Cato Policy Report

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The Real Free Lunch: Markets and Private Property

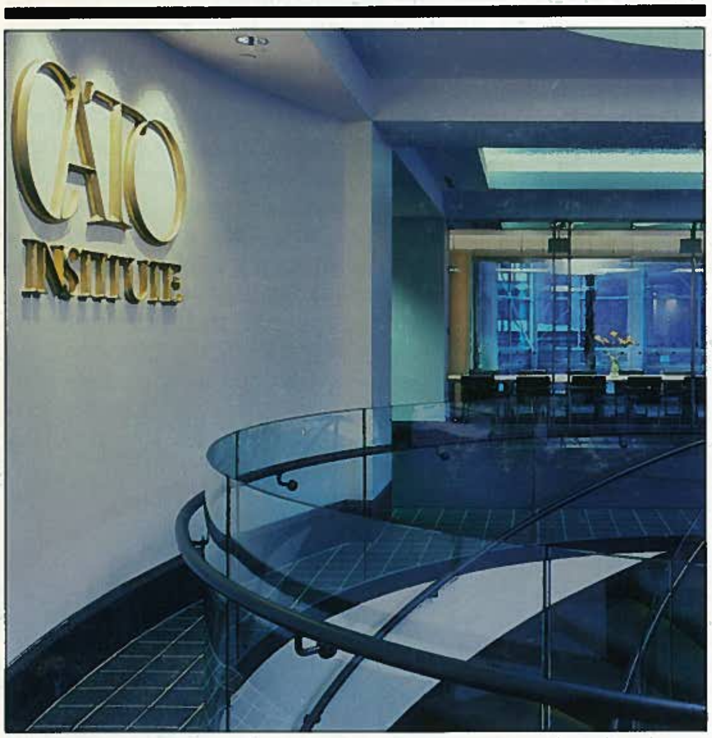
by Milton Friedman

I am delighted to be here on the occasion of the opening of the Cato headquarters. It is a beautiful building and a real tribute to the intellectual influence of Ed Crane and his associates.

I have sometimes been associated with the aphorism "There's no such thing as a free lunch," which I did not invent. I wish more attention were paid to one that I did invent, and that I think is particularly appropriate in this city, "Nobody spends somebody else's money as carefully as he spends his own." But all aphorisms are half-truths. One of our favorite family pursuits on long drives is to try to find the opposites of aphorisms. For example, "History never repeats itself," but "There's nothing new under the sun." Or "Look before you leap," but "He who hesitates is lost." The opposite of "There's no such thing as a free lunch" is clearly "The best things in life are free."

And in the real economic world, there *is* a free lunch, an extraordinary free lunch, and that free lunch is free markets and private property. Why is it that on one side of an arbitrary line there was East Germany and on the other side there was West Germany with such a different level of prosperity? It was because West Germany had a system of largely free, private markets—a free lunch. The same free lunch explains the difference between Hong Kong and mainland China, and the prosperity of the United States and Great Britain. These free lunches have been the product of a set of invisible institutions that, as F. A. Hayek emphasized, are a product of human action but not of human intention.

Milton Friedman is a senior research fellow at the Hoover Institution and the 1976 Nobel laureate in economics. This article is based on his remarks at the banquet celebrating the opening of the Cato Institute's new building on May 6, 1993.



In the Cato Institute's new headquarters at 1000 Massachusetts Avenue N.W., formally opened on May 6, the Cato logo greets visitors at the top of the circular staircase leading to the auditorium. The conference room is visible across the lobby.

At the moment, we in the United States have available to us, if we will take it, something that is about as close to a free lunch as you can have. After the fall of communism, everybody in the world agreed that socialism was a failure. Everybody in the world, more or less, agreed that capitalism was a success. The funny thing is that every capitalist country in the world apparently concluded that therefore what the West needed was more socialism. That's obviously absurd, so let's look at the opportunity we now have to get a nearly free lunch. President Clinton has said that what we need is widespread sacrifice and concentrated benefits. What we really need is exactly the opposite. What we need and what we can have—what is the nearest thing to a free lunch—is widespread benefits and concentrated sacrifice. It's not a wholly free lunch, but it's close.

Free Lunches in the Budget

Let me give a few examples. The Rural Electrification Administration was established to bring electricity to farms in the 1930s, when about 80 percent of the farms did not have electricity. When 100 percent of the farms had electricity, the REA shifted to telephone service. Now 100 percent of the farms have telephone service, but the REA goes merrily along. Suppose we abolish the REA, which is just making low-interest loans to concentrated interests, mostly electric and telephone companies. The people of the United States would be better off; they'd save a lot of money that could be used for tax reductions. Who would be hurt? A handful of people who have been getting government subsidies at the expense of the rest of the population. I call that pretty nearly a free lunch.

Another example illustrates Parkinson's law in agriculture. In 1945 there were 10 million people, either family or hired workers, employed on farms, and the Department of Agriculture had 80,000 employees. In 1992 there were 3 million people employed on farms, and the Department of Agriculture had 122,000 employees.

Nearly every item in the federal budget offers a similar opportunity. The Clinton people will tell you that all of those things are in the budget because people want the goodies but are just too stingy to pay for them. That's utter

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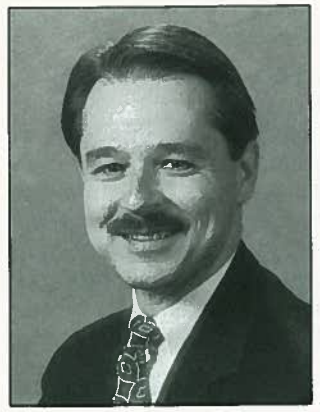
The Fatal Conceit in the Bush-Clinton Years

Editorial



We stand at the midpoint of the Bush-Clinton years—years that history will record were marked by higher taxes, higher spending, more regulation, and a general failure to recognize the lessons of history and to join the market-liberal revolution that is sweeping the rest of the world. From Moscow to Buenos Aires, from Wellington to Lombardy, from Stockholm to Soweto, people are throwing off repressive government and moving toward human rights and free markets.

Yet here in the United States, after four years during which the federal government grew dramatically without any ideological argument's being advanced for big government, a new administration elected by 22 percent of the American electorate is promising bigger and more expansive government in every imaginable area. Just consider the proposals of Bill and Hillary's first 100 days: a massive tax increase, a high-tech subsidy program, a government-industry partnership to build better automobiles, a national commission to ensure a strong competitive airline industry, national youth service, a 20-year plan for defense industry conversion, managed trade with Japan, a new computer chip to allow the government access to all forms of electronic communication, and the pièce de résistance, 500 bureaucrats organized into 15 committees and 34 working groups to recreate in 100 days one-seventh of the American economy. Or at least that *seemed* to be the pièce de résistance, until Hillary Clinton announced in May that her next project would be "redefining who we are as human beings in the post-modern age." That should make recreating an $800-billion industry seem like a piece of cake.

We try to avoid using the F-word at Cato, so I'll just call this program "corporate statism." But it is the most sweeping example of the Fatal Conceit—the idea that smart people can plan an economic system that would serve human needs better than the unplanned market—that America has ever seen. In all their years of college, Bill and Hillary Clinton and their Rhodes Scholar friends apparently never encountered the wonderful words of Dr. Johnson:

> How small, of all that human hearts endure,
> That part which laws or kings can cause or cure!

I frequently hear our friends say that we've won the intellectual battle and that only the mopping up remains. I can't agree. We *have* achieved something tremendous in the past 15 years. We have intellectually—and for the most part practically—defeated the most coherent, most comprehensive alternative to the free society that the world has seen. Robert Heilbroner, one of America's most interesting socialist intellectuals, writes in the *New Yorker*, the cynosure of the American establishment, that "less than 75 years after it officially began, the contest between capitalism and socialism is over: capitalism has won." And again, "It turns out, of course,"—I love that "of course"—"that Mises was right" about the impossibility of socialism.

