to verify the teenager's statements, the social workers obtained commitment papers and, armed with sheriff's officers, arrested the couple at their home. The sweet young daughter later confessed that she wanted to be placed in a foster home so she would be able to "get away with a lot more stuff," such as staying out late at night. There is a happy side to the story. The couple was awarded $250,000 in compensatory and $12,000 in punitive damages. The social workers? They were reprimanded but continue to serve mankind.

Once reviled as exploitation, maid service is making a comeback in Peking as living standards rise. Peking's first contract maid service in the new era has found jobs for 145 women in two months. That fact was reported by the newspaper *Economic Daily*. Of course, the paper had to waffle the details a little, since unemployment officially doesn't exist in the People's Republic.

You might say that Rene Cote, 26, of Concord, New Hampshire, wound up on the wrong end of the law. He ran out of a courtroom after a judge sentenced him to a jail term for receiving stolen property. Hillsboro County Sheriff's officers dutifully shot Cote in the buttocks, slowing down his escape somewhat. But that's not the end of it. Cote has now filed a $750,000 suit against the county, claiming anguish, humiliation, and a very tender bottom. He won't take this sitting down.

The oldest female inmate in Georgia is great-grandmother Maybel Cawthorn. The 82-year-old felon got probation the first time she was caught selling marijuana but was sentenced to three years in prison for doing it again. She sold the staggering amount of $25 worth (less than one ounce) of the weed to an undercover Georgia Bureau of Investigation agent.

It was bound to happen one day. A Harvard- and Princeton-educated architect has invented the vandal-proof toilet for New York City's parks. No electricity, no heat, no hot water, no doors—your basic no-frills john. Everything is made of stainless steel. "There is nothing in it to be vandalized," says the proud inventor. Oh, by the way, bring your own toilet paper. Officials say holders for toilet paper won't be installed either, because they're too easily vandalized. How do you spell relief?

Important Facts Department: David A. Kurtz of Pennsylvania State University told a press conference during the annual meeting of the American Chemical Society that naked gardeners typically pick up 16 times more pesticide on the body than gardeners wearing a shirt, pants, and shoes.

—MARK EDWARD CRANE

TRENDS

STAR WARS GAINING GROUND

The idea of building defenses against nuclear attack—rather than relying only on retaliation—is picking up support, even while continuing to come under critical attack from some quarters.

In the first serious polling devoted to space-based defense, Arthur J. Finkelstein & Associates surveyed 1,000-odd California voters in February. Overall, 82 percent supported the idea of developing a satellite system to defend against nuclear attack. High levels of support were found among Republicans, Democrats, and independents, with more than two-thirds favoring the concept in each group. Support was strongest among those under 26 and weakest among those 65 and over. Interestingly, when asked to rank a list of defense projects, including the B-1 bomber, nuclear submarines, the MX missile, and cruise missiles, along with a "system to defend against incoming nuclear missiles," an overwhelming majority favored the defensive option.

But will it work? That's the quesion most often asked, and the objection most often raised to the "Star Wars" concept. Those in the disarmament community—for example, the Union of Concerned Scientists—maintain that such a system would be a cruel hoax unless it provided a virtually leakproof defensive shield. And important Defense Department factions make the same argument, maintaining that a decade or two of R&D on high-tech concepts is required before attempting to deploy any sort of system.

A strong dissenting view comes from advocates of using off-the-shelf technology to build an initial, less-than-perfect system. Ex-NASA physicist Robert Jastrow, for example, has argued that even a system that would intercept only *half* the USSR's warheads would require them to at least double their weapons inventory (at huge expense) and would drastically reduce their confidence of succeeding in a nuclear attack.

And a recent Defense Department report by a panel of 12 weapons analysts chaired by Fred Hoffman makes an even stronger case for a low-tech, quick-fix initial system. First of all, a simple ground-based defense of US missile silos (achievable in two years for under $5 billion) would eliminate the present Soviet ability to wipe out most of those missiles in a first strike. And because the most likely Soviet attack would be against military installations, not cities (according to long-standing Soviet war plans), there are advantages to being able to protect military targets prior to the advent of a system leakproof enough to protect cities. Furthermore, a several-layer intermediate system would develop various core technologies that would form the basis for later, more advanced systems.

So there are a number of good reasons for getting on with the task, rather than waiting for an elusive degree of ultimate perfection.

VOODOO VINDICATED

Critics called it "voodoo economics." But proponents of supply-side economics said it was only common sense: if you lower tax rates, people will produce more, because they can keep more of what they additionally earn; economic activity will increase; and total tax revenues will rise. Now comes powerful evidence that the supply-siders were not just preaching sorcery.

As economic journalist Warren Brookes pointed out in a recent syndicated column, changes since 1969 in the tax rates on capital gains (earnings on the sale of capital assets, such as stocks, property, or a business) offer a demonstration of the touted supply-side effect. In 1969 Congress raised the top capital-gains tax rate from 35 to 49 percent, thereby hoping to rake in an additional $2 billion a year in taxes. Instead, tax revenues from capital gains fell by about $1.7 billion. But in 1978 the top rate was cut to 28 percent—followed by a further cut to 20 percent in 1981—and total tax revenues from capital gains have steadily increased ever since.

