

MEMORANDUM

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Ford, Burger Addresses Mark AEI Conferences

Former President Gerald R. Ford warned that an "assertive" Congress and a "surge of judicial power" are creating a situation in which the "imperial presidency" might become an "imperiled presidency." Ford's remarks were made on December 13 before luncheon guests attending two AEI-sponsored conferences. One day later, Chief Justice Warren Burger told conferees that the times may call for splitting the duties of his office into two separate sets of functions, those relating to the activities of a judge and those relating to administrative management of the federal court system.

Ford's remarks were made at a combined session of two AEI conferences entitled "A New American Political System?" and "The Role of the Judiciary in America." Burger's address was delivered as part of the latter conference. Both events highlighted a week's activity conducted by AEI in mid-December that included the second annual Public Policy Dinner, the videotaping of a Public Policy Forum, and special press reports and assessments of political events in the past year presented by various of the Institute's program directors.

Ford, AEI's Distinguished Fellow, contended that judicial intrusion into the lives of Americans has resulted from the activism of particular judges as well as from special interest groups that "organize class-action suits and other forms of litigation in the hope that what they have failed to win at the ballot box, they may achieve through a referendum among the members of the bench." He commended the Supreme Court for being sensitive to the implications of this activity for American polity and resisting further expansion of judicial power.

The former President was less sanguine concerning prospects to reign in the expanding power of Congress. He warned that such moves have resulted in a "series of *ad hoc* arbitrary restrictions on the exercise of legitimate executive power and, in the process, a serious weakening of the presidency itself." Particularly in the area of foreign policy, Ford said, Congress has not only usurped legitimate presidential authority, but by doing so has effected "a scheme that is totally impractical and unworkable" to the detriment of our national well being.

Ford also noted that agencies of the executive branch have begun to act in autonomous fashion. "Their view is that, by delegation of the Congress, they are both independent and quasi-judicial agencies of government; that they hear testimony from affected parties; and that any communications thereafter are, in effect, *ex parte* proceedings. We must re-

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Arthur F. Burns delivers Boyer lecture.

Burns Presents Second Francis Boyer Lecture

Former Federal Reserve Board chairman Arthur F. Burns delivered the second Francis Boyer Lecture on Public Policy as part of the American Enterprise Institute's second annual Public Policy Dinner, which was held on December 14, 1978 at the Washington Hilton Hotel. Approximately 1500 people heard Burns, who is Distinguished Scholar in Residence of the American Enterprise Institute, sound a note of optimism concerning the future of the American economy. Observing that the leaders of both political parties have finally recognized that inflation is the nation's number one economic problem, Burns declared that there has been "a momentous change in the American political scene—a change that augurs well for controlling inflation, for renewing confidence in the dollar, and before long also for a stronger trend of business investment in fixed capital."

In his address, Burns noted that the business expansion under way since the recession of 1974-75 "has proceeded further and faster than recovery in other industrial countries around the world." Nevertheless, he observed, "the return to

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Robert P. Griffin



Former Senator Griffin Named AEI Senior Fellow

Former United States Senator Robert P. Griffin, R-Mich., has joined the American Enterprise Institute as a senior fellow, AEI president William J. Baroody, Jr. announced in December. Griffin's appointment commenced upon his leaving the Senate on January 3, 1979. As a resident senior fellow, Griffin will maintain an office at AEI headquarters in downtown Washington.

"We are delighted to welcome Bob Griffin into our community of fellows and scholars in the public policy process," said Baroody. "His 22 years of public service will provide unique insights into the formation of public policy from his perspective as a senior and influential member of the Senate."

Senior fellows at the Institute engage in writing, research, teaching and lecturing. They also participate in AEI-sponsored conferences and seminars. Other senior fellows at AEI are author-scholar Irving Kristol, contributing editor of the *Wall Street Journal*; Laurence Silberman, former deputy attorney general and ambassador to Yugoslavia; Herbert Stein, chairman of the Council of Economic Advisers under Presidents Nixon and Ford; and Ben Wattenberg, former adviser to President Lyndon B. Johnson and cofounder of the Coalition for a Democratic Majority.

Griffin, 55, was graduated from Central Michigan University and from the University of Michigan Law School. He was first elected to the House of Representatives from Michigan's 9th District in 1956 and was re-elected four times.