I would not claim that the Cato Institute brought down communism. But we did do our bit in that grand cause, by helping to support F. A. Hayek, by publicizing his works, by translating some of his and Milton Friedman's writings into Polish and Russian, and by publishing policy studies laying out the practical case for free markets and liberal policies. The collapse of state socialism was a large enough triumph to allow many people to participate in it.

But we are now faced with a new challenge: Socialism is dead, but corporatism, paternalism, industrial policy, and the welfare state are still very much alive. Most academics and most journalists still believe in some form of active government intervention in society. Even though confidence in government is at an all-time low—lower than during the last years of Nixon, lower than during the last years of Carter—82 percent of Americans want to impose price controls on medical care. Market liberals still have a big intellectual battle to fight.

We at the Cato Institute are committed to that fight. We appreciate very much the support we have received for our ongoing efforts and particularly for our beautiful new building, which will do so much to enhance our effectiveness. Our supporters should rest assured that we have a "culture of change" at Cato—all of our policy directors have a firm commitment not only to market-liberal values but also to changing society in a market-liberal direction.

We agree with F. A. Hayek that "we must make the building of a free society once more an intellectual adventure. [We need] a truly liberal radicalism which does not spare the susceptibilities of the mighty [and] does not confine itself to what appears today as politically possible."

Market liberalism offers the vision of a free, prosperous, and pluralistic society for all people, in the United States and around the world. It is Cato's challenge, in a new era and a new building, to make that vision a reality.

—David Boaz

Sen. Hank Brown Launches Events

1,000 Guests Gather for Grand Opening

The Cato Institute celebrated the opening of its new building at 1000 Massachusetts Avenue, N.W., on May 6 and 7 with special events that included a gala black-tie dinner for 1,000 guests and a speech by Nobel laureate Milton Friedman.

The festivities began at noon on May 6 with a Founders Luncheon, served in the first-floor, glass-enclosed conference room, for major contributors to the building fund. Guest speaker at the luncheon was Sen. Hank Brown (R-Colo.), who said that it is important to preserve a society that rewards hard work and entrepreneurship.

The luncheon was followed by the first official event in the F. A. Hayek Auditorium, named in honor of the late market-liberal economist. Some 160 Sponsors and staff members heard Cato president Edward H. Crane, chairman William Niskanen, board member David Koch, and executive vice president David Boaz express their appreciation of the many Cato supporters who made the building possible.

Several hundred people toured the building in the course of an afternoon open house and champagne reception. The guests' reactions indicated that they were very impressed by the building.

The opening-day festivities were capped by a formal reception and dinner at the Washington Hilton. Some 1,000 friends of the Institute gathered to celebrate the occasion and to hear remarks by Milton Friedman, humorist and Cato Mencken Research Fellow P. J. O'Rourke, American Civil Liberties Union president Nadine Strossen, and Rep. Richard Armey (R-Tex.). The speakers praised Cato for its commitment to human liberty and for the quality of its work. Friedman pointed out that although he is identified with the line, "There is no such thing as a free lunch," restoring the free market in the United States would be as close to a free lunch as we could get, since most people would benefit and only a few special interests would suffer from the loss of government largess.

Cato president Edward H. Crane talks with Rep. Dick Armey at the Grand Opening dinner.

O'Rourke praised the market liberals in the ballroom for being the only people in the world who don't claim to know what is best for all the other people in the world, and Strossen paid tribute to Cato for its defense of civil liberties. Armey sang the praises of the free market.

After the program, the guests danced to the music of Retrospect. As a token of gratitude, the Institute gave each guest a framed photograph of F. A. Hayek, taken during his lecture at Cato in 1982. Until his death, Hayek was a Distinguished Senior Fellow of the Institute, and he remains an inspiration for its work.

The dinner was covered by both the *Washington Times* and the *Washington Post*, which also published a glowing architectural review of the building.

The next day Cato staff members gave a series of public policy talks in the F. A. Hayek Auditorium. Some 150 Cato Sponsors attended. Roger Pilon, director of the Center for Constitutional Studies, analyzed congressional gridlock in terms of the Constitution and its mandate for limited government. Brink Lindsey, director of regulatory studies, spoke about the fallacies of President Clinton's industrial policy for high-tech industries. Ted Galen Carpenter, director of foreign policy studies, discussed the Clinton administration's drift toward intervention in Bosnia; and David Boaz, executive vice president, talked about the need for school choice.

The Cato staff completed its move to the building on May 10. The 40,000-square-foot, six-story building was designed by the architectural firm Hellmuth, Obata & Kassabaum and interior architects Gensler and Associates with

(Cont. on p. 5)

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Income Tax Repeal Advocated

Cato Speakers Debate Junk Science, Federalism

Cato Events

April 6: The Cato Institute hosted a Roundtable Luncheon on **"Economic Reform in Ex-Communist Countries"** with visitors from Russia, the Czech Republic, and Romania. Discussing such issues as the constitutional underpinnings of reform and privatization were Andrei E. Shastitko and Nadezhda M. Rozanova of Moscow State University, Ivo Koubek of Charles University in Prague, and Sorin Cozmanciuc of the Bucharest Academy for Economic Studies.

April 13: **"A Plan to Replace the Income Tax"** was the topic of a Policy Forum. Economist Laurence J. Kotlikoff of Boston University, author of the Cato Policy Analysis "The Economic Impact of Replacing Federal Income Taxes with a Sales Tax," argued that switching to a sales tax would stimulate savings and enhance economic growth. Steve Hayes of Citizens for an Alternative Tax System described the public support that is mounting for ending the income tax. Cato president Edward H. Crane pointed out that a retail sales tax would increase civil liberty because the government would have no reason to inquire about how citizens earned and spent their money.

April 15: A Policy Forum hosted Martín Krauss, president of the Fundación América in Buenos Aires. Krauss spoke on **"From State Monopoly to Private Monopoly: Privatization and the Costs of Restricting Competition in Argentina."** He challenged the notion that industries such as telecommunications are "natural" monopolies requiring government restrictions on competition and presented ideas on how to privatize Argentina's remaining state-controlled enterprises.

A satisfied customer asks Clint Bolick to autograph his new Cato book, *Grassroots Tyranny*.

Roger Pilon listens as Justice Antonin Scalia makes a point at an informal, off-the-record Cato luncheon.

April 20: The first in a series of media luncheons featured a talk by Paul H. Weaver on his forthcoming book, ***News and the Culture of Lying: Inside Journalism's Theater of Privilege.*** Weaver argued that much of what journalists report about government and politics is lies and that everyone knows it.

April 22–23: The annual *Regulation* conference, **"Technology Policy: More Government or Less?"** examined President Clinton's proposal for a high-tech industrial policy. Speakers included Murray L. Weidenbaum of the Center for the Study of American Business, Charles L. Schultze of the Brookings Institution, Cynthia A. Beltz of the American Enterprise Institute, George A. Keyworth II of the Hudson Institute, Lawrence A. Kudlow of Bear Stearns & Co., and Peter Huber of the Manhattan Institute.

April 28: A Book Forum was held to celebrate the publication of ***Failure and Progress: The Bright Side of the Dismal Science*** by Dwight R. Lee and Richard B. McKenzie. Lee spoke about the important economic function of failure and said that government efforts to avert it only diminish the prospects of success.