Just as dramatically vindicatory of the supply-side hypothesis, Brookes also noted, are the changes in new stock offerings following the changes in capital-gains tax rates. In 1969, when the top rate stood at 35 percent, 1,026 new stock offerings were made, with a value (in 1972 dollars) of $3 billion. But following the 1969 increase of the top rate to 49 percent, new stock offerings declined almost steadily; by 1978, new stock offerings numbered only 45, with a value (in 1972 dollars) of a mere $166 million. Then, following the 1978 tax cut, new offerings started to rise, and by 1983—after the top rate had been cut to 20 percent in 1981—875 new offerings were made, with a total value (again, in 1972 dollars) of $5.8 billion, nearly double the previous record high of 1969.

"It is no accident," Brookes wrote, "that 1983's unprecented 3.8 million new jobs coincided with and proceeded directly from the nearly 40 percent increase in the value of corporate stocks since August 1982." (Japan and West Germany, incidentally, whose economic performances are so widely acclaimed, have *no* capital-gains tax.)

Having pulled the rug from under the supply-side critics on the issue of the stimulative effects of lowering taxes, Brookes subsequently took up the matter of how the income-tax cuts initiated by the Reagan administration supposedly favor the rich. According to recently released Treasury Department data on income taxes for 1982—when individual tax rates on wages and salaries were cut an average of 7.5 percent—tax revenues from those making more than $100,000 a year were 13 percent higher than the year before, and revenues from those in the $50,000-or-more-a-year category were up 6 percent.

Conversely, tax revenues from those making less than $20,000 a year dropped 12 percent, while those making between $20,000 and $50,000 a year paid 4 percent less in taxes in 1982 than in 1981. A significant factor in this shift of the federal tax burden to the rich was a 55-percent rise in the number of returns filed by those with incomes of $1 million or more.

Reflecting on how "high marginal tax rates penalize chiefly the U.S. Treasury, not the rich," the *Wall Street Journal*, in an editorial entitled "Tricklenomics," further pointed out that "the tax cuts are fueling an entrepreneurial explosion. New incorporations have doubled since 1977, and may have hit a record 600,000 in 1983." And, noted the *Journal*, "Minorities and women are starting new firms even faster than the average."

The data on the actual effects of cutting taxes not only suggest the powerful economic potential of even further tax cuts. They also put in doubt some of the current econometric predictions—based on past data from the high-tax '70s—of a coming downturn in the economy.

FAIRNESS DICTATES

FCC chairman Mark Fowler has long advocated repeal of the "fairness doctrine," the regulatory requirement whereby broadcasters must provide time for the opposition on controversial issues. The doctrine has ardent fans both left and right, but Fowler's deregulatory game plan is winning points.

In April, the *New York Times* asked editorially, "What's Fair on the Air?" Discussing the fairness doctrine, equal-time requirements, and other FCC intrusions into broadcast content, the *Times* sensibly concluded, "All that has meant Government sticking a big nose into journalism and politics."

The editorial spoke highly of the "freedom of expression bill" sponsored by Sen. Robert Packwood (R-Ore.), which would repeal the fairness doctrine, equal time, and similar rules. But the conversion has not been complete. The *Times* advocated retaining a requirement that broadcasters sell political campaign ads at their rock-bottom rates. The paper also favored some regulation of "issues advertising sponsored by wealthy private interests" (one wonders how the editors would take to the same requirement for their paper). But, arguing that these modifications could be incorporated in the Packwood bill, the editorial concluded, "Good politics, journalism and law indicate the next thing to do: Pass it."

In April the FCC itself took action on the fairness doctrine, voting unanimously to institute a notice of inquiry to determine whether the regulation should be retained. Commission Chairman Mark Fowler heralded the move with the statement that the inquiry is long overdue.

FCC spokeswoman Sally Lawrence told REASON that the notice of inquiry is in effect a study of the fairness doctrine. The commission will be taking testimony from a wide range of sources—but she cautioned that this doesn't necessarily mean that a commission vote to repeal the doctrine is around the corner. In any case, there is some question whether the doctrine is, in the words of FCC Commissioner Henry Rivera, "something that is more the proper province of Congress."

It is too early to tell whether the ball is in Congress's or the FCC's court—or perhaps both—and which direction it's moving. But at least the game is evidently on.

FEMINISM MEETS CAPITALISM

Is capitalism inevitably sexist? Is feminism inevitably socialist? Not at all. Indeed, capitalism and feminism can complement each other nicely. Just look at the fledgling industry of women's record companies.

The women's music that these companies record and market ranges from jazz to classical to bluegrass to folk music, some of it conventional and some musically innovative—but what makes it all distinctive is its feminist theme. Among the better-known artists of the genre are Holly Near, Meg Christian, the jazz group Alive!, and Margie Adam.

The business side of women's music is impressive. While many major record

GLOBAL TRENDS

BRIBING UNTO CAESAR

ITALY—For devotees of freedom in Italy, there has been some reason for optimism lately. Italian governments are beginning to appreciate the wisdom of accepting and compromising with the huge underground economy in this country. Some officials might even become convinced that their regulatory efforts could be "sold" at a profit.

A good example is provided by a recent bill pending in the parliament. Housing regulations in Italy are so strict that enforcement is almost impossible. Even to change something *inside* your home, you need a special license, and the bureaucratic process is so long, complicated, and costly that many people simply ignore the laws. According to official estimates, there are several million "illegal" dwelling units built without the necessary licenses and authorizations.

The present government—the first in Italian history with a Socialist prime minister—is desperate to increase its revenue, so it is trying to make money out of the situation. One of the first bills it has proposed calls for *condono* (amnesty) for all violations of housing laws, provided homeowners pay any back taxes. The exchange would be mutually beneficial. The owners of "illegal" houses would no longer face the threat of demolition of their homes (or, in some cases, their own incarceration), and they would be allowed to settle the issue by paying a reasonable sum of money. The government would see its revenue increase by a substantial amount, perhaps as much as 10 trillion lire (about $6 billion). Even though the bill has been somewhat diluted by a series of amendments so that the more serious offenses would not qualify for amnesty, it would still yield at least $3 billion, according to official estimates.

