Cato Policy Report

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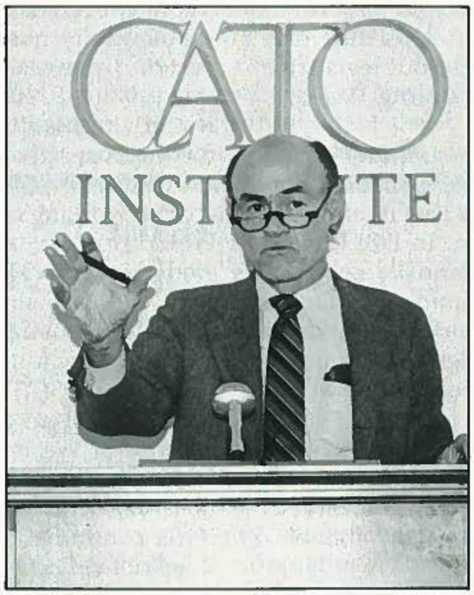
Broadcasting and the First Amendment

Policy Forum

Every month the Cato Institute sponsors a Policy Forum at its Washington headquarters where distinguished analysts discuss their views with an audience drawn from government, the public policy community, and the media. A recent forum featured Bill Monroe, longtime executive producer and panelist on NBC's "Meet the Press" and a vigorous advocate of First Amendment protection for the broadcast media. Commenting on Monroe's talk was Kenneth Cox, senior vice president of MCI Communications Corp. and a member of the Federal Communications Commission from 1963 to 1970.

Bill Monroe: The present regulation of broadcasting, with its government intrusion on content, is eroding the American philosophy of free press and working—perhaps inadvertently or unintentionally—to substitute a new philosophy of government-guided press. On a practical level, it is also producing a second-class brand of journalism in the electronic media, depriving the public of the robustness of character common to the nation's unregulated newspapers and magazines. If this regulation has produced any benefits for consumers of news and information, they are meager indeed by comparison with the damage it is inflicting on the ideal of press freedom and on the broadcasting media as elements of American journalism.



Monroe: "The First Amendment and regulation are mortal enemies."

The advocates of fairness doctrines, equal-time rules, and the other governmental strictures on broadcast news are on the offensive against the First Amendment, though they usually try to disguise that fact or perhaps are not aware of it. The First Amendment sets up a clear-cut independence of press from government as the journalistic principle most vital to the American people. But the existing regulatory approach to broadcasting offers exactly the opposite formula: government guidance and government rules *to protect the American people from independent journalism.*

The First Amendment idea and the regulation idea are mortal enemies. One of them, eventually, is going to subdue the other. And at the moment the First Amendment is the one that is declining.

While proponents of regulation often shrink from admitting that they are taking aim at the First Amendment, their denials are notably unconvincing. Well, they say, broadcasting is different, it uses the public's airwaves, and frequencies must be allocated, and that can *only* be done by fastening government standards on content. The Supreme Court has given aid and comfort

(Cont. on p. 3)

In This Issue

Ravenal: Cut Military Budget

The Cato Institute has entered the growing debate on military spending and foreign policy with the publication of ***Defining Defense: The 1985 Military Budget*** by Earl C. Ravenal, professor of international relations at Georgetown University and a member of the Cato Board of Directors. Ravenal, a former Pentagon analyst, is one of America's foremost advocates of a policy of noninterventionism.

Ravenal contends that large cuts must be made in military spending to have a substantial effect on the huge federal deficits forecast for the rest of the decade. To achieve large cuts in the military budget, the United States must reduce its defense commitments, and this in turn means a fundamental change in our foreign policy assumptions.

Of President Reagan's $305 billion military budget request, according to Ravenal, $235 billion is allocated for

(Cont. on p. 6)

Don't Expect New Ideas (or Any Ideas) in Presidential Campaigns

Having lived in California during Governor Reagan's eight big spending years in office, I was not as surprised as many by the fizzled "Reagan Revolution" that failed to role back the size and power of the federal government. Those who still hold out hope for the second term, should the president be reelected, point to the total disorganization of the early Reagan administration—despite proclamations about "hitting the ground running." This time, the argument goes, there will be a well thought-out legislative agenda that will glide through Congress during Reagan's second honeymoon period.

The problem with this line of reasoning—granting what I consider the dubious proposition that the president has definite objectives for the second term—is that in all likelihood there won't be a second honeymoon. In 1981 Ronald Reagan's strong rhetoric and stunning landslide victory clearly had the United States Congress intimidated. Had he followed through with his campaign rhetoric—abolish the Department of Energy, slash spending, vigorously pursue deregulation—there is every reason to believe he would have succeeded.

But in his confrontation with Congress Ronald Reagan blinked. Congress called his bluff and the game was up. New rules have been established between this president and the Congress, and they are not likely to be changed.

Should Walter Mondale (or Gary Hart) be our next president there *will* be a new honeymoon period. One can only hope the legislative efforts on behalf of their respective programs for new industrial policies will be as disorganized as President Reagan's Capitol Hill forays.

The really constructive "new ideas" in the area of public policy come not from politicians, in any case. Politicians face a perverse set of incentives that heavily favors, first, preserving the status quo and, second, serving highly visible special interests when it comes to new programs. It is that element of the public policy research community which has maintained its independence from government and politicians that can view these issues with disinterested objectivity and, hence, offer something worthwhile in the way of policy reforms.

A brief sample of recent proposals from such organizations (including the Cato Institute) illustrates this point. Instead of continuing to throw good money after bad into the ill-conceived, economically devastating Social Security system, why not allow younger workers to opt out of the system by investing what would have been payroll taxes into private IRAs? The result: more financial independence, less government paternalism, and (arguably) more savings for the economy.

In education, if the government-controlled public schools are not working, why continue to increase spending there? Would not increased competition, in the form of *large* tax credits (not the $200 variety which would benefit only those with children already in private schools) go a long way toward improving education, especially for children from lower income families?

And as for NATO, why must the United States continue to subsidize (at an annual rate in excess of $100 billion) the defense of Western European nations that have twice the GNP of the Warsaw Pact nations? More and more thoughtful observers from across the political spectrum are wondering if our continued enormous financial commitment to NATO does not reflect bureaucratic inertia at the Pentagon more than it does the true national security interests of the United States.

Each of these ideas, it seems to me, makes eminently good sense. But don't expect Mr. Reagan and his Democratic opponent to bring them up out on the campaign trail. The political image-makers will make this campaign, in the candid words of United Nations Ambassador Jeane Kirkpatrick, "another contest between tweedledee and tweedledum." ■

Published by the Cato Institute, *Cato Policy Report* is a bimonthly review that provides in-depth evaluations of public policies and discusses appropriate solutions to current problems. It also provides news about the activities of the Cato Institute and its adjunct scholars.

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Broadcasting

(Cont. from p. 1)

to this position, although there is reason to believe that the constitutional argument is far from over. The high court and others have never ceased twisting and turning in their various efforts to reconcile the irreconcilables, press freedom and broadcast regulation.

But, however the constitutional argument evolves, there is no necessity whatsoever for public sovereignty over the airwaves or for frequency allocation to compel government intrusion into media content. If independent media are, as I believe, the highest imperative for a democratic people, public policy can provide frequency allocation by methods devoid of content regulation. By the same token, if we wish permanently to elevate the government guidance idea over the free press idea, public policy can eventually find a way to fasten guidance on newspapers, in the public interest of course, perhaps seizing the leverage offered by their increasing reliance on electronic transmissions, or if necessary by eventual outright repeal of a gangrenous First Amendment. (I wonder, if such a repeal movement should develop, say in the year 2010, whether broadcast news organizations would be as indifferent to the fate of print journalism as newspapers are today to the idea of freedom for electronic media.) In any event, it is perverse in the extreme to argue that public "ownership" of the airwaves, whatever that is, must deny the public the benefits of a free press.

The monopoly argument for content regulation of broadcasting, of course, has now turned around and bitten its original sponsors. Radio and television stations now offer most American communities historic new levels of diversity in information sources, while newspapers continue to slide toward terminal monopoly.

The irrational strength of the persistent belief in content regulation for broadcasting has got to be attributed, in part, to the heavy cultural bias against radio and television, media that got their start on the basis of entertainment with mass appeal. Intellectuals and professionals continue to regard broadcasting, particularly television, as vulgar. Print journalists and academics developed an especially virulent distaste for television, and judges have often not bothered to restrain their own latent hostility. The lowlife "boob tube" has not seemed to many in this country even faintly compatible with the noble First Amendment.