May 6: The **Grand Opening of the New Cato Institute Building** was celebrated with several events. A Founders luncheon for major contributors featured Sen. Hank Brown as guest speaker. An opening ceremony for Cato Sponsors, held in the F. A. Hayek Auditorium, featured remarks by finance committee member David Koch and Cato's William Niskanen, Edward Crane, and David Boaz. That was followed by an open house for friends and supporters of the Institute. An evening black-tie reception and dinner-dance were highlighted by addresses by Milton Friedman, P. J. O'Rourke, Nadine Strossen, and Richard Armey.

May 7: Cato held a **Public Policy Day** in connection with the Grand Opening of its new building. Addressing friends and supporters of the Institute were Roger Pilon, director of the Center for Constitutional Studies, on gridlock and the Constitution; Brink Lindsey, regulatory studies director, on President Clinton's high-technology policy; Ted Galen Carpenter, director of foreign policy studies, on the danger of U.S. intervention in Bosnia; and David Boaz, executive vice president, on school choice.

May 13: Jiri Schwarz, president of the Liberal Institute in the Czech Republic, discussed his country's progress toward a free market at a **Roundtable Luncheon** for Cato policy staff and guests.

May 17: Climatologist Patrick Michaels, author of the Cato book *Sound and Fury: The Science and Politics of Global Warming*, and U.S. Circuit Judge Alex Kozinski discussed the use of science in the courtroom at a **Roundtable Luncheon.** Michaels said that minority viewpoints in the scientific world should not be excluded from trials because they could turn out to be true. Kozinski said that judges should be permitted to exclude so-called junk science because

it can lead to unjust verdicts and large awards in liability and other cases.

May 26: "Does Federalism Secure Local Government Autonomy or Individual Liberty?" was the topic of a Book Forum for the newly released Cato book ***Grassroots Tyranny: The Limits of Federalism*** by Clint Bolick, vice president of the Institute for Justice. Bolick said that the Founding Fathers built federalism into the Constitution to protect individual liberty, but that federalism has since been twisted into a states' rights doctrine at the expense of individual rights. He believes the federal courts should strike down state and local laws that violate individual freedom. Terry Eastland, research fellow at the Ethics and Public Policy Center, responded that the Founders saw liberty not as individual autonomy but as "the right of the community to be governed by laws of its own making."

May 27: Supreme Court Justice Antonin Scalia joined the Cato policy staff for a **Roundtable Luncheon.** The spirited discussion covered regulation and the takings clause of the Fifth Amendment, the meaning of the Ninth Amendment's reference to unenumerated rights, and the Court's role in halting the expansion of federal power. ■

Grand Opening (Cont. from p. 3)

Cato's needs in mind. With its glass-and-steel wintergarden and rose masonry, the Cato building is already acknowledged as a striking addition to the District of Columbia's skyline. Among the building's special features are a 150-seat theater-style auditorium below the lobby, complete with closed-circuit television, and a sixth-floor library, named for the late libertarian writer Roy A. Childs, Jr., whose excellent book collection forms its core. Staff offices are on the first, fifth, and sixth floors.

The new headquarters is a media-friendly, state-of-the-art facility unique in the Washington public policy environment. It will permit even wider dissemination of the Institute's policy research and become the focal point in the intellectual battle for individual liberty. ■

The Btu Tax: An Economic and Conservation Disaster

Policy Forum

The Cato Institute regularly sponsors a Policy Forum at its Washington headquarters, where distinguished analysts present their views to an audience drawn from government, the media, and the public policy community. A recent forum, held shortly before the House and Senate voted on President Clinton's proposed energy tax, dealt with the fiscal, economic, and environmental effects of the tax. The featured speaker was Norman B. Ture, president of the Institute for Research on the Economics of Taxation and an adjunct scholar of the Cato Institute.

Norman Ture: The Clinton administration's energy tax proposal has not been presented as a principal, or even a major, revenue raiser, but it's an important one. It has been presented instead as a fiscal device for ensuring conservation of energy resources, helping the environment, and promoting energy independence. I will touch very briefly on those three subjects, but I also want to talk a little bit about the impact of the tax, if implemented as the president proposes, on the economy in general and on some relatively specific elements thereof.

The first and certainly the most obvious effect of a broad-based, though not uniform, energy tax will be to increase the operating costs of all households and all businesses in this country. I stress that the tax will not increase costs uniformly. Obviously, it will increase costs more for companies and households that are, for one reason or another, more energy intensive in their operations than are others, and it's interesting to take a quick peek at which companies those are.

Manufacturing companies, for the most part, are going to take a heavy hit. I mention them first not necessarily because the burden on manufacturing will be greater than on other industries but because the president cited lack of job growth in the manufacturing sector as one of the reasons for his concern about the strength and effectiveness of the recovery. I thought it paradoxical that he proposed an increase in a tax that is certainly going to have an adverse effect on the manufacturing sector, and therefore an adverse effect on employment in manufacturing, at the same time he was bemoaning the lack of job growth in that sector.

Obviously, public utilities, particularly power generators, are going to experience rising costs. Farmers, too, will see increases in the costs of their daily activities and in those of some of their major inputs, such as fertilizers. Transportation, it is clear, will take a heavy hit. The energy tax will have a classic excise effect that will be highly differential from industry to industry, activity to activity, and product line to product line, depending on the energy intensiveness of existing production technology.

In response to higher costs, businesses will try to raise their prices. Since income will not be increased by the tax, and since there are no zero price elasticities, the obvious consequence is that as businesses try to raise their prices, buyers of business products will attempt to reduce, and will succeed in reducing, the volume of their purchases. As buyers cut back on their purchases, businesses, unless they are willing to accumulate inventories indefinitely with no prospects of their sale, will reduce output. As output is reduced, so will be the use of production inputs and, therefore, the rates of compensation for those production inputs. There will be a reduction, compared with what would otherwise have been the case, in real wage rates and the return on capital. When the costs of those consequences are added together, we get a lower gross domestic product and a lower level of national income than we would have otherwise.

One of the collateral effects of that, of course, is that as business costs go up, businesses that are engaged in the international marketplace (virtually all businesses are) will find that they are in a competitively worse position than they would have been absent the tax. We should expect to see an increase in imports and a reduction in exports compared to what we otherwise would have experienced.

Another of the collateral effects is what the tax will do to productivity throughout the nation, a matter, among many others, to which this administration has not directed its attention. It should be obvious that the use of energy inputs is one of the major elements that tends to enhance the productivity and the usefulness of labor services. You could think of all sorts of examples in the operation of your own household. Eliminate energy-reliant household appliances and visualize yourself and your spouse trying to perform the same sorts of household services without them. Just multiply that many fold for the ordinary business operation.

If, in fact, energy inputs become more expensive, and if, as a result, fewer energy inputs are used, the productivity of labor will necessarily be lower than it otherwise would have been. The productivity of labor and the marginal value-of-productivity curve for labor services are measures of demand for labor services, and decreased productivity will mean reduced demand for labor services. We all know what happens when the demand for a product or service decreases: less of that product or service is used and the price at which it is sold, the real wage rate in this case, is lower than it otherwise would have been.

The same sort of thing will happen with respect to capital inputs. Businesses will try to revise the production technologies on which they rely, and, the question is, is there any conceivable way in which revision of those technologies will lead to more efficient production?

To answer in the affirmative would be to say that businesses do not respond to opportunities to lower their costs but choose instead to operate in a more costly way, a proposition that I find entirely repugnant and entirely unrealistic. If businesses could reduce their production costs by shifting production technologies, surely they would be in the process of doing so now. They would not need the spur of a tax increase on their energy inputs to induce them to do so. So we have to assume that the technologies to which businesses will generally shift, in response to the higher cost of energy, will be less energy intensive and less efficient, which means that the productivity of capital will be lower than it otherwise would have been.