The amount of revenue the government would be able to collect, however, is not the point here. What is more significant is the precedent that such a bill would establish. It would notify Italians that nonsensical government restrictions on their freedom can be violated and that the worst that can happen to them is that their violation might, at some future date, result in a pecuniary transaction with the government.

Maybe Italians will be able to "buy back their freedom." If one can't *change* the government, *bribing* it may be the second-best solution.

—ANTONIO MARTINO

GOOD THINGS IN SMALL PACKAGES

JAPAN—A visitor to almost any Japanese town will probably notice quite a few signs with pictures of black cats, a dachshund, an elephant, a bear, a lion, a pelican, or a stork.

(Continued on p. 18)

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companies have been in financial hard times, women's record companies—almost none of which even existed 10 years ago—have grown to a point where they have a large share of the independent record market. They are grossing an estimated $2 million and chalking up sales of 200,000 records annually—and this doesn't include sales through a national distribution system that some share, feminist concert producers, and annual festivals. "All of a sudden, what record stores buyers considered esoteric music with a very limited audience is outselling major secondary artists," JoLynne Worley of Redwood Records told *Mother Jones.*

All this is especially impressive considering that these companies are the creation of women with little or no previous experience in business. For instance, Judy Dlugacz is now the president of Olivia Records, the largest and oldest women's record company, and she's recently started a new company called Second Wave Records. Before Olivia, she was a political organizer in Ann Arbor, Michigan.

Olivia, like some of its sister companies, has origins very different from most businesses—it started out as a collective of five women—but with time it has, almost in spite of itself, adopted more-or-less capitalist features of business. Dlugacz describes the current internal structure of Olivia as "a humanistic hierarchy." She told REASON, "Some people are in control and their decisions filter down. But we allow people to be who they are. They even enjoy themselves some of the time."

Reflecting on her own experience, she noted, "When Olivia started, I was a young pup. On the whole, my views on business were not well formulated." But that has changed. "I have a tremendous respect and affinity for business now," she says. "Business people are going after a dream of doing their own independent thing. They're very creative. And it's incredibly hard work."

Mother Jones wouldn't say it, but getting into business can be quite an education about capitalism.

GLOBAL TRENDS

(Continued from p. 16)

One might expect pet shops behind the signs, but in fact the stores are liquor stores, agricultural cooperatives, rice stores, supermarkets, and convenience stores. And the animals on the signs are the trademarks of door-to-door package delivery services that use these stores as pickup stations.

It was in 1976 that Yamato Transport Company went into the door-to-door delivery business, inspired by the United Parcel Service (UPS) in the United States. Yamato's trademark, two black cats, is meant to symbolize the company's careful handling of customers' commodities, just as a mother cat affectionately carries her kitten in her mouth. Yamato's Black Cat Service became well known to the general public through its ad campaigns on television emphasizing the quality of its services.

Black Cat's unexpected success has prompted more than 30 other firms to enter the new business with other animal trademarks. As a result, a great deal of Japan's package delivery business has been diverted from the government-run postal system.

In 1979, the post office handled more than 199 million packages while private services handled only 35 million. In 1982, though, the situation was reversed: the post office handled 139 million packages while the private services handled 169 million. The postal system has 5,700 offices, but private carriers have developed gigantic networks of 200,000 pickup stations throughout Japan.

It's not hard to see why the private carriers have been so successful. Suppose you want to ship a six-kilogram parcel from Tokyo to Hokkaido. The post office's rate is 1,120 yen ($4.98), which looks like a bargain compared to Black Cat's fee of 1,300 yen ($5.78). But the latter includes special delivery, grievance settlement better than the post office's registered mail, and pickup service—features for which the post office charges an extra 950 yen ($4.23). Thus, Black Cat Service is actually charging 1,300 yen ($5.78) for slightly better service than what the post office provides for 2,070 yen ($9.21).

The only advantage of the postal service's package delivery is that the sender may attach a letter to the parcel, a practice prohibited to private services. (The Postal Administration Ministry is now on the alert against some of the private delivery companies that carry letters on the sly.)

There may come a time when private enterprises will be free to serve consumers with legal delivery of letters. But even now, Black Cat Service and its fellow delivery services are providing a stiff challenge to the post office.

—TOSHIO MURATA

SLOT SALES PROPOSAL MAY FLY

On occasion, the time becomes ripe for deregulation of economic activities when the mechanisms of regulation make everyone unhappy. Such a time may be imminent with the allocation of landing slots at at least four major airports—National Airport in Washington, Kennedy and LaGuardia in New York, and O'Hare in Chicago.

The need for change is growing. The allocation has long been a regulatory mishmash involving the federal government (primarily the Federal Aviation Administration) and, occasionally, committees of air carriers at each airport. In the wake of the 1981 air traffic controllers' strike, the number of landing slots was cut by the FAA. With the growing number of new airlines that have begun operation since airline deregulation, the defects of a regulatory system have become apparent. The set-up has ignored market dynamics and thus virtually invites its own paralysis.

In fact, paralysis is what has happened. At National Airport, slot allocation has been frozen temporarily. In Chicago, the airline committee for O'Hare has been trying for months without success to devise a scheme acceptable to all the carriers. The situation at New York's two airports isn't any better.