There has also been a generation gap at work in the perception of television, a gap that is visibly but slowly waning. Younger lawyers and judges of the 1980s, for example, are now rapidly admitting television news cameras to courtrooms, a development their counterparts of 30 years ago fiercely resisted.

But if these general areas of bias are subsiding, the self-interest of presidents, congressmen, and senators in

> **"Broadcasting regulation results in news executives who inevitably feel vulnerable to political pressure."**

regulation of content (coverage of politics, public issues, and elections in particular) will remain. American politicians have never been at ease with an independent press, nor were they supposed to be. And now that they have a handle on a great part of the American media, it is unlikely that they will give it up easily. They accept themselves cheerfully as partners in media decision making, setters of guidelines, and they relish themselves particularly as arbiters of political coverage. One can only assume they would happily extend their leverage to cover print—always in the public interest—if they felt they could get away with it. Witness the Florida law to require provision of "equal space" by newspapers—a law astonishingly upheld by the Florida Supreme Court before the U.S. Supreme Court eventually knocked it down in the *Tornillo* case.

On the practical level, the fairness doctrine and its content-oriented cousins have produced palpable abuses of the public interest. The most scrupulous and objective demonstration of that to my knowledge came in a book published a few years ago by a former communications lawyer, Steven Simmons. Simmons began his research for the book in personal accord with the general idea of government oversight of broadcast media. But, by the time he got through interviewing judges, lawyers, bureaucrats and journalists, and studying court decisions and Federal Communications Commission (FCC) papers, he concluded it was an area of endless bureaucratic-legal confusion and frustration in which nothing was clear and predictable. It turned out on close scrutiny, he said, to be an "unfairness doctrine"—unfair to the public because it did *not* expand coverage of public issues, unfair to broadcasters because it interfered with editorial judgments and inhibited controversial broadcasting, and it was open, he said, to abuse by presidents, political parties, and special interests.

Current regulation results in relatively bland, defensive journalism and news executives who inevitably feel vulnerable to political pressure.

In 1980 the Carter-Mondale committee, invoking "reasonable access," applied to the networks to buy political time. Each network declined on the basis that it was too early in the political season. The network decisions may, or may not, have been good ones. But what happened next was certainly wrong. On appeal, the FCC upheld the Carter-Mondale committee *by a vote of four Democrats against three Republicans*. The wonderful mechanism of content regulation had taken a journalistic decision out of the hands of news organizations and turned it over to a presidentially appointed commission, which decided the issue promptly on a party-line vote.

In a middle-sized American city in the Midwest a few years ago, a powerful U.S. senator was under fire. Critics charged he had favored the building of large dams which produced many adverse effects. The senator said not so; in fact, he had worked hard for *small* dams. An enterprising local TV station dug into the record and came up with a chapter-and-verse story of debate and votes by the senator vindicating the critics. They were right, he was wrong. The senator went to the station manager, raised hell and, though he had not challenged a single fact in the story, got ten minutes of free time in which to bolster his position with a combination of selected facts and personal charm. The law did *not* require such a gift of time. But the TV news editor involved felt that, in the general wariness of Washington bureaucracy fostered by broadcast regulation, his manager just didn't feel he could afford to incur the senator's hostility.

Years ago NBC produced a documentary that focused on abuses in the private pension system. Watching it at home, I found myself moved by the agony of several old men interviewed on the program. Some of them wept as they told of turning 65 and finding that the pensions they had counted on for a dignified old age did not, in fact, exist. They blamed the unions and they blamed several companies. When it was over, I felt angry—and proud of NBC News for mounting a powerful program.

So I was startled when Accuracy in Media (AIM) complained to the FCC that the program, while accurate, had broken U.S. government rules of fairness by not including material to the effect that *all* pension plans were not fraudulent. The FCC upheld AIM. NBC could then have gotten off the hook by inflicting innocent viewers of the "Today" show with a bewildering five-minute interview establishing that most pension plans work as advertised. Instead, to its credit, the network went to court to fight the harassment. NBC eventually won the case—but it cost $100,000 to do so, the kind of penalty no newspaper publisher need fear.

Commenting on the case in his book, Steven Simmons said, "Unfortunately the fairness doctrine . . . inevitably leads to unhealthy Commission intervention in broadcast journalism and healthy yet tortured court decisions, such as *Pensions*, to rectify the First Amendment balance."

Almost any time a station produces a documentary that arouses emotions it is likely to receive a formal challenge from the FCC triggered by some angry letters, a demand that the station justify the program's compatibility with the *government's* view of what's fair. The station manager and his aides then go through a painstaking process of consultation with producers and reporters, local attorneys, and Washington attorneys. Finally, ten days or two weeks later, a thick, detailed multifaceted document of justification goes off to the FCC.

In almost every case the FCC writes back saying, okay, you're off the hook, we accept your rationale. But the process has *not* strengthened the station manager's inclination to approve his news director's plan to tackle more controversial subjects in future documentaries. The fairness doctrine nurtures an unspoken code of play-it-safe journalism. The late Fred Freed, a producer of some excellent documentaries for NBC, once wrote, "If you do something controversial, you know you will spend months defending yourself to the government. That's not conducive to doing something controversial."

The utter unpredictability of the process reinforces the play-it-safe code. After President Nixon had made *five* prime-time speeches, chiefly about Vietnam, CBS offered Democratic Chairman Larry O'Brien half an hour of reply time. After O'Brien had used the reply time, the Republicans cried foul. O'Brien, they said, had not stuck to the Vietnam issue. They asked the FCC for time *to answer him*. And the FCC awarded them time to answer O'Brien's answer to Nixon. It was another commission decision that eventually went to a courtroom graveyard.

As associate editor of the *New Orleans Item* some years ago, I came to appreciate the clean-cut protective separation between *newspapers* and government. You felt free as a newspaperman. As news director of WDSU-TV in New Orleans, a few years later, I became painfully aware that the relationship between *broadcasting* and government was one of uncomfortable togetherness. Electronic journalism had been thrust into bed with a government commission that had bad breath.

After 22 years with NBC News in Washington, I am struck by the broad and vital area in which broadcasting remains bland and timid and lifeless compared with its print brethren—the area of opinion journalism: editorials, commentary, letters to the editor.

Cato Institute Director Earl Ravenal talks with Bill Monroe after Policy Forum.

The better American newspapers present a range of informed, hard-hitting opinion:

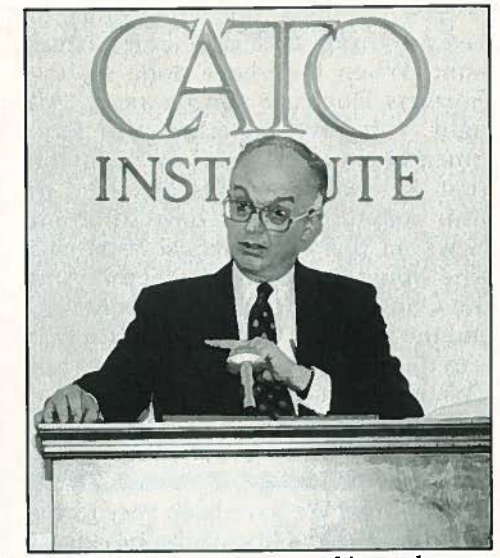
—Columnists—Evans and Novak, Joseph Kraft, Anthony Lewis, William Safire, Tom Wicker, James J. Kilpatrick, Mary McGrory and others, who add vigor and character to editorial and oped pages.

—Editorials, in which newspapers lay their own views on the line, examining the performance of local politicians, adding depth to community discourse.

—Letters to the editor, where the average citizen has a say, making his own evaluations of public officials, and chastising the newspaper when he feels like it.

With few exceptions, television stations and networks have hung back from wholehearted entry into this yeasty American world of opinion. Broadcast commentators have virtually died out. The Cato Institute is one of those institutions doing a little something about that, but we don't have the same kind of commentators sponsored by broadcasters as we did during World War II. And those commentators who are left generally muffle their opinions. Television editorialists tend to extol the United Fund and damn potholes in the street. Except for a few erratic experiments offered at odd hours, broadcast news organizations have not brought citizen opinion into view in a living, breathing institutional counterpart of letters to the editor.