Let's also look at the effects of the proposed tax on private savings. I found it astonishing to read in the Treasury Department's green book, which explains each of the proposed tax changes, that the secretary of the treasury had announced that the energy tax is really a consumption tax and that, because it's a consumption tax, it will induce us to save more and consume less. How adding a very substantial tax that will raise costs across the board will induce people to save more is something with which I just cannot come to grips. There's nothing about the tax that increases anybody's capacity to save; indeed—by virtue of a reduction in GDP, income, and so forth—the capacity to save will be reduced; there is no incentive in the tax to save more and consume less. Shifting from a tax on income to a tax on consumption would encourage saving; merely adding a new tax burden on consumption will not.

So what we're going to have is a reduction in the aggregate level of saving compared to what we otherwise would have had. Moreover, we will use our saving less efficiently than we otherwise would have. We will direct more of our saving into changing our production technology to less energy intensive uses; less of our saving will go into additions to the stock of capital and improvements in productivity.

It has been argued that the energy tax will lead to a reduction in social costs because energy production and use necessarily involve violation of the environment, and that raising the prices of energy and its use and production will reduce environmental degradation. Well, to be able to establish the notion that there is a social cost associated with energy production and use, one needs to demonstrate that the prices at which energy is bought and sold in the marketplace misrepresent the real costs of producing and using energy supplies.

I haven't any idea how any of us, let alone people in the government, could produce any such assessment of the accuracy or inaccuracy of the market price. We simply cannot know whether tax-induced increases in energy prices would result in improvement or worsening of the so-called social costs of the situation, because we are not in a position to identify the costs that energy production and use impose. Let me point out that those are not costs imposed on society as an entity. They are imposed on us as individuals. To be able to know the magnitude and character of those costs, somehow or other we would have to know the preference functions of each and every one of us, our subjective evaluation of the opportunity costs incurred in dealing with the externality that the production and use of energy presumably imposes on us.

Norman Ture: "The energy tax will impede effective conservation. It will induce us to do the wrong thing."

I assert that the energy tax will impede effective conservation. Conservation is thought to be, in the popular lexicon, "Don't use, don't produce," but that sense of the term is entirely irrelevant here. What conservation really involves is trying to determine the optimum rates of production and use of whatever it is through time. By artificially escalating the price of energy inputs, we are asking people to misread the real conditions that would determine those optimums. What we will get is another of the many excise effects of taxes of this character: it will induce us to do the wrong thing.

As for energy independence, it should be noted that energy supplies are not fixed. Various quantities of different types of energy inputs are obtainable at various prices. If foreigners were to cut off our supplies of any other product we import, the price of that product would go up and we would have an incentive to produce more domestically. The same is true of oil. Yet we are told that we need energy independence so that foreigners can't cut off our supplies and by raising the costs of energy induce us to use less, which would have the effect of reducing our GDP and our income. To guard against that contingency, we should impose a tax that raises the price of energy, causes us to use less, and thereby reduces our GDP and our national income. I sense an inherent contradiction in that argument.

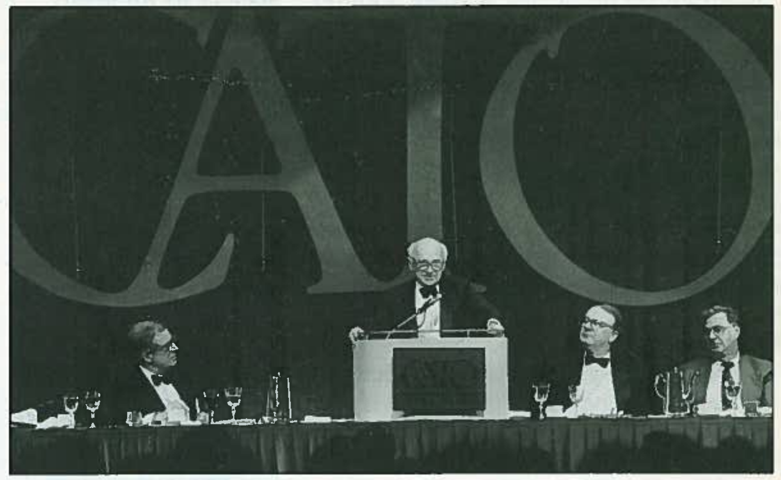
Finally, the energy tax will be hidden from the ultimate consumers of energy-produced products and services. For example, it will have a tremendously adverse effect on wholesale grocers and their distribution process. They will have to try to recoup, because their profit margins are minuscule, the energy tax by raising prices to retailers who then will have to raise or try to raise them to consumers. Will consumers be able to distinguish the part of higher prices that represents the energy tax? Clearly not.

I can conceive of nothing better suited to inflating the size of the government—the public sector and its inefficient draw on our resources—than a hidden tax. In terms of fiscal policy, the energy tax is virtually as bad a tax as one could design.

Of course, the real reason we're talking about an energy tax has nothing whatsoever to do with conservation or energy independence or social costs. It has to do with raising money to reduce the deficit. The way to assess the effects of the proposed tax is to determine whether any gain in deficit reduction would outweigh the price the tax would exact from the economy. I submit that, on the basis of this very casual, quick summary of the overall adverse economic effects and the distortive effects of the energy tax, we would have to come up with an absolutely mythical set of figures to show that the gains in deficit reduction would outweigh the enormous increase in the costs for all of us in society. I cannot do that arithmetic for you, and I don't believe that anybody in the administration can either. ■

At Last! Cato and Friends Celebrate the New Building

Cato executive vice president David Boaz shows Sponsors the original 1776 edition of *The Wealth of Nations* and the official 1823 copy of the Declaration of Independence, both on display in the Cato lobby, on long-term loan from Cato Board member James Blanchard.



Former governor Pete du Pont, Cato president Edward H. Crane, and Rep. Dick Armey listen as Milton Friedman addresses the 1,000 guests at Cato's Grand Opening banquet on May 6.

Sen. Hank Brown (R-Colo.) kicks off the Grand Opening by addressing the Founders Luncheon for major supporters of the new building.

Former governor Pete du Pont and Cato Mencken Research Fellow P. J. O'Rourke talk at the reception.

Charles G. Koch, chairman of Koch Industries and cofounder of the Cato Institute, reacts to P. J. O'Rourke's description of the Clinton administration at the dinner.

Rose and Milton Friedman talk with Charles Murray of the American Enterprise Institute after the dinner at the Washington Hilton to celebrate the Grand Opening of the new Cato building on May 6.

Cato Sponsors and friends gather in the wintergarden for the Grand Opening reception.

PHOTOS BY SUSAN MUNIAK

MAXWELL MACKENZIE

According to the *Washington Post*, "Dusk is the best time to view this . . . little jewel."

SUSAN MUNIAK

Anchor Brewing Co. chairman Fritz Maytag talks with Virginia governor L. Douglas Wilder at the dinner.

SUSAN MUNIAK

Cato Board member Sam Husbands and Federal Reserve Chairman Alan Greenspan talk with Milton and Rose Friedman at the reception before the Grand Opening dinner.

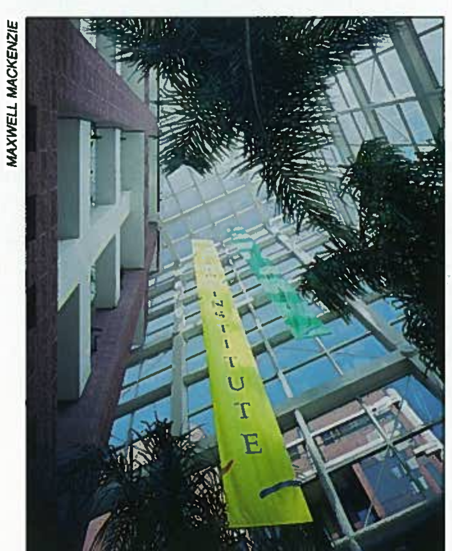
SUSAN MUNIAK

Nadine Strossen, president of the ACLU and professor at New York Law School, discusses civil liberties at the Grand Opening.