But now, for the first time in years, it looks as though the idea of introducing market allocation of landing slots is being taken seriously. This could be achieved by permitting airlines to buy and sell the slots. In the New York area, the Port Authority, which operates Kennedy and LaGuardia, has proposed a semiannual auction of peak-hour slots. And on the national level, the Office of Management and Budget and the Justice Department have both come around to supporting a market economy in slots, with airlines buying and selling slots among themselves. An OMB official told REASON that the proposal got a big boost last year when two Federal Trade Commission economists, Donald Koran and Jonathan

Ogur, published a study spelling out the case for market allocation.

Koran and Ogur's study, *Airport Access Problems: Lessons Learned from Slot Regulation by the FAA*, examined a six-week FAA experiment with market allocation in 1982. During that brief period, there was a flurry of slot sales among airlines—more than 190 landing slots changed hands, with price tags from $12,000 to $500,000 each. It was a fortunate experiment for new airlines such as People Express, which immediately bought up 12 slots at Newark's airport for $200,000. It is unlikely that People could ever have garnered this entry to the New York market under the conventional slot-rationing system.

Koran and Ogur concluded that the rationing system to which the FAA returned exacts huge costs that a market system would avoid. The regulatory system is inept at transferring slots from lower-valued to higher-valued flights and creates huge barriers to new airlines' entering markets. And without the signals provided by prices, the regulators are unable to make sound decisions about expanding airport and air traffic control facilities.

There is no precise price tag on all this. But Koran and Ogur estimate conservatively that passengers are paying tens of millions of dollars annually because of the slot-rationing system.

So airlines are unhappy with the present system to the extent that they want more slots than the FAA provides; passengers are paying through the nose; and three powerful federal agencies want reform. Yet a federal official told REASON that market allocation is being fought tenaciously by most of the Federal Aviation Administration. Under pressure from the OMB, a reluctant FAA has devised a draft proposal for market allocation at National Airport, and at this writing, the two agencies are currently negotiating changes in the draft prior to the proposal's formal publication.

The proposal's viability—and the short-term prospects for market reforms—will soon be clear. REASON will keep you posted.

THE SOUND MARKET

Oh, the wonders of the marketplace! Case in point: stereophonic sound for AM radio.

In 1982, the Federal Communications Commission (FCC) approved high-fidelity, stereo sound for AM—an advantage that FM radio had fully exploited to the great detriment of AM. But the commission declined to choose one of the four proven (but incompatible) systems as a federal standard, leaving any decision about a standard to the marketplace.

Broadcasters and radio manufacturers hesitated in going all out to adopt one of the competing systems, fearing that their choice would fail the ultimate test: consumer acceptance. Some thought that the FCC's demurral had allowed a great opportunity to pass; chaos in the market was predicted.

But here's what has actually happened: Two companies, Sony and Sansui, now make and sell radios that can receive any of the four AM stereo signals broadcast (about 150 AM stations now broadcast in stereo). And, *High Technology* magazine reports, a number of other manufacturers are developing multidecoding receivers as well. Where there's a need, there's a market.

Now a similar situation is developing with regard to stereo sound for television. The FCC recently approved stereo TV, after which the Electronics Industry Association urged the commission to designate a combination of two technologies—one by the firm DBX, the other by

Zenith—as the official standard. The commission, under deregulation-minded Chairman Mark Fowler, declined, so the trade group adopted the Zenith/DBX system as its standard, on a voluntary basis.

While the FCC's refusal to set a standard for stereo TV has many within the industry in jitters, not all insiders think the bureaucrats erred. One industry publication, *TV Technology*, recently editorialized on the situation, noting its parallel with the AM stereo issue. Citing the advent of the multidecoding AM radios, the publication remarked that "it is far from clear that the marketplace decision has hindered the long-term progress of AM stereo." The editorial wisely pointed out that "if it turns out that there are serious objections to the Zenith/DBX system it will be fortunate that the FCC didn't make it a federal standard."

PROFITABLE PEDAGOGY

The hypothesis that a thing done by government is a thing ill done may not have the status of scientific truth. But the point certainly is not lost on an emerging group of entrepreneurs who are looking for profit opportunities in education.

Education Week recently reported that International Telegraph and Telephone, Bell and Howell, and the Encyclopedia Britannica Educational Corp.—all three of which operate for-profit postsecondary educational programs—may get into the operation of private elementary and secondary schools. The rising concern over the quality of education in the public schools has sparked the firms' interest in the possibility of providing such education at a profit.

Another firm, Educational Corp. of America, plans to open two for-profit elementary schools in Chicago this fall and another 2 to 10 schools a year thereafter. Tuition at the schools, each of which will accommodate 350 students, will range from $1,000 to $6,000. Behind the venture are Dennis Keller and Ronald Taylor—who run the Keller Graduate School of Management in Chicago at an annual profit of $300,000—and Richard Rosett, former dean of the University of Chicago Graduate School of Business.

Already, there is a trade association for operators of for-profit schools. Founded last year by Charles Lavaroni, owner of the for-profit Kittredge School (95 students in grades 1-8) in San Francisco, the National Independent Private Schools Association has 50 members in 7 states. According to Lavaroni, about 1 percent of the nation's elementary and secondary schools are run for profit.

And if there's to be for-profit grade schools and high schools, why not franchised remedial learning centers, as well? That's exactly what Sylvan Learning Centers are, and, according to *Venture* magazine, 100 of the franchises have been sold to investors in 48 cities. The centers specialize in remedial reading and math. Copartners Gene Williams, former president of the educational and reference publisher Americana Corp., and former schoolteacher Barry Fowler expect their franchise firm to earn gross revenues of $4 million this year. Williams and Fowler plan to license 600 of the franchises during the next three years and hope eventually to see 1,400 to 1,700 of the centers in operation.