In May 1966, he was appointed to the Senate to fill a vacancy caused by the death of Senator Patrick V. McNamara; he was elected to the seat in his own right that fall and was re-elected in 1972. From 1969 until 1977, he served as Senate Minority Whip.

Through his Senate career, Griffin served on most major Senate Committees—including Finance, Judiciary and Labor. Most recently, he has served on Foreign Relations; Commerce, Science and Transportation; and Rules and Administration. He also was a member of the *ad hoc* committee that drafted the Senate's strong new code of ethics.

His major legislative achievements include authorship of the National Direct Student Loan program, which has enabled more than four million young people to obtain a higher education, and co-authorship of the Landrum-Griffin Labor Act, known as the "working man's bill of rights."

Reserve Board Papers Of Burns Published by AEI

The American Enterprise Institute announced in November the publication of *Reflections of an Economic Policy Maker: Speeches and Congressional Statements, 1969-1978* by Arthur F. Burns, AEI's Distinguished Scholar in Residence and former chairman of the board of governors of the Federal Reserve System.

The volume consists of a selection from the many public addresses and statements before congressional committees made by Dr. Burns during the period he presided over the Federal Reserve System—from February 1970 through March 1978—supplemented by one speech given in December 1969 and one given in September 1978.

The selections in the volume set forth Dr. Burns' deeply-felt views on some of the fundamental economic questions of our time. They also throw light on Federal Reserve policies under his leadership and on important aspects of U.S. economic history during a turbulent period. A number of papers themselves had significant effect on the course of events.

The papers are grouped in five divisions: free enterprise and economic growth, inflation and unemployment, fiscal responsibility, sound money and banking, and international finance.

The papers in the first section offer extensive evidence in support of Dr. Burns' belief that "where free enterprise has flourished, nations have prospered. . . . Where detailed governmental regulation has repressed individual initiative and stifled competition, economic growth has been hampered. . . ." They also discuss the factors underlying the recently-reduced rate of growth in productivity, the need to enlarge investment in both physical and human capital, and the dangers to free enterprise posed by the corrosive effects of inflation.

The section on inflation and unemployment, the longest of the five, reviews in detail the causes and consequences of the powerful inflationary pressures that have gripped the United States, as well as other nations, in recent years. Dr. Burns discusses a significant new pattern that emerged in this period—that of inflation persisting in the face of substantial unemployment—and the resulting limitations on the usefulness of the classical means of economic stabilization: monetary and fiscal policy. Against this background, Dr. Burns proposes a variety of structural reforms that would reduce government's contribution to the rate of price advance, and that would also foster increased employment, particularly among young people and blacks, without contributing to inflation.

The papers in the section on fiscal responsibility discuss the reasons for the rapid growth in recent decades of government spending and taxing, the appropriate limits to such growth, and—whatever the scale of governmental activities—the need for discipline in their financing. A number of these papers are concerned with procedural reforms in the budget-making process, including reforms of the type that were finally incorporated in the Congressional Budget Act of 1974 and the "zero-base" budget system first employed in connection with the federal budget for fiscal 1979.

The fourth section, on sound money and banking, is concerned with issues relating to the monetary and regulatory responsibilities of the Federal Reserve and with the vital importance to the nation of preserving the independence of its central bank. The final section, on international finance, includes two papers from early 1972 that focus on circumstances following the famous Smithsonian Agreement of December 1971 and two from the spring of 1977 that explore the requirements for international financial order in a highly interdependent world marked by huge payments imbalances.



Greenspan and Oswald, top. Kahn and Kosters.

Carter Inflation Program Assessed by Panelists

Advisor to the President on Inflation Alfred E. Kahn, former Council of Economic Advisers chairman Alan Greenspan, AEI resident scholar Marvin H. Kosters and AFL-CIO research director Rudolph Oswald discussed "Weapons Against Inflation" in a televised Public Policy Forum presented by AEI on December 5. Former ABC News executive John Charles Daly moderated the discussion.

Kosters, who is director of AEI's Center for the Study of Government Regulation, was associate director for economic policy and planning at the Cost of Living Council during almost the entire period of the Economic Stabilization Program of 1971-74. Of the new round of wage-and-price guidelines promulgated by President Carter, he asks: "Is the rate of inflation likely to be lower after [them] than it was before? Well, by virtue of the standards themselves, I would say that's quite unlikely. We have a great deal of experience with that, both in Europe and in the United States. All of that experience that I'm aware of is negative, and I see no reason why we're likely to fare any better under this one."