MAXWELL MACKENZIE

The view from the president's office.

MAXWELL MACKENZIE



The spacious lobby in the wintergarden was decorated with banners for the Grand Opening reception.

"We're Being Governed by Dorm-Room Bull Session"

P. J. O'Rourke

The Cato Institute has an unusual political cause—no political cause whatsoever. We are here tonight to dedicate ourselves to that cause, to dedicate ourselves, in other words, to . . . nothing.

We have no ideology, no agenda, no catechism, no dialectic, no plan for humanity. We have no "vision thing," as our ex-president would say, or, as our current president would say, we have no Hillary.

All we have is the belief that people should do what they want to do, unless it causes harm to other people. And that had better be clear and provable harm. No nonsense about second-hand smoke or hurtful, insensitive language, please.

I don't know what's good for you. You don't know what's good for me. We don't know what's good for mankind. And it sometimes seems as though we're the only people who don't. It may well be that gathered here in this room tonight are all the people in the world who don't want to tell all the people in the world what to do.

That is because we believe in freedom. Freedom—what this country was established upon, what the Constitution was written to defend, what the Civil War was fought to perfect.

Freedom is not empowerment. Empowerment is what the Serbs have in Bosnia. Anybody can grab a gun and be empowered. It's not entitlement. An entitlement is what people on welfare get, and how free are they? It's not an endlessly expanding list of rights—the "right" to education, the "right" to health care, the "right" to food and housing. That's not freedom; that's dependence. Those aren't rights; those are rations of slavery—hay and a barn for human cattle.

There is only one basic human right, the right to do as you damn well please. And with it comes the only basic human duty, the duty to take the consequences.

So we have here tonight a kind of anti-matter protest—an unpolitical nondemonstration by deeply uncommitted inactivists. We are part of a huge invisible picket line that circles the White House 24 hours a day. We are participants in an enormous nonmarch on Washington—millions and millions of Americans *not* descending on the nation's capital to demand *nothing* from the U.S. government. To demand nothing, that is, except the one thing that no government in history has been able to do—leave us alone.

There are just two rules of governance in a free society: mind your own business and keep your hands to yourself. Bill, keep your hands to yourself. Hillary, mind your own business.

We have a group of incredibly silly people in the White House right now, people who think government works. Or that government *would* work if you got some really bright young kids from Yale to run it.

We're being governed by dorm-room bull session. The Clinton administration is over there right now pulling an all-nighter in the West Wing. They think, if they can just stay up late enough, they can create a healthy economy and bring peace to the former Yugoslavia.

The Clinton administration is groping to decrease government spending by increasing the amount of money we give to the government to spend.

Health care is too expensive, so the Clinton administration is putting a high-powered corporation lawyer in charge of making it cheaper. (This is what I always do when I want to spend less money—hire a lawyer from Yale.) If you think health care is expensive now, wait until you see what it costs when it's free.

The Clinton administration is putting together a program to let college graduates work to pay off their school tuition. As if this were some genius idea. It's called *getting a job*. Most folks do that when they get out of college, unless, of course, they happen to become governor of Arkansas.

And the Clinton administration launched an attack on people in Texas because those people were religious nuts with guns. Hell, this country was *founded* by religious nuts with guns. Who does Bill Clinton think stepped ashore on Plymouth Rock? Peace Corps volunteers? Or maybe the people in Texas were attacked because of child abuse. But, if child abuse was the issue, why didn't Janet Reno tear gas Woody Allen?

You know, if government were a product, selling it would be illegal.

Government is a health hazard. Governments have killed many more people than cigarettes or unbuckled seat belts ever have.

Government contains impure ingredients—as anybody who's looked at Congress can tell you.

On the basis of Bill Clinton's 1992 campaign promises, I think we can say that government practices deceptive advertising.

And the merest glance at the federal budget is enough to convict government of perjury, extortion, and fraud.

There, ladies and gentlemen, you have the Cato Institute in a nutshell: government should be against the law. Term limits aren't enough. We need jail.

P. J. O'Rourke is the Mencken Research Fellow of the Cato Institute and the author of numerous books, including *Parliament of Whores*. He delivered these remarks at the Cato Institute's Grand Opening banquet on May 6, 1993.

Balance the Budget without New Taxes

Time to Overhaul U.S. Defense Strategy, Study Says

The United States has the opportunity to radically overhaul its security commitments and save as much as $150 billion a year on defense, writes Jonathan G. Clarke, a retired British Foreign Service officer, in "Present at the Re-creation: The Need for a Rebirth of American Foreign Policy" (Policy Analysis no. 191). Clarke states that most conflicts in the post–Cold War world will be local in nature and very few of them will affect U.S. security.

Yet, he writes, key members of the Clinton administration seem to be clinging to the Cold War mindset and its arguments for maintaining the status quo. Clarke refutes the strategic, economic, and moral arguments for that course and shows that continuation of the status quo would require the United States to be the world's policeman. The tab would run nearly $1.3 trillion over the next five years, plus an additional $150 billion for intelligence collection.

The United States continues to support NATO to the tune of more than 150 percent of the total contributions of the European members. Meanwhile, the combined defense expenditures of those members are shrinking by 23 percent. By eliminating obsolete commitments overseas and transferring responsibilities to regional structures, the United States can guarantee its core security, remain actively engaged in foreign affairs, and retain the capability to project power globally, should that be necessary. Those objectives can be achieved with a defense budget about half the size of the one currently projected.

Clarke identifies "aggressive unilateralism" on trade issues as the true threat to global stability and advocates adoption of a U.S. trade policy that stresses multilateralism and open markets.

Balanced Budget Requires No Tax Hike

The federal budget can and should be balanced by 1998 without raising taxes, according to Cato chairman William Niskanen and fiscal policy director Stephen Moore. In "How to Balance the Budget by Reducing Spending" (Policy Analysis no. 194), they present a plan to balance the budget based on a judgment that government has grown too large and that most people do not get their money's worth from the current level of government spending, which is now over $20,000 per household.

Stephen Moore

William A. Niskanen

They would reduce the Department of Defense budget to $175 billion by fiscal year 1998, about $78 billion below the level proposed by President Clinton; make reforms to stabilize the Social Security system without reducing the real benefits of current retirees; and reform medical care programs to reduce the increase in the relative prices of and expenditures for medical care.

They further call for sequestering 4 percent of the outlays for all domestic programs except Social Security in the second half of FY93 and freezing total real outlays for those programs from FY94 through FY98. Niskanen and Moore would also terminate or reduce spending on 50 federal programs and thereby save more than $121 billion by FY98.

No Military Solution to North Korean Bomb

North Korea's abrupt withdrawal from the Nuclear Nonproliferation Treaty (NPT) understandably alarms the United States, but proposals by some U.S. policy experts to launch preemptive military strikes are reckless, says a new study from the Cato Institute. In "North Korea and the Risks of Coercive Nonproliferation" (Foreign Policy Briefing no. 24), Cato senior fellow Doug Bandow writes that a military response could easily trigger a major war on the Korean peninsula, engulfing the 36,000 U.S. troops stationed there and causing the deaths of tens of thousands of Koreans. Bandow urges that Washington, instead of resorting to high-risk military options, work with Beijing, Tokyo, and Seoul to draw North Korea into the web of international diplomatic and economic relations and persuade Pyongyang to honor its commitments to the NPT.