And a California firm has found another way to get the private sector involved in primary and secondary education—and makes a profit doing it. Enterprise for Education (EFE), based in Santa Monica, wanted to supply high-quality educational materials to schools without the schools having to pay for it. The company propositioned corporations, offering to develop the materials to give free to schools if the corporate sponsors would pay for the printing and distribution. Twenty-five companies (including IBM, General Electric, and many other giants) became sponsors, and in 1981 EFE put out "Energy 80," a course on energy. So well received were the materials that EFE doubled its corporate sponsorship and issued a second edition of "Energy 80" last year, which reached some 300,000 students in 15 states.

Privatization of primary and secondary education is not likely to blossom forth overnight. But it does look as if the seeds are now being sown.

PRIVATIZATION BEGINS AT HOMES

Since it began 14 years ago, the market for mortgage-backed securities has been dominated by government-related agencies. Now it looks like that market may be on the way to quiet but dramatic privatization.

The idea behind public trading of mortgage-backed securities is sensible. Once upon a time, banks and other lending institutions offered mortgages to home buyers and then kept them in their portfolios until they were paid off. But then came persistent inflation, and lenders were stuck with long-term mortgages at interest rates far lower than their cost of new funds. Understandably, institutions have wanted to reduce the number of mortgages in their portfolios to reduce their risk of losses. This they accomplish by selling the mortgages to institutions that in turn issue publicly traded securities based on a number of mortgages pooled together.

This practice has become so common that, according to a recent article by Ronald Brownstein in *National Journal*, mortgage originators sold 70 percent of their loans in the first half of 1983, compared to some 20 percent a decade ago. The practice, noted Brownstein, "has become an integral part of the housing finance system."

However, it is a part where private entrepreneurship has been minimal. Three quasi-governmental entities—the Government National Mortgage Association (Ginnie Mae), which guarantees securities backed by federally insured mortgages; and the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), which buy mortgages and issue securities—have dominated the market. Altogether, these agencies have issued more than $280 billion worth of mortgage-backed securities since 1970, when Ginnie Mae first launched the market. By contrast, private firms only recently entered the mortgage-backed securities market, and several are now gearing up to sell several billion dollars' worth of such securities a year. Private firms have generally purchased only mortgages above $114,000, which government agencies cannot buy. Moreover, they have confronted an array of securities laws to which their government-sponsored competitors aren't subject.

But change is in the air. Brownstein reported that the Reagan administration has established twin goals of making mortgage-backed securities more attractive to pension funds, life insurance companies, and other institutional investors and reducing Fannie Mae and Freddie Mac's role in what could mushroom to a

$200-billion-a-year market. The administration is pushing two major pieces of legislation to accomplish this.

One bill would preempt existing state laws that now prohibit pensions or insurance companies from investing in mortgage-backed securities and would broaden existing exemptions from the securities laws for sales of these securities. This bill passed the Senate last November and is now being considered in the House.

The administration has also proposed changing the tax laws to give securities issuers more flexibility in managing their mortgage pools without adverse tax consequences. This would be accomplished with a new entity called Trusts for Investments in Mortgages (TIMs) that would effectively function as mutual funds for mortgages.

The path to privatization has its perils. Key House members are reputed to be skeptical of the legislation. And powerful housing lobbies in Washington insist that any TIMs legislation should give government agencies the authority to set up TIMs just as private firms could. The lobbies favor the government agencies because the agencies are well established and the market has confidence in them, a National Council of Savings Institutions official told the *National Journal.* But private participants in the market worry that the agencies would thus be able to maintain a near-monopoly on the market.

If these potential problems can be overcome, another major portion of the economy may be shifted from government to the private sector, providing greater incentives for lending to home owners.

TICKETS TO HEAVENS

Want to buy a space shuttle—for $2 billion? Cyprus Corp. does. Headed by Willard Rockwell, Jr.—former chief executive of shuttle-builder Rockwell International Corp.—Cyprus is discussing with NASA the purchase of a shuttle orbiter. The corporation wants to use it to launch communications satellites. (An earlier such proposal, by Space Enterprises, Inc., was withdrawn last year.)

Rockwell believes that NASA's fleet of three shuttles (with a fourth to be added later this year) won't be able to satisfy the demand for satellite launches. And though the $2-billion price tag is hefty, Rockwell said that "the financing doesn't scare me."

If the purchase goes through, it would mark a major step in private-sector involvement in space. But even the fact that a corporation of Cyprus's size is seriously considering such a deal is significant, indicating that the launch business may be poised to attract large private capital, in spite of predictions that it never would.

Another way that large sums of private capital might be directed toward the space business is a surprisingly simple one: a lottery. The lottery idea was recently discussed in an exchange of letters published in *Aviation Week.* Richard Kirka proposed that NASA raffle off tickets for free rides on the shuttle, selling them for $5 per chance. The space agency's income from such a lottery, Kirka suggested, would be enough "every year to pay for a major project like the space station without hitting the taxpayer for more money." Kirka estimated that there may be 20 to 30 million space enthusiasts who would gladly part with $5 for a chance to ride on the shuttle—yielding $100-$150 million a year.

Then Alan Stern wrote in to *Aviation Week* about a similar lottery idea that he and several other students at the University of Texas formulated some years ago, an idea that goes Kirka's one better. The group "envisioned a private corporation conducting such a venture." Using a 60-passenger module placed in a shuttle's cargo bay, a firm could sell more than 200 million tickets, at $1 each, for all 60 places, the group estimated. (To attract speculative investors, winning tickets would be auctionable.) In addition to that income would be proceeds from the sale of book, TV, and movie rights to the story.