Why not? There is no basic difference in soul, in character or integrity, between newspaper people and broadcasters. They both must meet the imperatives of mass media—service to an audience of diverse views, the pressure for circulation (or ratings), the need for advertisers. The one vital difference between them that can explain broadcasting's sad wariness of opinion is its stultifying involvement with government regulation. Most broadcasters don't want to admit, as Fred Freed did, that they can be intimidated by government. But, admit it or not, they have had to learn that opinion triggers controversy, and controversy triggers trouble with the FCC. The FCC says, of course, in its solemn official guardianship of journalistic behavior, that radio and TV should go right ahead, let the views of commentators and management be heard, let the clash of opinions enliven the broadcast scene, let the public be informed by robust debate. But broadcasters understand that the FCC does not *act* the way it speaks. It responds, in the real world, with virtually automatic harassment for ventures into controversy.



Cox: "Broadcasters can say anything and everything they want."

If the present content-intrusive regulation of broadcasting were eliminated, it would not mean the arrival of a journalistic millenium. It would only free broadcast journalism from its enervating entanglement with government, free it to attain roughly the same maturity now displayed by American newspapers. Our newspapers are not perfect or free of abuse, God knows, but nevertheless they are impressive in their vigor and diversity, qualities that thrive in the kind of journalistic independence promised to the American people by the First Amendment. It is my strong feeling that we have drifted into broadcast regulation because we didn't realize where it was going. Radio and television were not originally even considered as news media. They became news media after they were other kinds of media. And I am encouraged to think that we are becoming more conscious of what is happening and are moving away from the damage that is being done by broadcast regulation. I cite as examples of a consciousness that was not there before the attitudes of former Senator Eugene McCarthy who has questioned—and indeed attacked—the kind of broadcast regulation we have had. The same kind of attitude has come from Sen. Proxmire and more recently Sen. Packwood, who has a Freedom of Expression bill that would free broadcasting from the kind of intrusion into news decisions and political coverage that we have been laboring with in the past.

Kenneth Cox: I don't really think as you watch "Meet the Press" that you'll find Bill Monroe and his colleagues ducking the provocative questions. I think it's striking that Bill has never really described for you what this monstrous system for developing a government-guided press is or how it works. Essentially it consists primarily of two elements: First, the equal opportunities provisions of Section 315 of the Communications Act, which simply require that if a station makes time available to one candidate for political office, it must make equal opportunity available to all other legally qualified candidates for the same office. This has been in effect ever since the Radio Act of 1927. It can be awkward when there are a lot of candidates for a particular office.

Broadcasters say that they would like to provide time for the views of the serious candidates in debates or other formats if they could do so without making time available for the "also rans." The implication of the broadcasters' position is that if only the major candidates were in the race they would provide time for them to present their views. That very seldom happens.

The second provision Bill objects to is the Fairness Doctrine. That policy was adopted in 1949 but has roots going back to 1929. It says two things: first, a broadcaster should devote a reasonable amount of its time to the discussion of public issues of controversial importance. I think Bill would agree with that. Second, it says that in so doing he must make reasonable opportunity available for the presentation of differing points of view in the community. Again, that doesn't sound very threatening, and I don't think it is in practice. The FCC does get a fair number of complaints, but not so many as Bill would suggest. A good many of these go no further because the commission staff finds that the complaint is not sufficiently specific or that it clearly does not involve an issue of public importance.

Now, what if the FCC does find that there has not been compliance with the Fairness Doctrine? Is the station then in dire peril of losing its license? Not at all. It simply gets a letter saying that the commission has concluded, based on what the station has told it, that there has not been compliance and asking the station to advise it by a certain time what it proposes to do to correct that situation. If what was missing was presentation of one side of the issue, all that is required to correct that is assurance that the other side will be presented. The licensee is then the one who decides which format will be used, when the broadcast will be made, and who will do the presenting, not the FCC.

I think Bill is too hard on broadcast journalists. CBS "60 Minutes," just to take one example, frequently gets itself in hot water by discussing controversial matters and keeps right on doing it even though it is often challenged.

If there are shortcomings, I think they come from other matters than government policy. First, there is the fact that broadcasting, especially television, is primarily entertainment. I do not say this in a critical fashion. Especially at the network level, competition is fierce and ratings are extremely important.

Broadcasting is handicapped by its linear nature. You can only have one thing on at a time. There are just 60 minutes in an hour, 24 hours in a day; they cannot expand that—whereas a newspaper can expand.

Some broadcast managers simply dislike controversy. Edward R. Murrow's "See It Now" was not terminated because of the Fairness Doctrine, but because it gave CBS Chairman William Paley a knot in his stomach. The Fairness Doctrine does not bar broadcast editorials; as a matter of fact, after a lengthy proceeding the FCC explicitly held that broadcasters were free to editorialize. There is broadcast commentary. I think that those of you who watch television see a fair amount of letters to the editor.

In short, if Bill believes that elimination of the Fairness Doctrine and Equal Time would bring about all the things he misses—expanded documentaries, editorials, investigative reporting—then I'm afraid he would be disappointed if it ever came about. Broadcasters now have full opportunity to say anything and everything they want. When they have done so, the Fairness Doctrine simply says, "All right, you have exercised your First Amendment right. Now how about the First Amendment rights of others in your community who have different views on this controversial issue and who would like to express them?" And the Congress felt, the FCC believes, and the Supreme Court agrees that that is in the public interest, that it does not violate the First Amendment, and that it certainly does not prevent the broadcasters from making money.

Bill Monroe: We have been very fortunate that the quality of the broadcast regulators has been uniformly high. They have generally made decisions that had some awareness of trying to encourage controversy and editorial freedom, but Ken ignores the fact that if a station gets a letter from the FCC, however politely couched, the broadcaster cannot fail to have in the back of his mind, "These people do not often take licenses away, but they did once last year, twice a couple of years ago. You can lose your license to these people." And when a letter like that hits a local station, the station manager cancels half of his appointments for the next three or four days. He wants to talk to the producer of the program and the news director. He spends lots of time with lawyers. Somebody in the program department will be put on full time to get an answer ready to go back to the FCC. The station probably gets a reply back that the FCC has let them off the hook. But the station manager is not likely to tell the producer or the news director to do any more controversial documentaries. This is a chilling effect. Ken is absolutely right that if station managers and news executives wanted to, they could ignore this government harassment and do another documentary of a controversial nature and go through the same harassment three months later. It's not human nature to do that.

One way to look at this issue which is revealing and decisive is to analyze whether you would want to apply to newspapers the kind of regulation that's applied to broadcasting. I don't think many people would. ■

Ravenal (Cont. from p. 1)

general-purpose or conventional forces. Believing we must make the connection between our foreign policy commitments and what we actually spend, Ravenal has calculated the cost of our conventional forces in three strategic theatres, and it is staggering. In 1985, the U.S. defense of Europe will cost $129 billion, Asia $47 billion, and the Rapid Deployment Forces (mostly directed toward the Persian Gulf) $59 billion. As Ravenal points out, "defense budgets are not for nothing: they are for something . . . defense budgets cannot be cut significantly . . . without consequences for their objects: our alliances, our foreign policies." Ravenal decries the idea that meaningful savings can be found in the elimination of waste and fraud.

The study proposes that the United States gradually reduce its force structures around the world by freezing the defense budget at 1985 figures. By doing this, we would reduce the military budget by 45 percent through 1994, for a 10-year savings of $2.2 trillion.

Ravenal argues that not only would we be much healthier economically, but we would actually be more secure. By instituting a new policy of "war avoidance and self-reliance" instead of our present policies of extended deterrence and military alliances, we would decrease the chances of confrontation with the Soviet Union through proxy entanglements and hence promote greater security for ourselves.

Stanley Weiss, President of Business Executives for National Security (BENS), calls ***Defining Defense*** "an incisive analysis of many of the basic issues our nation faces in determining the future course of national security policy. I feel that Dr. Ravenal's thoughts will become the point of departure for much of foreign policy and defense posture debate in the 1980s."

Articles about the book appeared immediately after publication in the *New York Times* and the *Washington Post*. The *Post*'s Stephen Rosenfeld called Ravenal "a relentless logician" and predicted that "the debate could yet start turning, with Ravenal, to questions of purpose."