The current crisis also underscores the urgent need to withdraw all U.S. military personnel from South Korea, says Bandow. There are no U.S. security interests at stake in Korea that are important enough to risk making American soldiers nuclear hostages.

Massive Aid to Russia Won't Help

Financial aid to Russia on the scale promised by President Clinton last April in Vancouver would not benefit the Russian population, says Karen LaFollette in "Soft Assistance for Hard Russian Reform" (Foreign Policy Briefing no. 25). LaFollette, a research associate with the Institute for Political Economy, stresses that private property is the heart of a market economy and that privatization of state-run Russian enterprises is the one reform on which the success of everything else depends.

Massive aid, as recommended by Western advisers, especially the World Bank and the International Monetary Fund, would merely provide hard-liners with a new source of patronage and plunder, thereby strengthening state institutions and slowing the transition to a market economy.

To jump-start a market economy in Russia, LaFollette recommends that the West encourage the establishment of Russian investment laws and trade policies that would attract foreign investment; work to remove remaining trade barriers; eliminate subsidies to export industries; reduce disincentives, such as the Foreign Corrupt Practices Act, for U.S. companies to invest overseas; forgive or restructure the foreign debt of the former USSR; and purchase and dismantle much of the former Soviet nuclear arsenal.

Mark Your Calendar!

Cato Benefactor Summit
Grand Cayman Island
February 17–20, 1994

Free Lunch (Cont. from p. 1)

nonsense. The people don't want those goodies. Suppose you put to the American people a simple proposition about sugar: We can set things up so that the sugar you buy is produced primarily from beets and cane grown on American farms or so the sugar in addition comes without limit from El Salvador or the Philippines or somewhere else. If we restrict you to home-grown sugar, it will be two or three times as expensive as if we include sugar from abroad. Which do you really think voters would choose? The people don't want to pay higher prices. A small group of special interests, which reaps concentrated benefits, wants them to, and that is why sugar in the United States costs several times the world price. The people were never consulted. We are not governed by the people; that's a myth carried over from Abraham Lincoln's day. We don't have government of the people, by the people, for the people. We have government of the people, by the bureaucrats, for the bureaucrats.

Consider another myth. President Clinton says he's the agent of change. That is false. He gets away with saying that because of the tendency to refer to the 12 Reagan-Bush years as if they were one period. They weren't. We had Reaganomics, then Bushonomics, and now we have Clintonomics. Reaganomics had four simple principles: lower marginal tax rates, less regulation, restrained government spending, noninflationary monetary policy. Though Reagan did not achieve all of his goals, he made good progress. Bush's policy was exactly the reverse of Reaganomics: higher tax rates, more regulation, more government spending. What is Clinton's policy? Higher tax rates, more regulation, more government spending. Clintonomics is a continuation of Bushonomics, and we know what the results of reversing Reaganomics were.

Economic and Political Markets

On a more fundamental level, our present problems, both economic and noneconomic, arise mainly from the drastic change that has occurred during the past six decades in the relative importance of two different markets for determining who gets what, when, where, and how. Those markets are the economic market operating under the incentive of profit and the political market operating under the incentive of power. In my lifetime the relative importance of the economic market has declined in terms of the fraction of the country's resources that it is able to use. And the importance of the political, or government, market has greatly expanded. We have been starving the market that has been working and feeding the market that has been failing. That's essentially the story of the past 60 years.

> **"President Clinton has said that we need widespread sacrifice and concentrated benefits. The fact is that we need exactly the opposite—widespread benefits and concentrated sacrifice."**

We Americans are far wealthier today than we were 60 years ago. But we are less free. And we are less secure. When I graduated from high school in 1928, total government spending at all levels in the United States was a little over 10 percent of the national income. Two-thirds of that spending was state and local. Federal government spending was about 3 percent of the national income, or roughly what it had been since the Constitution was adopted a century and a half earlier, except for periods of major war. Half of federal spending was for the army and the navy. State and local government spending was something like 7 to 9 percent, and half of that was for schools and roads. Today, total government spending at all levels is 43 percent of the national income, and two-thirds of that is federal, one-third state and local. The federal portion is 30 percent of national income, or about 10 times what it was in 1928.

That figure understates the fraction of resources being absorbed by the political market. In addition to its own spending, the government mandates that all of us make a great many expenditures, something it never used to do. Mandated spending ranges from the requirement that you pay for antipollution devices on your automobiles, to the Clean Air Bill, to the Aid for Disability Act; you can go down the line. Essentially, the private economy has become an agent of the federal government. Everybody in this room was working for the federal government about a month ago filling out income tax returns. Why shouldn't you have been paid for being tax collectors for the federal government? So I would estimate that at least 50 percent of the total productive resources of our nation are now being organized through the political market. In that very important sense, we are more than half socialist.

So much for input, what about output? Consider the private market first. There has been an absolutely tremendous increase in our living standards, due almost entirely to the private market. In 1928 radio was in its early stages, television was a futuristic dream, airplanes were all propeller driven, a trip to New York from where my family lived 20 miles away in New Jersey was a great event. Truly, a revolution has occurred in our material standard of living. And that revolution has occurred almost entirely through the private economic market. Government's contribution was essential but not costly. Its contribution, which it's not making nearly as well as it did at an earlier time, was to protect private property rights and to provide a mechanism for adjudicating disputes. But the overwhelming bulk of the revolution in our standard of living came through the private market.

Whereas the private market has produced a higher standard of living, the expanded government market has produced mainly problems. The contrast is sharp. Both Rose and I came from families with incomes that by today's standards would be well below the so-called

(Cont. on p. 14)

The Washington Post
Saturday, May 8, 1993

In a Glaze of Glory: The Cato Building

By Benjamin Forgey
Washington Post Staff Writer

When Pierre L'Enfant made his great plan for Washington he established a strong symbolic substructure, the diagonal avenues representing the authority and ideals of the new national government, and the orthogonal grid of streets denoting the everyday life of the city. The plan also guaranteed a whole bunch of odd-shaped building lots where the avenues meet the streets, a design challenge that over two centuries has given Washington much of its rich architectural character.

Not often, however, does an original response to the odd-lot condition come along. For this reason alone the new Cato Institute building at 1000 Massachusetts Ave. NW is cause for celebration. Not simply a clever solution to an aesthetic problem, it literally embodies the contrasts of the L'Enfant plan in three-dimensional form. Plus it's pretty, a little jewel.

Dusk is the best time to view this building, and the northeast corner of 10th Street and Massachusetts the best place to stand. From that position at that time a viewer can easily distinguish the building's basic geometries: A cube of clear glass and white-painted steel, its main wall parallel to the diagonal avenue, partially frames a cubical masonry building, its walls parallel to the gridded streets. On bright days the glass walls, reflecting sun and sky, lose something of their transparency; at night, the masonry building disappears. At dusk the view is enchanting and crisp: The glass structure glows softly and the masonry walls are bathed in subtle light.

This is quite a visual-intellectual punch for so small a building. Happily, there is more.

Charles George, the leading design architect on the project for the Washington office of Hellmuth, Obata & Kassabaum (though he's no longer with the firm), recalls that, besides reflecting the site's geometry, the design had two other sources. One was the sometimes acrimonious give-and-take among the client, city planners and neighborhood groups. The other had to do with the unique makeup of the Cato Insitute.

As an office building in an area zoned for a commercial-residential mix, the project was subject to extensive review as an exception to the rule. Neighborhood reaction to an initial design (by another HOK team) for a precast concrete structure was understandably hostile. All the same, institute President Edward H. Crane continued to insist on a modernist building, perhaps a surprising choice for a think tank whose favorite philosopher may be Thomas Jefferson. "We believe that the ideas we promote are modern ideas," Crane explains, "and that it is important to reflect the fact that society is dynamic and changing."