It's doubtful that NASA would go for the lottery idea, but are you listening, Willard Rockwell?

A BOONDOGGLE THAT'S ALL WET

For years, free-market economists have pointed out that government subsidies to Western water users have been a disaster resulting in wasteful depletion of water resources. They've made the case over and over for market pricing of water, and now there are signs that their case is gaining respectability.

One important indication was a favorable article, "Should Water Subsidies Go Down the Drain?" published in *Business Week* in early March. It quoted a Congressional Budget Office estimate that users of water from existing federal water projects pay a mere 19 percent of the total cost of the water, with taxpayers footing the rest of the bill—estimated at more than $600 million this year alone.

According to the article, the consequences of this boondoggle are horrendous, including enormous distortions of agricultural markets. For example, avocado production has skyrocketed recently and avocado prices have gone down. So the market doesn't particularly need more avocados. Yet the Reagan administration has proposed a new water project—the Santa Margarita irrigation project, with a $229-million price tag—to provide more water for avocado farmers.

Another negative consequence of the subsidies is that farmers have little incentive to conserve water that's been made artificially cheap. As a result, water is squandered, and water shortages become a real threat. Economists Bruce R. Beattie of Montana State University and Henry S. Foster of the Agriculture Department estimate that consumption of water could be cut 12.6 percent in some places with even a modest increase of 10 percent in the price of water. And Delworth Gardner of the University of California believes that a price increase of 10 percent would reduce water usage by as much as *20 percent* for some California crops.

Gardner and others suggest that "on existing projects, the price [of water] should be what the markets are willing to pay." But politics makes this possibility remote, at best. Indeed, *Business Week* reports that the Reagan administration recently proposed a whopping $700 million worth of new government-funded water projects.

Is there any politically feasible alternative to the water scam? One possibility is to permit the current beneficiaries of the system to sell their water rights. As *Business Week* notes, "If, for example, a power plant can buy existing water rather than go out and tap the water table or force the creation of another costly dam, everyone benefits: the current user, the power plant, and the economy as a whole." But the sale of water is currently hampered by various state and federal laws.

Despite the restrictions on such sales, they are beginning to happen more frequently. In Utah, owners of irrigation-water rights have sold some of their rights to an electric utility. And a creative barter is being discussed in California, in which the Metropolitan Water District of Los Angeles would upgrade the irrigation systems of the Imperial Irrigation District. In exchange, the Metropolitan Water District would receive all the water that was being saved.

These schemes of "buying off" the current holders of water rights are not an ideal solution. "The users who now get water cheaply [that is, subsidized water] would reap a windfall," *Business Week* notes. And Kenneth D. Frederick of Resources for the Future voices the objections of many when he says that "people shouldn't be able to make a profit on what the government has given them." But as *Business Week* says, "More and more economists are looking forward to the market as an answer," and this "buying off" may be the only viable path to a more realistic market in water.

At least and at last the issue is being seriously discussed.

CABLE COMPETING BY MANY OTHER NAMES SPELLS THE SAME

Cable TV systems are facing a growing number of alternatives that threaten to topple the edifice of local government regulation.

A cornerstone of the regulatory system is the contention that cable is a natural monopoly and therefore no place for the draining competition of free markets. But a recent Cato Institute study by attorney Clint Bolick takes issue with the natural-monopoly thesis. In a town where a single cable company provides good service at economical prices, it's true that no other company would be likely to try to compete, notes Bolick. But in fact, there is a growing number of places where two cable companies are competing—the Lehigh Valley of Pennsylvania; the Maine village of Presque Isle; Slidell, Louisiana; and Phoenix, Arizona (a case covered by Tom Hazlett in REASON's July 1982 issue).

Does a competitive market in cable

mean higher prices for consumers than under a regulated monopoly? Probably not. Bolick cites a study which found that subscribers pay an 18 percent penalty when there is head-to-head competition on the same street between cable services. But another study found that *22 percent* of cable costs in franchised-monopoly cities is "directly attributable to local regulations." So it looks as if the extra costs from "duplication" of service are not avoided and are in fact exceeded by imposing a monopoly!

Of course, competition in cable has been severely limited in most places. But competition for the cable viewer is coming anyway in a wide array of new technologies. One is multichannel multipoint distribution services (MMDS), which broadcast television channels over microwave frequencies. The *National Journal* reports that more than 100 one-channel MDS systems are now on the air, and the FCC is sorting through some 16,500 applications for the right to broadcast over four-channel MMDS.

A second competing technology is direct broadcast satellites (DBS). One such system is already operating. While technology now exists to broadcast three television signals via DBS (they are received by rooftop dishes), a 32-channel satellite will soon be available.

Yet another technology is satellite master antenna television (SMATV), which Bolick describes as "cable television using wires that do not cross public property." Among its advantages over cable is that the FCC has forbidden local governments to regulate SMATV.

An example of SMATV's potential is in Dallas where, according to the *National Journal*, landlords of large apartment complexes bypass the cable monopoly by putting up rooftop-mounted dishes to receive satellite signals and then charge their tenants who receive the service. The result of this is that Warner-Amex Cable, the cable franchisee for Dallas, has been able to penetrate only about 25 percent of the Dallas market, less than half of the industry's national average.