The 46-page book is available from the Cato Institute for $3.95. ■

Conference Examines World Debt Problem

The Cato Institute's second annual monetary conference, focusing this year on "World Debt and the Monetary Order," was held January 21-22. More than 300 people attended the conference, including major media representatives. In the opening session, Allan H. Meltzer of Carnegie-Mellon University, James B. Burnham, U.S. executive director of the World Bank, and Rep. Stephen L. Neal (D-N.C.) examined the current debt crisis of the Third

Carlos Langoni

World. Burnham pointed out that in the 1970s, responding to a variety of economic, political, and social pressures, many governments, including the United States, rapidly expanded their money supplies. This resulted in an equally rapid expansion of bank credit, with interest rates increasing less than the average price level, resulting in negative real interest rates. This encouraged borrowing in large amounts, which the banks were only too happy to comply with. The crisis came when this credit expansion came to a halt and the recession hit.

Meltzer decried the theory that the debt crisis resulted from the oil price shocks of the 1970s or high interest rates in the United States, arguing that there are simply too many exceptions to make the theory plausible. He stated that mistakes have been made because debtor countries pursued inefficient policies and "lenders took seriously the guarantees of the governments and the programs of the International Monetary Fund." He concluded that the solution lies in revaluing the debt at market prices, which is already being done with some outstanding loans.

Michael Mussa of the University of Chicago discussed the role of U.S. macroeconomic policy in causing the debt crisis. He said that the standard Keyne-

Cato News

sian policy prescription for the recession of 1974-75 was for the United States, along with other major industrial nations, to run large budget deficits and expand their money supplies, facilitating increased borrowing by developing countries.

The effect of banking regulation on the debt crisis was addressed by A. James Meigs, chief economist of the First Interstate Bank of California. Meigs pointed out that until the recent partial deregulation of financial institutions, government regulators were assuming more of the risks and decision making which normally are assumed by bankers. This regulation contributed to increased risk taking by bankers in extending loans to developing nations.

The Friday luncheon was followed by a panel discussion with Jerry L. Jordan, professor of economics at the University of New Mexico and former member of the Council of Economic Advisers, and William R. Cline, senior fellow at the Institute for International Economics. The topic was how best to restore confidence in international monetary relations. Jordan argued that lenders and debtors should be made to bear the full costs of their mistakes, just as private businesses usually do in a free economy. "There's no justification for international loans to be treated any differently than domestic loans in the provision of reserves and the classification of the status of loans," Jordan said. Cline disagreed with such a laissez-faire policy, saying that the slowness of the market adjustment process, and other possible side effects of a collapse of one or several banks, might be too high a cost to pay.

The topic of the afternoon session was "The Political Economy of International Lending." Michele Fratianni of Indiana University and Paul DeGrauwe of the Wharton School argued that the Federal Reserve System "must be ready to extend the lender-of-last-resort ser-

Allan Meltzer

vice to all banks, domestic and nondomestic, transacting in U.S. dollars." They suggested that part of the outstanding international debt be classified as bad loans because it is unlikely that real interest rates will return to the low levels of the 1970s. They also argued against an expansionary monetary policy to help accommodate increased lending to debtor nations.

Gerald P. O'Driscoll, Jr. and Eugenie D. Short, economists at the Federal Reserve Bank of Dallas, outlined how U.S. banking regulations, particularly federal deposit insurance, encourage excessive risk taking on the part of U.S. banks. Many of the conference speakers felt the U.S. government would bail out the debtor banks in an emergency.

Friday evening's banquet speech was preceded by a moving tribute to Robert Weintraub, who was senior economist with the Joint Economic Committee until his death last year. Weintraub assisted in organizing the conference, and the banquet was in his memory. David I. Meiselman of Virginia Polytechnic Institute delivered the tribute.

Jan Tumlir, a visiting professor at UCLA and Director of Research with the General Agreement on Tariffs and Trade (GATT), which works toward reducing trade barriers between nations, presented the banquet talk. Tumlir stressed that trade liberalization is essential to solving the debt crisis by opening up more markets for the debtor countries. He also recommended shrinking the public sector through cuts in spending and allowing the market to play a greater role.

During the Saturday morning session, Roland Vaubel, a member of the Institute of World Economics in Kiel, West Germany, compared today's protectionist sentiments and policies with those of the thirties. Then and now, high unemployment triggered protectionist sentiment. "Interdependence through the market is not a valid justification for non-market coordination," he said. Vaubel advocated international trade agreements as a way to avert protectionism.

Lawrence H. White of New York University expanded on Vaubel's discussion of bank failures, arguing that a policy of insuring large banks against failure reduces the banks' incentives to loan their funds prudently.

Manuel F. Ayau, president of Universidad Francisco Marroquin in Guatemala, offered a free-market perspective on the debt problem. He criticized leaders in debtor countries for blaming their economic woes entirely on factors outside their control, and disagreed with their quest for more and more credit to stay afloat. He said that much of the blame lies with the heavily statist governments in the debtor countries, where much of the borrowed money has been spent by state-owned enterprises on wasteful projects. A large debt, he argued, "is the unavoidable result of having placed large amounts of soft credit resources . . . at the disposal of statist bureaucrats."

J. Richard Zecher, chief economist for the Chase Manhattan Bank, commented on Ayau's paper. He agreed with Ayau's characterizations of the economic problems in many debtor countries stemming from an inefficient and bloated public sector, but said there are motives other than ignorance. "I think what drives most of the bad policies we're talking about is a desire to redistribute wealth in order to acquire short-term gains or political power."

The conference ended with a Saturday afternoon luncheon speech by Carlos Geraldo Langoni, former governor of the Central Bank of Brazil. Langoni offered his interpretation of the political and economic conditions which led to the worldwide debt crisis, and strongly advocated government intervention as the only solution to the problem. "Once there is no more marketplace, we cannot go on trying to stick to the 'nonintervention' dogma," Langoni said. "Whether we like it or not, there must be some exogenous compulsory action to stop the drain of resources whose speed and intensity cannot be affected by any conceivable internal adjustment by the debtor countries." Langoni went on to propose a more clearly defined, long-term plan worked out between the lending and less developed countries, and suggested that the International Monetary Fund be allowed to play a larger regulatory role. Langoni's talk drew heated criticism from many of the participants. ■

Cato in the News

Cato Institute studies received news or op-ed coverage in such publications as the following:

Edward H. Crane	Reagan's failures	*The Wall Street Journal*
Michael Babcock	railroad regulation	*Houston Post* *Washington Times* *Traffic World*
Daniel Klein	motorcycle tariffs	*Washington Times* *Montreal Gazette* *Providence Journal-Bulletin*
Scott Palmer	high-tech protectionism	*Journal of Commerce* *Philadelphia Inquirer* *San Jose Mercury-News*
John Ullmann	military-industrial firms	*Christian Science Monitor*
David Boaz	street vendors	*The Wall Street Journal*
Michael McMenamin	marketing orders	*Cleveland Plain-Dealer* *Washington Times* *Des Moines Register*
Clint Bolick	cable television	*CableVision* *Communications Daily*
Edward H. Crane	Communist China	*Washington Times* *Santa Ana Register*
Roy Childs	Afghanistan	*St. Louis Post-Dispatch* *Oakland Tribune* *Indianapolis Star*
Bruce Bartlett	industrial policy	*Chicago Tribune* *Houston Chronicle* *Los Angeles Herald-Examiner*
David Lampo	hunger	*Chicago Tribune* *Newsday* *Cleveland Plain-Dealer*
David Boaz	special-interest politics	*The Wall Street Journal* *Congressional Record*
Roy Childs	national security	*St. Louis Post-Dispatch* *Oakland Tribune*

Studies Recommend Deregulation for Many Industries

Policy Analysis, Cato's series of timely policy studies, is a growing influence in the public policy debate. Recent studies on subjects ranging from farm policy to cable television were distributed to all the members of Congress, select government officials, academics, the media, and Cato sponsors.

Lawyer Michael McMenamin examines the cost of regulating a major sector of the American economy in "Tedious Fraud: Reagan's Farm Policy and the Politics of Agricultural Marketing Orders." McMenamin describes how the longstanding political influence of farming interests, combined with a failure of will on the part of the Reagan administration, resulted in higher prices to consumers than would exist in an agricultural free market.

Scott D. Palmer, editor of two Indianapolis-based computer publications, writes about Japan's challenge to America's technical superiority in "Panic in Silicon Valley: The Semiconductor Industry's Cry for Help." Starting from the assumption that "American firms that are exposed to competition from abroad make a substantial contribution to the wealth of our nation and employ thousands of workers," Palmer examines the economic costs should the United States respond in kind to Japan's subsidization of its semiconductor industry.