MAXWELL MACKENZIE

The Cato Institute's new headquarters at 1000 Massachusetts Avenue.

In the process of design, George understandably became intrigued with the Cato Institute. Named after a Roman philosopher and opponent of Julius Caesar, founded in San Francisco in 1977, headquartered in a Capitol Hill row house since 1981, the institute in its publications and policy pronouncements reflects an unorthodox mix of free-market economics and libertarian social views. "I wanted the building to capture something of these possibly conflicting and contrasting philosophies," George says.

The architectural resolution of such diverse conflicts began with a brilliantly simple idea—the two interpenetrating cubes. The steel-and-glass cube, a wintergarden that functions handsomely as a lobby and gathering place for institute staff and visitors, is a clear, sharp note, played fortissimo but not in isolation. The masonry cube, sheathed in textured rose-colored blocks, supplies a strong counterpoint. The contrasting qualities—cool/warm, transparent/opaque, void/solid—combine to make a vigorous whole.

Through and through a building in the modernist tradition, the institute headquarters adds a distinctive accent to, but sits comfortably in, a neighborhood of mainly older, mainly brick structures. The masonry part of the new building pays respects to the local tradition, but on its own terms. Its windows, for instance, echo the limestone-framed windows of the Henley Park Hotel across 10th Street, but, framed with white-painted steel sheets set off by deep reveals, they're expressively up-to-date. A modern building that fits, this is a fresh approach to the game of Washington contextualism.

Obviously the building provides welcome new visibility for an institution that, in Crane's words, wants to become "a major focal point for policy debate in the nation's capital." It serves the institute's needs well in other ways too. There's a commodious auditorium on the basement level (designed by Gensler & Associates, also responsible for the warm/sleek office interiors), connected to the wintergarden via a sweeping stairwell (HOK's work).

Beyond facades and lobby, there are few opportunities for architectural expression in a little office building. George created a few extra ones, and took advantage of all of them. The existence of the wintergarden created the need for an interior facade. Reflecting the steel-and-glass grid of the main wintergarden wall, but much weightier in character, this north-facing wall comprises an emphatic sequence of solids and voids, with huge crosses of white-painted drywall framed by columns and transverse sections of the rose-colored blocks. If you are walking by, be sure to go inside—visits are welcomed—because this is a strong piece of work.

Not incidentally, the voids in the wall make room for balconies on all five office floors, so that occupants, says the institute's brochure, can better experience "an atmosphere conducive to the free-thinking analysis that has come to be expected of Cato." In another expression of the symbolism of transparency, the architect created an unusually open ground floor—the institute's boardroom, centrally situated, is sheathed entirely in floor-to-ceiling glass panels.

If the clarity of thought in this project is exceptional, the execution in places leaves something to be desired. The steel-and-glass walls are especially disappointing when seen up close. Though the steel members are necessarily large—essentially free-standing, these walls had to be built to resist enormous wind loads—they lack the kind of startling delicacy in the detail that one expects of high-tech connectors and finishes. To the contrary, the surfaces here are lumpy and bumpy, with weld lines showing everywhere.

Still, there's the matter of the parapet. Added to the top of the building at neighborhood insistence, according to project architect Derwin Abston, it's another case of an opportunity seized. A 10-foot-high masonry strip on all sides of the masonry cube, the parapet hides the mechanical equipment on the roof. Nothing new about that. But it is perforated with a band of square openings, their translucent panels illumined from behind. It's a touch that adds a note of mystery to the play of light at dusk.

Benjamin Forgey is the architecture critic for the *Washington Post*. This article originally appeared in the *Post* on May 8, 1993.

Free Lunch (Cont. from p. 12)

poverty line. We both went to government schools, and we both thought we got a good education. Today the children of families that have incomes corresponding to what we had then have a much harder time getting a decent education. As children, we were able to walk to school; in fact, we could walk in the streets without fear almost everywhere. In the depth of the Depression, when the number of truly disadvantaged people in great trouble was far larger than it is today, there was nothing like the current concern over personal safety, and there were few panhandlers littering the streets. What you had on the street were people trying to sell apples. There was a sense of self-reliance that, if it hasn't disappeared, is much less prevalent.

In 1938 you could even find an apartment to rent in New York City. After we got married and moved to New York, we looked in the apartments-available column in the newspaper, chose half a dozen we wanted to look at, did so, and rented one. People used to give up their apartments in the spring, go away for the summer, and come back in the autumn to find new apartments. It was called the moving season. In New York today, the best way to find an apartment is probably to keep track of the obituary columns. What's produced that difference? Why is New York housing a disaster today? Why does the South Bronx look like parts of Bosnia that have been bombed? Not because of the private market, obviously, but because of rent control.

Government Causes Social Problems

Despite the current rhetoric, our real problems are not economic. I am inclined to say that our real problems are not economic despite the best efforts of government to make them so. I want to cite one figure. In 1946 government assumed responsibility for producing full employment with the Full Employment Act. In the years since then, unemployment has averaged 5.7 percent. In the years from 1900 to 1929 when government made no pretense of being responsible for employment, unemployment averaged 4.6 percent. So, our unemployment problem too is largely government created. Nonetheless, the economic problems are not the real ones.

Our major problems are social—deteriorating education, lawlessness and crime, homelessness, the collapse of family values, the crisis in medical care, teenage pregnancies. Every one of these problems has been either produced or exacerbated by the well-intentioned efforts of government. It's easy to document two things: that we've been transferring resources from the private market to the government market and that the private market works and the government market doesn't.

> **"It's easy to document two things: that we've been transferring resources from the private market to the government market and that the private market works and the government market doesn't."**

It's far harder to understand why supposedly intelligent, well-intentioned people have produced these results. One reason, as we all know, that is certainly part of the answer is the power of special interests. But I believe that a more fundamental answer has to do with the difference between the self-interest of individuals when they are engaged in the private market and the self-interest of individuals when they are engaged in the political market. If you're engaged in a venture in the private market and it begins to fail, the only way you can keep it going is to dig into your own pocket. So you have a strong incentive to shut it down. On the other hand, if you start exactly the same enterprise in the government sector, with exactly the same prospects for failure, and it begins to fail, you have a much better alternative. You can say that your project or program should really have been undertaken on a bigger scale; and you don't have to dig into your own pocket, you have a much deeper pocket into which to dig, that of the taxpayer. In perfectly good conscience you can try to persuade, and typically succeed in persuading, not the taxpayer, but the congressmen, that yours is really a good project and that all it needs is a little more money. And so, to coin another aphorism, if a private venture fails, it's closed down. If a government venture fails, it's expanded.

Institutional Changes

We sometimes think the solution to our problems is to elect the right people to Congress. I believe that's false, that if a random sample of the people in this room were to replace the 435 people in the House and the 100 people in the Senate, the results would be much the same. With few exceptions, the people in Congress are decent people who want to do good. They're not deliberately engaging in activities that they know will do harm. They are simply immersed in an environment in which all the pressures are in one direction, to spend more money.

Recent studies demonstrate that most of the pressure for more spending comes from the government itself. It's a self-generating monstrosity. In my opinion, the only way we can change it is by changing the incentives under which the people in government operate. If you want people to act differently, you have to make it in their own self-interest to do so. As Armen Alchan always says, there's one thing you can count on everybody in the world to do, and that's to put his self-interest above yours.