The *National Journal* reports that SMATV now has fewer than 400,000 subscribers nationally, about one percent of cable viewers, but "their potential for growth is enormous." An executive with a Chicago SMATV company says, "We look at ourselves as being in the private cable business. . . . The difference is that we're free from the shackles of regulation and from the problems of the political arena, which are detrimental to any business."

Some observers, such as Washington telecommunications attorney Philip Verveer, suggest that the significant competition with cable in the future will be elsewhere. "I'm inclined to believe the possibility for a huge competitive battle is more likely to involve cable and the telephone companies than the other competitors," he told the *Journal.* He believes that it's only a matter of time—perhaps 20 years—before telephone companies will have the technology for the same video services as cable now offers.

So it looks as though competition is here to stay in the cable market despite the widespread propensity to regulate cable itself as a natural monopoly. And cable companies may soon find themselves left behind in the race to serve TV viewers—unless they trade in their exclusive franchises for the opportunities of the free market.

DRIVING TO MARKET

Deregulation never promises anyone a rose garden. Any change in the status quo is bound to bring in its wake a set of problems that didn't exist before. But a recent study by Richard Zerbe, a University of Washington professor and consulting economist to the Federal Trade Commission, shows how in one instance—the deregulation of taxicabs in Seattle—the benefits were large, the problems were relatively minor, and they were solved without a knee-jerk return to regulation.

In a recent article in *Regulation* magazine, Zerbe described the extensive regulatory scheme in effect in Seattle for nearly 50 years. The city fathers passed an ordinance in 1930 that established cab fares as well as a ceiling on the number of cabs permitted in the city (a number left unchanged for about 40 years).

In the 1970s, the regulatory arrangement grew creaky and unwieldy. City council members and taxi operators were at odds when the operators applied to the city for fare increases. In this climate of dissatisfaction with the status quo, in 1979 Councilman Randy Revelle was able to shepherd taxi decontrol through the council and win decontrol from the county and port authorities, as well.

What were the results? By and large, very positive. The number of city-licensed cabs rose from 421 to 511, and employment levels rose accordingly. The response time—the length of time it takes for cabs to respond to a call—has reportedly declined considerably. And although it is hard to ascertain deregulation's effect on fares (because of other factors involved), Zerbe calculates that fares on an average taxi trip would have been about 11 percent higher if price regulation had continued.

Deregulation has not been without some snags, however. Prior to deregulation, the King Street Amtrak station had awarded all taxi business at the station to a single company. But with deregulation, independent and cab-fleet taxis flocked to the train station, where they clogged traffic and sometimes clashed with each other in their competition for customers. There were other problems at the Seattle-Tacoma airport, where there were disparities among fares charged by different cabs, and some drivers were refusing to take short-haul customers.

As city council members began to hear complaints about these problems, some called for full reregulation of cabs. They were stopped cold in their tracks when city attorneys pointed out that the Supreme Court's famed *Boulder* decision of 1982 might expose the city to liability for antitrust violations if it reimposed controls.

In the end, the council and other authorities opted for far milder changes. The council required cabbies to post their fares on the outside of their vehicles (which, according to Zerbe, the cabbies might well have done anyway). Amtrak resumed the practice of franchising cabs at the train station, which a sensibly run business might very well have done. And the airport authority, after some false starts, adopted a maximum-rate scheme and established a special line of cabs willing to serve short-haul customers—also solutions that a business eager to please its customers might well have adopted.

Zerbe himself is not a partisan of either regulation or deregulation. Yet the evidence he provides indicates overwhelmingly that deregulation has been a positive thing for the Seattle taxi industry, and especially for its customers, and that the problems that can arise with deregulation can be solved without the stultifying hands of government regulators.

MILESTONES

• *Vice views.* Americans don't think victimless "vices"—such as drug use, gambling, or statutory rape—are very serious. That was the finding of a survey of more than 60,000 people conducted by Wharton School's Center for Studies in Criminology. Respondents, asked to rate the seriousness of 204 crimes, put violent crimes at the top, victimless at the bottom.

• *Survival of the fittest.* The Texas Board of Education has repealed a rule enacted at the behest of "scientific creationists" requiring that evolution be taught as "only one of several explanations of the origins of mankind." Because Texas schoolchildren are about 10 percent of the national textbook market and publishers tailor their textbooks accordingly, the victory for science is actually national in scope.

• *First priorities.* Philip Kurland of the University of Chicago, one of the nation's most distinguished legal scholars, has coauthored a book arguing that the First Amendment should apply to cable television. "[Cable] is a different technology," note Kurland and two Washington lawyers, "but it speaks the same way that the other media of communications do, through words and pictures."