Palmer effectively shows that the extent of government support for Japanese industries is not as great as many people think, and then goes on to assert that even if Japan's semiconductor companies "dumped" their product on the American market, this country would generally benefit in the long run.

Palmer concludes that American competitiveness and productivity can only be increased by "removing the heavy burden of government from the economy."

The Staggers Rail Act, which marked the most significant change in railroad policy in nearly a century, is examined by Michael W. Babcock in "Efficiency and Adjustment: The Impact of Railroad Deregulation." Babcock, an associate professor of economics at Kansas State University, states that two main factors contributed to the decline of the railroads: government promotion of competing transportation modes, and rate regulation. The latter policy, according to Babcock, "prevented the managers of railroads from responding to changing conditions in the transportation market," and imposed excessive costs that forced some marginal companies to go bankrupt.

The Staggers Rail Act, which allows for much greater pricing freedom, is inadequate in some respects, but the relative deregulation it allows "is a significant step toward economic efficiency in the rail industry," according to Babcock. He goes on to assert that if future rail policy is based on free market principles, railroads may continue to play a major role in the economy.

In "Cable Television: An Unnatural Monopoly," Clint Bolick clearly and persuasively presents the free market, First Amendment case for leaving the burgeoning cable industry totally unregulated. Bolick, an attorney with the Mountain States Legal Foundation, is the counsel of record in a legal challenge to municipal authority to award monopoly cable franchises.

Bolick presents the reader with an absurd scenario in which the government decides who will own the local newspaper monopoly, what its editorial format will be, and how much each newspaper will cost. While such a policy would surely cause public outrage, that is exactly what is being done with cable television, and yet, "no stronger economic rationale exists for government regulation of cable than of newspapers."

Bolick goes on to document the kinds of requirements local governments expect of potential cable franchises, including paying up to 5 percent of revenues to the city, allowing it to veto programming changes, and providing an emergency system that allows city officials to turn on subscribers' sets and broadcast messages into their homes at any time. Bolick also shows how the allegedly messy world of economic competition is replaced by political competition, in which potential franchisees try to curry favor with city officials.

In his conclusion, Bolick suggests that excessive regulation may destroy the promise of cable television, but more importantly, he warns that it may result in a threat to our freedom.

All studies in Cato's Policy Analysis series are available from the Institute for $2.00 each. ■

Study on Tariffs Draws Response from Harley

The Harley-Davidson Motor Company's successful effort to get import duties raised on foreign motorcycles was generally spared the scrutiny it deserved. When Daniel Klein, a graduate student in economics at New York University, exposed the political machinations that led to the tariff in his study, "Taking America for a Ride: The Politics of Motorcycle Tariffs," Harley-Davidson was compelled to fight back.

In a letter sent to all of Cato's directors, Harley-Davidson spokesman Robert H. Klein (no relation) called the study "shallow at best." In a two-and-a-half page letter, Daniel Klein answered the charges point by point. Cato board member Sam H. Husbands, Jr., entered the fray with a rejoinder of his own, in which he presented the classical liberal arguments in favor of free trade.

Harley-Davidson, hurt by Japanese

(Cont. on p. 12)

"Persuade the Intellectuals"

Exclusive Interview with F. A. Hayek

F. A. Hayek is one of the world's leading free-market economists and social philosophers. Besides the important 1944 bestseller, The Road to Serfdom, *he has written books on subjects ranging from economics (*Prices and Production; Monetary Theory and the Trade Cycle*) to political philosophy (*The Constitution of Liberty; Law, Legislation and Liberty*) to the philosophy of science (*The Sensory Order; The Counter-Revolution of Science*). His latest book, to be published late this year, is* The Fatal Conceit. *Hayek, who will be 85 years old this fall, won the Nobel Prize in economics in 1974.*

Prof. Hayek was recently interviewed at the University of Freiburg in Germany by James U. Blanchard III, chairman of the National Committee for Monetary Reform and a member of the Cato Institute's Board of Directors.

Q: We're looking forward to seeing your new book *The Fatal Conceit*. Could you tell us a little about the book?

Hayek: The book brought me to very fundamental philosophical problems which explain the thing which has puzzled many people: why the intellectuals have been the leaders in the movement to socialism. The fundamental problem is no longer whether the government can order human affairs, it's whether the human brain itself can quite handle them. I have come to the conclusion that we have been able to form what I now call the extended society, an order far exceeding our vision and knowledge because of the evolution of another gift quite distinct from intelligence. That's the gift of our morals, particularly the institutions of property and the family, which we have never invented, which have succeeded because the groups who practiced them—without understanding why—expanded more than others.

Q: The Austrian economist Carl Menger talked about the evolution of money as a sort of natural phenomenon. How did money come about, and what's happened to money today?

Hayek: The great trouble is that money wasn't allowed to develop. After two or three hundred years of the use of coins, governments stopped any further developments. We were not allowed to experiment on it, so money hasn't been improved, it has rather become worse in the course of time. Menger, and before him Hume and Mandeville, named law, language, and money as the three paradigms of spontaneously occurring institutions. Now fortunately, law and language have been allowed to develop. Money was frozen in its most primitive form. What we have had since was mostly government abuses of money.

I have come to the position of asking, has monetary policy ever done any

Hayek: "A roundabout way to displace the government money."

good? I don't think it has. I think it has done only harm. That's why I am now pleading for what I have called denationalization of money.

Q: This controversial theory of competition of currencies is beginning to receive some attention. How do you think it would work? Would the major banks issue currencies, or would there be gold coins issued?

Hayek: It seems to me that my original plan is right, but I am afraid that I've come to the conclusion that politically, it is completely utopian. Governments will never allow monetary competition, and even bankers do not understand the idea because they have all grown up in the system which is so completely dependent on central banks. So I think we need a roundabout way. After all, in the modern world, currency is no longer the most important money. Credit and credit cards are substitutes. While governments can stop people from issuing money, they can hardly stop them from opening accounts in something unless they introduce a complete system of exchange control. I do not expect that any bank will understand this idea. But I hope that one of the big dealers in raw materials will be prepared to open accounts which will be redeemable in so much of current moneys as are necessary to buy this list of raw materials. Through these accounts he can make his unit—call it the "solid"—the standard unit without it ever being used in circulation. People very soon will begin to keep their accounts in "solids"—the only thing which is trustworthy. Although it's a thing where many people can compete, most of them will probably choose the same list of raw materials. If one major firm will start this, others will imitate it. So I think we can forget about existing money and existing banks, and gradually open a system of accounts which will displace the government money.

Q: Maybe the unit, one day, will be known as the "Hayek." Continuing on the money issue, it seems to me that the fundamental flaw in Milton Friedman's theory of monetary control is becoming more and more evident today. The authorities are now admitting that they don't even know what the money supply is. So how could you have a theory based on a steady increase in the money supply?

Hayek: You know, about forty years ago, I once wrote a sentence something like this: Almost the worst thing which could happen would be if mankind ever forgot the quantity theory of money—except they should ever take it literally. While I still believe that it is true that the price level is determined from the quantity of money, we never know what the quantity of money in this sense is. I think the rule ought to be that whoever issues the money must adapt the quantity so that the price level will remain stable. But to believe that there is a measurable magnitude which you can keep constant, with beneficial effects, I regard as completely wrong.

I don't like criticizing Milton Friedman not only because he is an old friend but because, outside of monetary theory, we are in complete agreement. Our general views on what is desired and what is not are almost identical until we get on to money. But if I told him what I said before, that I very much doubt whether monetary policy has ever done anything good, he would disagree. He personally is convinced that a good monetary policy is a foundation for everything.

Q: What do you think will be the outcome of the Third World debt crisis?

Hayek: I don't know. If we are very lucky—I doubt that we should be so lucky—we may get through it without either a resumption of inflation or new controls being clapped on. But the only good thing I hope to see is that people are becoming somewhat aware that the present monetary system is not very satisfactory and that we will have to consider fundamental reform. I don't think anybody is yet going far enough.