I have no magic formula for changing the self-interest of bureaucrats and members of Congress. Constitutional amendments to limit taxes and spending, to rule out monetary manipulation, and to inhibit market distortions would be fine, but we're not going to get them. The only viable thing on the national horizon is the term-limits movement. A six-year term limit for representatives would not change their basic nature, but it would change drastically the kinds of people who would seek election to Congress and the incentives under which they would operate. I believe that those of us who are interested in trying to reverse the allocation of our resources, to shift more and more to the private market and less and less to the government market, must disabuse ourselves of the notion that all we need to do is elect the right people. At one point we thought electing the right president would do it. We did and it didn't. We have to turn our attention to changing the incentives under which people operate. The movement for term limits is one way of doing that; it's an excellent idea, and it's making real progress. There have to be other movements as well.

Some changes are being made on the state level. Wherever you have initiative, that is, popular referendum, there is an opportunity to change. I don't believe in pure democracy; nobody believes in pure democracy. Nobody believes that it's appropriate to kill 49 percent of the population even if 51 percent of the people vote to do so. But we do believe in giving everybody the opportunity to use his own resources as effectively as he can to promote his own values as long as he doesn't interfere with anybody else. And on the whole, experience has shown that the public at large, through the initiative process, is much more attuned to that objective than are the people they elect to the legislature. So I believe that the referendum process has to be exploited. In California we have been working very hard on an initiative to allow parental choice of schools. Effective parental choice will be on the ballot this fall. Maybe we won't win it, but we've got to keep trying.

We've got to keeping trying to change the way Americans think about the role of government. Cato does that by, among other things, documenting in detail the harmful effects of government policies that I've swept over in broad generalities. The American public is being taken to the cleaners. As the people come to understand what is going on, the intellectual climate will change, and we may be able to initiate institutional changes that will establish appropriate incentives for the people who control the government purse strings and so large a part of our lives. ■

Annual Regulation *Conference*

Keep Government Out of Technology

It is futile for the federal government to pour vast sums into high-tech enterprises if, at the same time, it continues to erect statutory and administrative roadblocks to the application of those new technologies. It's like a driver who, at the same time, has one foot on the gas pedal and the other on the brake," concluded Murray L. Weidenbaum, former chairman of the Council of Economic Advisers, at the fourth annual *Regulation* Conference, "Technology Policy: More Government or Less?"

Former Council of Economic Advisers chairman Charles L. Schultze tells the *Regulation* conference that government can't pick winners.

The conference drew 140 representatives from government, industry, academe, and the policy community to the Carlton Hotel in Washington, D.C., on April 22 and 23 to hear 20 leading analysts debate the role of government in promoting or hindering American high-tech industries.

President Clinton is proposing an array of new government initiatives in the high-tech area, including magnetic levitation trains, clean automobiles, a national information superhighway, and further promotion of joint ventures between business and government. Members of the first panel—Weidenbaum, now director of the Center for the Study of American Business at Washington University; Charles L. Schultze of the Brookings Institution; and David C. Mowery of the University of California, Berkeley—argued that the government has historically shown no particular genius for picking industrial and technological winners better than the free market does.

Other panelists explained that not only does government fail to help when it intervenes in the high-tech industry, it also stifles high-tech growth with a multitude of tax policies, trade laws, and regulations that hamper the biotechnology and pharmaceutical industries. Michael Jacobs of Kurt Salmon Associates explained how regulations that prohibit bank ownership of equity, as well as debt, and regulations that inhibit shareholder control of corporations are raising the cost of capital and shortening corporate time horizons, thus hurting capital-hungry fledgling high-tech industries.

"Every trade barrier protecting a low-tech industry creates a disincentive for Americans to invest in high-tech industries," said James Bovard, Cato associate policy analyst and author of *The Fair Trade Fraud*, during the panel on how trade laws adversely affect high-tech industries. F. M. Scherer of Harvard University showed that companies protected by trade law tend to cut expenditures on research and development—another example of how protectionism tends to reward sloth rather than growth.

In a challenging luncheon address, Cato senior fellow Jim Powell took a sweeping, caustic look at 4,000 years of failure of government industrial policy and concluded that governments' attempts to second-guess the market in supporting innovation always fall flat.

Other panels discussed how overly restrictive safety regulations are crippling the genetic-engineering industry and possibly increasing risk for the consumer, how ending the scarcity in the electromagnetic spectrum requires revamping our current system of telecommunications regulation, and how Japanese and European attempts to institute technology policies have failed. Gary Saxonhouse of the University of Michigan pointed out that despite the common belief that Japan owes its economic success to its government's support of technological R&D, the Japanese government actually sponsors far less R&D than does the U.S. government.

Other speakers included Lawrence A. Kudlow, Robert Glauber, J. David Richardson, Susanne Huttner, Jeffrey Holmstead, Ronald W. Hansen, Peter W. Huber, Thomas W. Hazlett, George A. Keyworth II, Cynthia A. Beltz, Kirkor Bozdogan, and Daniel Burton. ■

"To be governed..."

What must the radicals be like?

Chris Hani, leader of South Africa's Communist Party [and] former head of the African National Congress's armed wing . . . was assassinated today. . . .

"I fear for our country," said a shaken Anglican Archbishop Desmond Tutu. "Chris Hani, more than anyone else, had the credibility among the young to rein in the radicals."

—*Washington Post*, Apr. 11, 1993

Civil liberties are too precious to be handed out indiscriminately

A decision by the Internal Revenue Service to fine Jerry Falwell's Old Time Gospel Hour $50,000 and revoke its tax-exempt status for two years may be the beginning of a crackdown on involvement of religious groups in politics.

That is the assessment of Arthur Kropp, president of People for the American Way, a civil-liberties watchdog group, who views it as a positive step.

—*Washington Post*, Apr. 10, 1993

Everything belongs to the government until they give it back to us

"Tax expenditures" are a particularly wasteful and unhelpful way to allocate the government's limited resources.

—Robert S. McIntyre, letter to the *New Republic*, May 3, 1993

Hope springs eternal

District [of Columbia] and federal officers nabbed nearly 30 suspected drug dealers . . . yesterday in an effort to wipe out four splintered drug organizations in Northeast [Washington] . . . touted as the largest bust in city history. . . .

Police said the arrests could slash the drug trade in the area by as much as 75 percent and that they hope to see a drop in homicides and other violent attacks.

—*Washington Times*, Apr. 16, 1993

The chairman of the special committee on air pollution is holding his breath till he turns blue

It's been 11 days since Tony Hall last had a meal. . . .

Hall used to be the chairman of the House Select Committee on Hunger. On March 31 Congress abolished his committee and three other advisory "select" committees in a modest effort to scale back its spending. Five days later . . . Hall stopped eating. . . .

What he wants is the hunger committee back.

—*Washington Post*, Apr. 16, 1993

And someday, maybe, the American republic

Russian [Regional] Republic Has a Capitalist President

—headline in the *Washington Post*, May 17, 1993

Maybe we *wouldn't* rather be governed by the first 1000 names in the Boston phone book than by the Harvard faculty

[Twenty-four] percent of the medical dollar in 1987 went to administration costs, i.e., paperwork. . . . Reducing administrative costs with simple restrictive legislation requiring no more than 10 percent administrative costs would undoubtedly double the savings.

—Yale Berry of Boston, letter to the *New Republic*, May 3, 1993

Four years without a scandal ain't bad

The agency created four years ago to clean up graft in New York City school construction contracts faced its first corruption scandal yesterday. Two of its own managers were arrested in connection with a bid-rigging scheme—one of whom, it turns out, was hired despite a burglary conviction in 1989.

—*New York Times*, Apr. 21, 1993

Like us, for instance

Reflecting on the larger debate over whether government regulation or market competition will successfully drive down the cost of health care, [White House aide Ira Magaziner] said, "In this town, most people don't believe in competition, that's my observation."

—*Washington Post*, May 13, 1993

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