—ROBERT W. POOLE, JR., PAUL GORDON, AND ERIC MARTI

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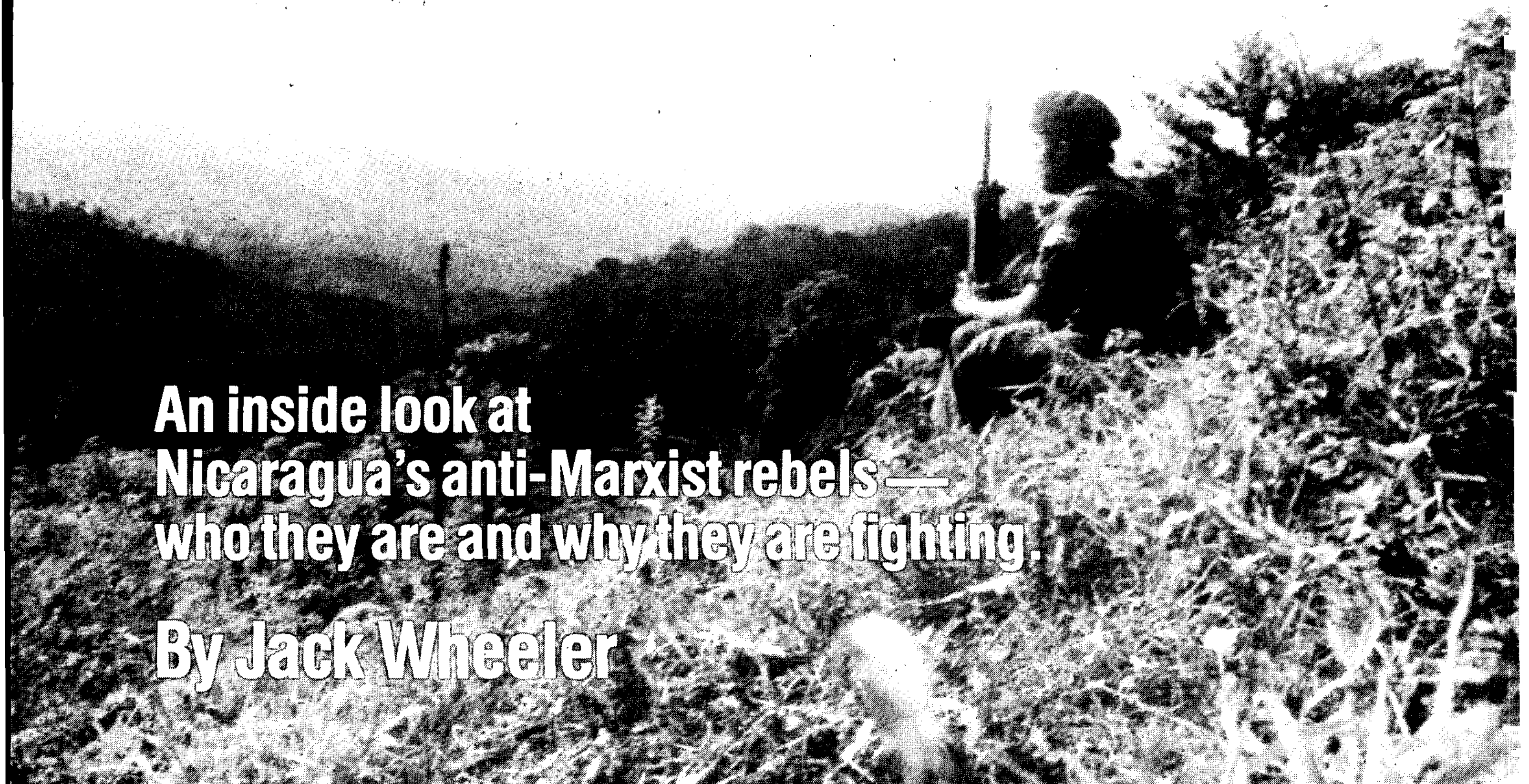

An inside look at Nicaragua's anti-Marxist rebels—who they are and why they are fighting.

By Jack Wheeler

Ordinarily, I like being in jungles. I've spent time in many of them, from the Amazon in Ecuador to the Sepik in New Guinea, the Ituri in Africa, and the Montagnard Highlands of South Vietnam. But this time, it was different.

It was the summer of 1983, and I was clandestinely crossing the border from Honduras into Nicaragua with a patrol of 90 FDN (Nicaraguan Democratic Force) guerrillas. The FDN is one of several rebel groups—collectively known as the "Contras"—who are trying to overthrow the Marxist Sandinista government of Nicaragua, which is backed by Cuba and the Soviet Union. My month-long sojourn with the Contras marked the beginning of a multicontinent investigation of Third World anti-Soviet guerrilla movements that took me from Central America to Afghanistan and Africa.

My special high-tech boots of which I was so proud were no match for the mud of the Central American rain forest, nor for the Contras' mode of travel: straight up the side of one forested mountain, straight down the other, avoiding anything remotely resembling a trail or path, over and over and over—and over—again. It had started to rain, but my clothes were so thoroughly drenched with sweat that it made no difference. I had forgotten what it was like not to be thirsty. Even though I kept filling my water bottle at every opportunity and lacing it with a powdered electrolyte replacement, I was far more dehydrated than I had ever been in, say, Timbuktu in the Sahara Desert.

For guerrillas, the Contras I was with were well equipped: Belgian FAL automatic rifles; "Thumper" grenade launchers; LAW rockets (made famous by Clint Eastwood's "Dirty Harry" Callaghan in the movie *The Enforcer*); a few Soviet RPG-7 grenade launchers, AK-47 Kalashnikov rifles, and AK-47 ammunition in boxes with Arabic lettering (captured PLO stuff very likely provided by the Israelis, though the Israeli government denies this); flashlights, walkie-talkies, good fighting knives, web harness gear, canteens, new blue-green uniforms, and US Army ankle-length jungle boots with deep-lugged soles—all the latter from the US Central Intelligence Agency (CIA).

During a rest break, I tried on a couple of spare pairs of these jungle boots the fellows had with them, but they were too small. Finally, a large, fair-skinned Contra whose code name was "Yankee" took off his own and insisted that I try them on. They fit. Somehow, Yankee squeezed into another pair, and off we went again. Now I wouldn't be holding everyone up by continually swan-diving into the slippery mud. I was even able to catch up with Charley.

Charley was point man for the patrol. I'll never forget my first sight of him as he emerged from the jungle, built like a black Baryshnikov, sporting a Belgian FAL rifle and a Soviet RPG-7. If all the

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