Greenspan was chairman of the Council of Economic Advisers under President Ford and is now president of Townsend-Greenspan, a New York economics consulting firm. In comparing the recently established Carter program with President Ford's WIN program, he said: "All that is necessary to restrain inflation is in the first part of both of those programs—that is, restraint on federal government expenditure and, indirectly, on its credit-creating capacities. As to guidelines, I think they are counterproductive and are not part of an anti-inflation program, but in my view ultimately add to inflation."

Kahn serves as chairman of the Council on Wage and Price Stability in addition to his inflation post. In responding to Kosters and Greenspan, he said: "I'm not suggesting that

[guidelines] would do any good in the absence of monetary and fiscal restraints. I wish you would mention the fact that we have a very comprehensive intention, at least, to attack structural defects in the economy and government interventions that inflate costs and prevent competition."

Oswald is a Fulbright scholar who holds a doctorate in economics from Georgetown University. He explained the reasons behind organized labor's call for mandatory wage-and-price controls by saying that the Carter program "really is mandatory in terms of wages because there is an enforcement mechanism there. Every employer is willing to enforce a set guideline at seven percent. . . . [But] there is not really a mechanism for controlling prices, because there's no manpower to do it. . . . If there are to be controls, let's make them, by legislation, effectively enforced against everybody, so that they apply effectively against all segments of the economy and not just against workers who are working for wages."

The published transcript of "Weapons Against Inflation" can be obtained from the American Enterprise Institute. Audio and video cassettes are available from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

City Pensions Called Key to New York Ills

New York City's financial crisis was caused in large part by its overly generous pension plans for city employees, according to a November AEI publication. The study, *Pensions and New York City's Fiscal Crisis*, is written by Damodar Gujarati, professor of economics and finance at Baruch College of the City University of New York. Gujarati concludes that more realistic pension policies will be necessary to avert future crises.

To illustrate the generosity of the New York system, Gujarati compares it with the pension systems of other large cities and with the practice in private industry. A married employee retiring at 65 after 20 years with one of the New York City departments and a final year's gross income of \$10,000 gets between 93 and 117 percent of that income in combined pension and social security benefits, he notes. Comparable figures for other large cities are 37 percent in Chicago, 42 percent in Dallas, 84 percent in Denver, 94 percent in Detroit and 44 percent in Los Angeles. A 1975 survey of industry retirement plans by Bankers Trust Co. found that an employee in the private sector retiring after 30 years with a final year's compensation of \$9,000 received 68 percent.

Partially as a result of its liberal pension policies, New York City's labor costs more than quadrupled from \$1.3 billion in 1961 to \$5.5 billion in 1975, when the financial crisis struck. During that period, pension costs rose from \$230 million to \$1.2 billion and the city's share of Social Security payments was up from \$30 million to \$253 million.

"The pension benefits of city employees have been liberalized over the past several years, especially since 1969," Gujarati says. "The twenty-year, no-minimum-age plan of the police and fire departments, retirement allowances based on the final year's salary rather than the average of the last three or five years' salary, and inclusion of overtime pay in the computation of the final pay are but a few examples of the ways in which pension benefits have been increased."

However, in 1976 a revised pension program for state and city employees was enacted, retroactive to 1973. This plan integrates social security benefits with overall retirement benefits, relates pension benefits to three-year final average salary instead of final year's pay, increases retirement age, and provides that city employees will pay their full actuarially determined contribution toward their pensions.

Gerald R. Ford



Ford Announces Plans For AEI Center, Chair

Former President Gerald R. Ford, the Distinguished Fellow of the American Enterprise Institute, announced the establishment of the George Frederick Jewett Chair at AEI through a grant from the Potlatch Corporation, as well as plans to establish the Arthur Burns Center for the Study of Inflation and Employment at AEI, in remarks made at AEI's second Public Policy Dinner. The chair and center are being established as part of AEI's three-year, \$60 million development drive, of which President Ford is honorary chairman. Mr. Ford's greetings and remarks follow.

"A year has passed since all of us gathered here at AEI's First Annual Public Policy Dinner, and that year has been one of great achievement, of substantial change.