I sympathize with the people who would like to return to the gold standard. I wish it were possible. I am personally convinced it cannot be done for two reasons: The gold standard presupposes certain dogmatic beliefs which cannot be rationally justified, and our present generation is not prepared to readopt beliefs which were old traditions and have been discredited. But even more serious, I believe that any attempt to return to gold will lead to such fluctuations in the value of gold that it will break down. So although I must sympathize with the gold standard people, I don't believe that is a possible way. I think, in the long run, only my much more radical proposal will be feasible.

Q: Do you see the future as being more and more inflation and currency depreciation, or do you think that we could have a depression?

Hayek: Many things in the last three years have moved very much better than I had hoped. Particularly in England, the fact that Mrs. Thatcher would be able to bring inflation down as well as she has done, and the same to some extent in America, is very encouraging. If you can bring down inflation to zero, and have it stay there, I think the position of the leading countries can be saved. I'm not sure that means the positions of their banks can be saved!

Q: I have been pleasantly surprised that Margaret Thatcher has accomplished as much as she has.

Hayek: And she sees why she hasn't accomplished more. She has recently said, repeating my own criticism to her, that she has been much too slow.

Q: You have said, "When I was very young, only the very old believed in classical liberalism. Now that I am very old, we're winning a flood of young people to our side." I've also noticed that the libertarian or free-market movement in the United States tends to be dominated by young people. How did it happen in your lifetime that "liberal" changed from meaning free-market or classical liberal to the present-day terminology where "liberal" implies economic intervention?

Hayek: Ask the people at Harvard who did it! I no longer dare call myself a liberal in America because it is so completely misunderstood, and the new meaning is invading Europe. Even here, one has to explain what one means by liberal. But, if I may use the American neologism, libertarianism is spreading among the young in a most encouraging fashion. It has been strongest in the States, it's quite strong in Germany, it's strong in England, and the most remarkable thing, it's starting in France, which was the country with the least hope. There is a very definite group of young economists who are thinking on right lines. I don't know if there is any organized libertarian movement in Italy, but there's nothing organized in Italy anyway.

Q: Unlike even my younger days, there are dozens of new free-market books coming out, almost on a monthly basis, and it's almost a flood of intellectual ammunition against socialism and state intervention.

Hayek: It's enormously increasing in the last three or four years. I oughtn't to say this, but I can no longer read the literature about myself that has been lately appearing. It's far too much.

Q: I would imagine, since you won the Nobel Prize in 1974, that you've been besieged by articles and interviewers.

Hayek: Not immediately. It has been something halfway in between, you know. It's now nine years since I got it, and the first four or five years, yes, one becomes a sort of temporary celebrity, but that I don't care for. But the great interest in my writings among intellectuals, which really counts in the long run, is a very recent phenomenon. It appears that in the last four years interest has been growing progressively.

Q: You taught with Lord John Maynard Keynes at the same university, did you not?

Hayek: I taught at his university while he was advising government. We at the London School of Economics were evacuated to Cambridge for the whole World War II period, and Keynes got me rooms in his college. But he was most of the time advising governments, so we met only occasionally on weekends. We were personally very good friends.

He had the illusion that a little inflation is good. Too much, no. He was one of the cleverest men I knew, but he was not really a very competent economist at all. He had strong intuitions, which sometimes were right, and the strong conviction that he could put over any theory that he invented to justify his particular recommendations. He was a very great man, but I don't think he was a great economist.

Q: I think that maybe he was a great investor, though. I've heard that in the 1930s he made a huge amount of money in the stock market.

Hayek: Well, I can qualify that slightly, and quote him literally. He confessed to me that when he speculated in currency, he went flat broke. And when he turned to commodities—not the stock market—he made, I think, half a million pounds then. And the same amount for his college. He must have made two million pounds in pre-War pounds.

Q: Who's your favorite economist, besides F. A. Hayek?

Hayek: Well, among the not really young ones are Armen Alchian and George Stigler. Until recently, my dear friend Lionel Robbins, who has had a stroke and is now out of action.

Q: What about some of those who have passed away?

Hayek: Well, Mises, of course. And I have the greatest admiration for Carl Menger, who started the whole Austrian tradition—and of that generation there are a good many.

Q: When did you meet Ludwig von Mises?

Hayek: We were ten years in constant close collaboration. He was not my teacher at the University, but I worked under him in my first job. From 1921 through 1931, I worked with him day by day and attended his famous Mises seminar, and that had a very profound effect on my thinking. I think that in understanding the main dangers of developments in economics, he was probably the most far-seeing man of the time. A man of great intuition, great theoretical and historical knowledge, but we must not forget that until the age of nearly sixty, academic work was a sideline for him. He was a very active man in practical work and could only devote himself to thinking in old age.

He never made what to me has been the decisive step away from rationalism. He remained to his end a convinced rationalist and ethical utilitarian, and did not see what David Hume already said—that our high morals are not the conclusions of our reason. They are the result of another process, a kind of group selection and evolution which led to those communities who had adopted, unintentionally, the most appropriate rules of conduct prevailing. So part of our capacity to maintain moral society is a tradition of moral rules which we still do not fully understand. And there, rationalism becomes insufficient. I would even go so far as to say that pure rationalism leads directly to socialism.

Q: That leads me to another question. What do you think accounts for the fact that capitalism has had such a bad reputation among the intellectual elite? Is it a simple matter of envy, or is there a more fundamental reason?

Hayek: Yes, this is a very curious story. It was the enormous influence of Karl Marx's teaching that capitalism has created the proletariat. It's curious because the fact is true, but the capitalist hasn't created the proletariat by expropriating anybody. On the contrary, he has created a proletariat by enabling people to live who otherwise could not have lived. He has created a proletariat by keeping people alive! In that sense, the proletariat is a creation of capitalism, and all these people just wouldn't exist without capitalism.

Q: If capitalism wasn't here to provide the labor, the jobs, and the capital, millions of people would not exist.

Hayek: Only capitalism could have created what I call the extended society, which is based on the utilization of infinitely more resources than any other system could have used.

Q: What can individuals do to help the spread of free-market ideas?

Hayek: Help the people who can do it to persuade the intellectuals. There is an organized effort in that direction now underway and very rapidly spreading. I think it was a mistake in the past to try to appeal to the masses generally. The people who make opinion are the intellectuals. They have been making wrong opinion. We must convince *them* in order to get them to work in the right direction. There are now specialized institutions which are trying to apply free-market principles to concrete problems in a form which is intelligible to the general public. And these things must be financially supported. ■

Tariffs (Cont. from p. 9)

competition and a decline in demand caused by the recession, was on the verge of bankruptcy in 1982, according to Daniel Klein. Despite a Japanese offer to provide about $10 million in technical assistance and another $20 million in bank loans, Harley-Davidson appealed to the U.S. International Trade Commission for relief from the importation of heavyweight motorcycles and power-train subassemblies (engines). By a vote of two to one, the ITC decided to restrict heavyweight motorcycles only, raising the tariff from 4.4 percent to 49.4 percent the first year and letting it decline incrementally to the original level after five years. President Reagan adopted the recommendation, with minor alterations, on April 1, 1983.

While such relief might have satisfied Harley-Davidson's creditors enough to stave off bankruptcy in the short run, the long-term effects can only be negative, as higher prices are likely to bring about a reduction in demand. The company, America's only domestic producer of motorcycles, may well be in danger again in five years, and at that time it is likely to ask for an extension of the import duties. "Temporary tariffs, as Ronald Reagan has often said of temporary government agencies, are the nearest thing to eternal life on this earth," Klein wrote.

In his letter, Harley-Davidson official Robert Klein alleged that "evidence and opinion contrary to Mr. Klein's are ignored." He then cited several points that he claimed were factual errors in the report, and asserted that "Harley had taken aggressive steps to help itself and simply needed a bit more time to finish its revitalization program. The company sought government action, under existing laws, only when irresponsible Japanese trade practices threatened to destroy what had been accomplished."

In his rebuttal, Daniel Klein argued that none of Harley's statements were central to his main point, which was that while market participants may plead for help if conditions turn against them, "once we let those pleas affect the referees' decisions, the game is destroyed. The door is open to any kind of intervention."

In response to Harley-Davidson's assertion that the tariff will result in more U.S. jobs, not fewer, Klein answered, "It is my belief . . . that government intervention *never* contributes to the long-run health of the economy," and cited administration economists who believed the tariff would destroy jobs.

Sam Husbands's letter to Harley-Davidson emphasized the moral reasons for opposing government intervention in the economy. Husbands wrote that by recognizing a company's specious "right" to a market or an individual's "right" to a job, "government has put its blessing on the observable at the expense of the dispersed and unseen."

"Free trade. . . ," Husbands continued, "is vital not only because Americans on balance benefit economically, but because if we adhere to it in principle it is one of the great contributors to international peace. Bastiat said it over a hundred years ago, but it still holds that 'if goods don't cross borders, soldiers will.' "

Copies of the Klein study are available from the Institute for $2.00. ■

Sowell Speaks on Race and Politics

Dr. Thomas Sowell, senior fellow at the Hoover Institution and author of the recently published book, *The Economics and Politics of Race: An International Perspective*, was the featured speaker at a recent Cato Policy Forum. Sowell discussed several themes from his book, which examines the question of whether ethnic groups retain their unique characteristics in different social and cultural environments.

According to Sowell, ethnic group

Sowell: "Discrimination is pervasive. The question is whether it has been pervasively *effective*."

patterns generally are consistent throughout the world. For example, his research showed that Germans tend to be overrepresented in the technical professions in Latin America, Australia, the Soviet Union, and the United States, and that Italians have, unsurprisingly, made a contribution in wine production in California, Argentina, and Australia.

Sowell explained his theory on persecution of economically successful ethnic minorities. "The more rare the skills they have in a given society, the greater their income is likely to be compared to that of the average member of the society, and therefore the more hated they are likely to be," he said, adding that "politics rewards the mobilization of resentment."

Sowell is one of the most celebrated free-market economists in the world. Many of his earlier books, including *Ethnic America* and *Knowledge and Decisions*, are considered classics of contemporary economics. *The Economics and Politics of Race* was reviewed in most mainstream book reviews and magazines, and was promoted in a full schedule of nationwide appearances by the author. Philosophy professor Stuart Warner, writing in the *Wall Street Journal*, called the book "remarkable," and said that Sowell "has written another unreadable book—a book so startling that it cannot be read straight through, a book that brings reading to a standstill."

Among the participants at the Sowell forum were Cato adjunct scholars Earl C. Ravenal of Georgetown University and Walter Williams of George Mason University, Arnold Packer of the Senate Democratic Policy Committee, Grover Norquist of the U.S. Chamber of Commerce, and Tom Diaz, a columnist for the *Washington Times*.

A transcript of Sowell's talk, and of the question and answer period following, was published in the January 1984 *Policy Report*. Copies are available from the Cato Institute for $2.00. ■

Withdrawal from Lebanon Urged in Richman Paper

American involvement in Lebanon was the subject of a recent Cato Policy Analysis by Sheldon Richman, associate editor of *Inquiry* magazine. Citing the fact that "Lebanon is beset by old and complex internal problems that virtually preclude social cohesiveness and tranquility," Richman argues for complete American disengagement from the war-torn nation. His study puts today's political crisis in historical perspective in an attempt to show that the real issues in Lebanon are quite different from those portrayed by the Reagan administration.

For over forty years Lebanon has been ruled by a political arrangement called "confessionalism," under which political power is apportioned on the basis of the country's religious and ethnic groups. Unfortunately, the system does not allow for the inevitable demographic changes which have taken place since the 1932 census, upon which the current legislative proportions are based. In 1932, the Shi'ites comprised just 19.6 percent of the population, yet today they are the largest group in Lebanon, with 28 percent of the population. The Maronite Christians today are only 16.8 percent of the population, down from 28.8 percent in 1932. The overrepresentation of the Christians and underrepresentation of the Moslem factions in the government have been the source of the political confrontations of the past decade. Ignoring these demographic changes, the United States has sought to prop up the unpopular minority government of Maronite leader Amin Gemayel, in spite of the fact that his insistence on retaining the presidency has been the chief stumbling block to a negotiated settlement of the conflict.

Citing the work of political economist Ludwig von Mises, Richman argues that only the minimization of central government power in a divided country can reduce the political and military conflict over the use of that power. Yet President Reagan's policy flies in the face of this advice by seeking to strengthen the central government.

Richman asserts that because of its record as a backer of Israel and of the Maronite leadership of Lebanon, the United States cannot be perceived as an impartial arbiter in Lebanon. He warns, "There simply is no good reason for the U.S. government to side with Arab Christians and alienate millions of Arab Moslems. . . . Doing so only makes Americans targets of terrorism and risks dragging them into war, first with the Syrians, and possibly the So-

(Cont. on p. 15)

Can Banking Be Deregulated?

Financial Services: Changing Institutions and Government Policy, *edited by George J. Benston (Old Tappan, N.J.: Prentice-Hall, Inc., 1983), 268 pp., $14.95/$7.95.*

Although many harmful consequences of industrial regulation have been proven through economic analysis, the prospect of meaningful repeal often seems dim due to the realities of our political system. George Stigler has likened regulatory entrenchment to that of the Rocky Mountains. Yet today one key industry waits in an environment conducive to further deregulation. As Benston writes: "For the first time in over fifty years the number of institutions and individuals that benefit from deregulating the financial services industry is sufficient to make deregulation a realistic possibility. The public certainly would benefit."

Financial Services consists of nine chapters, by separate authors, each dealing with a different aspect of the financial services industry. Many chapters give perspectives on the evolution and current structure of the industry under the assumption that these are necessary for an informed prediction of its future. Consequently, the impact of New Deal regulation on the current structure of these institutions becomes clear. One of the key issues to be resolved is how much of this regulation is now desirable.

Several similar conclusions are reached by the authors. First, constraints on competition are not desirable, even if failure of some institutions or loss of benefits to some individuals result from the removal of constraints. Second, large economies of scale do not exist throughout the industry, hence centralized power is unlikely to occur if regulations are removed. Third, deposit insurance is desirable for transactions deposits, although there is no reason why this insurance must be provided by a single, noncompetitive agency. Most authors agree that competition among insurance providers would enhance the efficiency and security of the industry.

The book is not without its inconsistencies. Paul M. Horvitz contributes a very interesting chapter on payments systems developments, in which he displays the ability of the price system to encourage innovation and direct resources to their most highly valued uses. In this chapter he expresses concern that electronic funds transfer systems might have to be treated as natural, shared monopolies, mainly in the name of increased competition. He also endorses the use of the Fed Wire as the only system providing no risk of payment default. Horvitz seems to forget that an agency such as the Federal Reserve has few cost constraints, and its monopolization of that service will restrict competition just as effectively as a natural monopoly.

Policy Report Reviews

One of the acknowledged problems with such a compilation of articles is the duplication of ideas and statistics. Fortunately, the ideas are presented in a diversity of ways which results in an enhancement of the book's overall scholarly objectivity. The wide range of views of the contributors allows the reader to see a fuller spectrum of the debate.

An opportunity exists for continued deregulation of the financial services industry. Sound research and thought are required to overcome the entrenched beneficiaries of regulation. *Financial Services* provides the necessary analysis and credibility to justify additional deregulation.

State of the World 1984: A Worldwatch Institute Report on Progress Toward a Sustainable Society, *by Lester R. Brown et al. (New York: W. W. Norton and Co., 1984), 252 pp., $15.95.*

This volume is meant as a "report card" on mankind's global ability to achieve its goals given its limited resources. The primary concern is *sustainability*: Can we maintain the levels and trends of our living given the supply of our depletable resources?

The book suggests that rates at which vital resources are being depleted and at which population is growing give good reason to be pessimistic. Continuing at our present rate, it claims, ultimately recoverable reserves of oil will be gone in 114 years and topsoil reserves will disappear a few decades later. Of the 1983 world population growth rate of 1.7 percent, the authors write that "the worldwide effort to get the brakes on population is falling short."

The findings of this book are frustrating to analyze because when read closely one realizes that specific conclusions are kept to an absolute minimum. The tone is urgent and troubled, but the reasoning and factual evidence do little to back up this thrust. Lester R. Brown, Project Director of the work, says that the roots of the eighties' economic crisis "lie in the depletion of resources," yet his team hardly demonstrates the claim.

In per capita food production, for example, the study highlights local crop failures, as in Africa, and short-term slowdowns in production. However, looking at the long-term data, which can be found in Julian Simon's highly informative *The Ultimate Resource*, one finds that short-term peaks and valleys are common and that the trend since 1948 has clearly been *increased* per capita food production. Worldwatch, however, anticipates trouble. In one chapter they set off from the text in bold face: "More countries than ever before face the possibility of famine in early 1984." But there has not recently been an unusual food problem.