"Bill Baroody, Sr., has taken off one hat, that of president of AEI, and put on another, becoming counsellor and chairman of AEI's Development Committee. And young Bill has moved up in the organization to succeed his father as AEI's president. The result is that AEI has the management that is essential for the strengthening and broadening of its effort, together with an outstanding new capability of raising the money needed for that purpose.

"As honorary chairman of the AEI Development Committee, I thank all of you for the help and assistance that you have already given. I am delighted to have associated with me in that capacity Irving Kristol, Paul McCracken, Tom Murphy, Reg Jones, and Walt Wriston. We owe special thanks to Bill Butcher, who is spearheading the national campaign for expanded corporate support of AEI across the country.

"It is a great privilege for me to report on this occasion the establishment of the AEI George Frederick Jewett Chair, made possible by a grant from the Potlatch Corporation, whose chief executive, Dick Madden, an AEI trustee, is also here tonight. I thank Dick and the Potlatch Corporation for this wonderful contribution.

"I am equally pleased to announce on this occasion that there is permanent funding of the Francis Boyer Award. It has been assured through the very generous support of the SmithKline Corporation. All of us associated with AEI are deeply grateful.

"It is my understanding—from very good sources—that we are anticipating permanent support for another most worthwhile project of AEI. It is a project aimed at the establishment of the Arthur Burns Center for the Study of Inflation and Employment. I know of no person who deserves more than Arthur Burns such an accolade in recognition of his contributions to winning the battle in both cases.

"Just to summarize quickly, I am deeply grateful, on behalf of AEI, for the support, for the generous contributions,

and for the fact that so many of you are here from the corporate world. I thank you for Bill, Sr., Bill, Jr., and all who believe in the American Enterprise Institute as a viable, effective force in the public policy arena of our country."

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prosperity has not brought a corresponding return of confidence." After commenting on various current imbalances in the economy, he considered in detail five major concerns: (1) the flattening out of the trend of productivity, (2) the proliferation of governmental regulations, (3) the increasing cost of government and the growing burden of taxes, (4) the accelerating pace of inflation, and (5) the danger of an early recession.

Burns noted that the trend of national productivity has faltered during the past decade. "Whereas output per hour grew at an average annual rate of over three percent between 1947 and 1967, it has since then increased at only half that rate—a performance that compares quite unfavorably with productivity advances in other industrial countries." He attributed as causes of this phenomenon the fact that the exceptionally rapid growth of the American labor force has not been matched by corresponding acceleration in capital formation, the failure of research and development expenditures to grow in real terms, and the decline of the work ethic as reflected in longer vacations, more frequent holiday and sick leave, and more widespread coffee breaks and other "social rites" on the job. "Fortunately, the stagnation of our productivity is now widely recognized in both government and business circles, and its causes are being actively explored."

On regulation, Burns reported that the huge costs of compliance imposed on private industry amounted to over \$60 billion in 1976 and may possibly reach \$90 billion for 1978. "Nor are the financial costs the entire burden of government regulation. As things stand, many corporate executives find that so much of their finest energy is devoted to coping with regulatory problems that they cannot attend sufficiently to the creative part of their business—planning new technology, developing new products, or exploring new marketing strategies. To proceed with a new project . . . , business managers need to deal with numerous agencies at several levels of government. . . . Months and years may pass before they discover whether they can go ahead, and even then they cannot tell what fresh obstacles may be put in their way. Such uncertainties and frustrations cannot be brought under a dollar sign, but they have a telling effect on a nation's business." Burns pointed to the recent outpouring of public criticism of the regulatory apparatus as an indication "that our democracy is still functioning vigorously and that the American public will not tolerate excesses indefinitely."

Federal expenditures on human resources were still only three-fourths as large as the defense budget in 1965, Burns reported; by 1970, the two figures were nearly equal, and in the fiscal year just ended human resources expenditures exceeded those for defense by more than two to one. Responsible citizens, he said, have recognized that "much of government spending is adding heavily to the taxes of hard-working people without alleviating social ills." He cited Proposition 13 and referenda initiatives in other states as proof that people in many parts of the country share the desire to curb government spending and taxing.