On future oil provision, we again become skeptical of Worldwatch's claims when we consider the carefully reasoned discussion by Simon. He explains why extrapolating future provision of resources from known supplies is a spurious calculation. First, the comprehensive data on such items is very poor, and, second, man does not secure resources beyond his relevant horizon. There is plenty of oil in the world that hasn't been worth investigating yet. To divide the quantity of *known* reserves by our present annual usage, as Worldwatch does, in order to foretell the exhaustion of the supply, is ludicrous. Worldwatch tells us that at the present rate our known oil supply will be gone in 37 years, and implies that this is a real parameter the world will face. But known oil *reserves* increased by more than 500 percent from 1950 to 1970. Consider how misleading it would have been to predict the depletion of oil in 1950 based on known reserves. Without pretending to have exact forecasts, Simon is very optimistic about our future oil use and our future resource use in general.

The Worldwatch group suggests ways of improving the status of global resources. Bringing the issue to the attention of political leaders is a central aim, hopefully to be achieved by new resource accounting schemes. Large-scale government projects in dam construction, soil preservation, recycling and the like are advocated. Finally, they stress the worldwide military buildup as a significant and unnecessary drain on resources.

Law of the Sea: U.S. Policy Dilemma, *edited by Bernard H. Oxman, David D. Caron, Charles L. O. Buderi (San Francisco: Institute for Contemporary Studies, 1983), 184 pp., $21.95/$7.95.*

Twenty-four years of international negotiations ended in failure on April 30, 1982, when, at the eleventh session of the Third United Nations Conference on the Law of the Sea, the United States voted against the proposed Law of the Sea Treaty (LOST). What was to become the constitution of the oceans instead became the UN's biggest white elephant.

The treaty appeared to get a rousing send-off when 130 nations voted for it, with only 3 joining the United States against, and 17 abstaining. But just 9 nations have since backed up their vote with a ratification, despite predictions that the necessary 60 nations would ratify in 1983, allowing the treaty to go into effect this year. The United States refused to pay its 25 percent share of the UN assessment to finance the Preparatory Commission, which is to draft rules and regulations to explain the 221-page treaty, and the multi-year effort has bogged down in Jamaica. Moreover, the Reagan administration is negotiating an alternative mining system with other industrialized Western nations that could render the LOST system—if it ever takes effect—a paper tiger.

This collection provides a look at the complex LOST process that is balanced between treaty advocates and opponents. The book opens and closes with fairly evenhanded essays by, respectively, David D. Caron and Bernard H. Oxman, who provide background on the extended oceans negotiations and the issues yet to be resolved. Particularly valuable for neophytes in the world of the International Seabed Authority, the Enterprise, Exclusive Economic Zones, territorial seas, maritime research, and so on is the appendix on the treaty by Oxman, a former vice-chairman of the U.S. LOST delegation.

The most eloquent supporter of the treaty is Leigh S. Ratiner, who was the lead U.S. negotiator at the final conference session. Ratiner, whose shifting positions on the LOST issue are not reflected in the book, argues here as "a conservative" that the administration's rejection of the treaty will result in "a significant, long-term foreign policy setback with grave implications for U.S. influence in global economic and political affairs."

Also on the "pro" side is Arvid Pardo, the former Maltan United Nations ambassador who successfully convinced the UN General Assembly to declare the seabed the "common heritage of mankind" in 1967. Pardo, though still loyal to the common heritage ideal, is critical of the treaty adopted by the conference for making seabed development "unnecessarily complicated and expensive," establishing "unnecessary and unrealistic production controls," and designing an "Authority that is almost certain to make timely and appropriate decisions impossible." Instead of benefiting mankind, he sees the treaty system proving "to be an enduring economic burden on the international community."

The treaty's opponents are well-represented by W. Scott Burke and Frank S. Brokaw, who directly challenge the entire "common heritage" concept. The LOST, they point out, would be "the first formal codification" of the redistributionist New International Economic Order demanded by Third World leaders.

Robert A. Goldwin attacks both the theoretical and philosophical underpinnings of the entire negotiations. The theory of common ownership, he says, "jeopardizes one of the great foundations of international peace and prosperity—freedom of the high seas." The practical assumption that the seabed would yield untold riches, requiring an extensive regulatory system to divide them, failed to take into account the cost of recovering the minerals and the current slump in the minerals market. The LOST, he argued, is flawed both in theory and reality.

The collection also includes more detailed discussions of the likely investment climate under the treaty and under an alternative agreement among potential seabed mining states, as well as a look at the political lessons that should be drawn from the negotiations.

The Law of the Sea negotiations have always been one of the most esoteric of issues. But, because of the treaty's role as the leading edge of the Third World's campaign for global resource management under its control, the issue is also one of the most important. *Law of the Sea* helps explain why the Reagan administration opposed the LOST and the coercive new world order of which the treaty is an important part.

—Doug Bandow
Inquiry

Lebanon (Cont. from p. 13)

viet Union." With the withdrawal of American troops from Lebanon and an end to the military support for one side in the civil war, the prospects for a successfully negotiated settlement to the crisis should improve, Richman says.

"What is important," he concludes, "is that the solution must not be and cannot be imposed from outside."

"The United States in Lebanon: A Case for Disengagement" is available from the Cato Institute for $2.00. ■

"To be Governed..."

If I wasn't reading it, I didn't mean it

Rep. Marjorie S. Holt (R-Md.) rose on the House floor yesterday to apologize for her assertion in House debate the day before that the United States is a Christian nation.

"I apologize for the use of a narrow and exclusionary term which does not reflect my true beliefs," Holt said. . . . She explained that "I was not speaking from a written script when I made the error."

—*Washington Post*, March 8, 1984

At last a sensible farm policy

King Hassan II announced today that Morocco's farmers, hard hit by years of drought, would be exempted from paying taxes until the end of the century.

—*New York Times*, March 4, 1984

Their bloopers are in the U.S. Code

The original TV Bozo the Clown, Larry Harmon, is running for president as a legitimate write-in candidate. . . .

Recently a series of bloopers from the original "Bozo" TV series was set for an upcoming edition of ABC's "Foul-Ups, Bleeps and Blunders," but network censors . . . spotting a possible equal time problem with Walter Mondale, Jesse Jackson, Gary Hart, President Reagan, etc. . . . left the "Bozo" segments on the cutting-room floor.

—*Washington Post*, March 28, 1984

If I had a hammer

Robert Suarino walked into the local IRS office Tuesday and laid down six brand new hammers to cover the $2,400 the government says he owes in back taxes and interest.

Suarino said he got the idea from a newscast that detailed how the government once paid $400 for a hammer that was worth $8.

"The government takes your hard-earned money and squanders it any way they want," Suarino told the Rochester Democrat and Chronicle. "Well, if a hammer is worth $400 to them, then I've got six here to pay my taxes."

—*Washington Post*, March 29, 1984

The political market at work

A large number of District [of Columbia] residents with close ties to elected officials and high-ranking city employees hold interests in the three firms that are bidding on the city's cable television franchise, a review of corporate records indicates.

—*Washington Times*, March 1, 1984

For shame!

"The lobbying on this has been done very enthusiastically and powerfully by the credit card companies," [Sen. William] Proxmire said. "Brother, do they have PACs and are they active, and are they big. And they are not pikers when it comes to paying those lobbyists."

"I think that last remark by the Senator was unfortunate," [Sen. Alfonse] D'Amato shot back in some heat. "It implies that the credit card companies have exerted influence here in the Senate."

—*New York Times*, March 4, 1984

Just a coincidence, folks

The Defense Department's inspector general has cleared Pentagon officials of any impropriety in awarding $4.2 billion in contracts on the last day of fiscal 1983.

Inspector General Joseph Sherick reviewed 140 of the largest of 234 contracts announced last Sept. 30 and said there was no indication that they were awarded to buy "unnecessary things" to avoid returning unspent money to the Treasury. . . . Normally, the Pentagon announces the awarding of between two dozen and four dozen contracts each working day.

—*Washington Post*, March 15, 1984

It's worth a try

Quiz: If the lava that has erupted from Mauna Loa between March 25 and last Thursday were spread over the District [of Columbia], how deep would it be?

Quiz Answer: According to the U.S. Geological Survey, it would be 3.5 feet deep.

—*Washington Post*, April 9, 1984

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