The persistence of substantial deficits in federal finances is mainly responsible for the serious inflation that began in the mid-sixties, according to Burns. "And when the deficit increases at a time of economic expansion, as it has done lately, we should not be surprised to find the rate of inflation quickening." He stated that the American people have by now had sufficient experience with inflation to appreciate its serious consequences. "Inflation excites doubts among people about themselves, about the competence of their government

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At the dais with Chief Justice Burger are Carla Hills, vice chairman of the advisory council to AEI's Legal Policy Studies program, program director W. S. Moore, Gerald R. Ford, AEI board chairman Herman J. Schmidt, and AEI president William J. Baroody, Jr.

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mind these agencies that they are not a separate and distinct fourth branch of government, but, rather, an integral part of the executive branch."

Ford concluded that the system of republican government designed by the founders of the country has worked extraordinarily well. "In these deliberations . . . I would urge that we be guided by the brilliant light of that original democratic vision."

Chief Justice Burger, after reviewing several recent studies that have recommended creation of some kind of intermediate appellate court or national court of appeals to solve major problems of the administration of justice, advanced reflections related to his own office. He prefaced his remarks by noting that "my experience tells me that it is very likely they will be treated as proposals. My disclaimer, however vigorous I make it, that I am not proposing any specific programs, is likely to be lost." Burger then proceeded to suggest that "if the burdens of the office [of chief justice] continue to increase as they have in past years, it may be impossible for the occupant to perform all the duties well and survive for long."

Burger noted that in England, three judicial officers—the chancellor, the chief justice and the master of the rolls—perform most of the functions that we locate exclusively in the office of chief justice. He also mentioned that Congress in 1972 authorized an administrative assistant to the office of chief justice to assist in purely non-judicial duties. Still, he warned, "there is a limit to increasing productivity of human beings, and there is a limit to the delegation of functions and a limit to delegating decision making."

"What can be done to assure that the duties of the office of chief justice are contained within manageable bounds? . . . Let me advance one idea which may be worthy of some study, for the purpose of provoking others to criticize, analyze and debate. Should we consider an office which might be called Circuit Justice for Administration?" Noting that the office could function not in any judicial capacity but purely as one of administration, he likened the position to that of executive vice president in a corporate context. The occupant would perform "many of the things that the chief officer would do if he had the time."

In closing, Burger suggested that "because the Supreme Court has been able to manage somehow up to now in the face of a more than doubling of its work in just two decades,

and because the chief justices have somehow managed to cope, we should not assume that these glacial pressures can always be kept under control. Glaciers are slow, but in the long run they have a tendency to change the landscape. Our choice, as I see it, is to control the changes or be controlled by them."

The conference on "The Role of the Judiciary in America," which was held on December 12, 13 and 14, also featured a televised Public Policy Forum entitled "An Imperial Judiciary: Fact or Myth?" Participating as panelists in the round table discussion were Ira Glasser, executive director of the American Civil Liberties Union, former deputy attorney general and current AEI senior fellow Laurence Silberman. Professor Abram Chayes of Harvard Law School, and former assistant attorney general Antonin Scalia, presently a professor at the University of Chicago Law School and an AEI adjunct scholar. A published transcript of the discussion is available from AEI. Audio and video cassettes of the program can be obtained from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).



Scalia, Silberman, Daly, Glasser and Chayes.

The conference contained three sessions in addition to the Public Policy Forum. Edward H. Levi, former U.S. attorney general who is presently a professor at the University of Chicago, chaired the first session, on "Recent Changes in the Judicial Role." Four papers were delivered: "Protection

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Ray Marshall



Marshall Cites Need For Minimum Wage

While the minimum wage might affect employment and prices, it is still necessary as a protection for the lower-paid worker, according to Secretary of Labor Ray Marshall. "The minimum wage problem is not entirely an economic problem. It is partly an equity problem," Marshall says in a November AEI publication.

"There is no question that increasing the minimum wage has some employment effect and some price effect," Marshall says. "But not to increase the minimum wage—on the ground of either inflation or unemployment—would be to transfer too much of the cost of the policy to the people who can least afford it, the people at the bottom of the economic ladder." *A Conversation with Secretary Ray Marshall* is the transcript of a meeting between Marshall, AEI scholars and invited guests held at AEI on July 13, 1978.

In the discussion, Marshall opposes a differential minimum wage for youth, both because young people tend to take jobs from adults in secondary labor markets where women and minorities are particularly involved, and because the young should enter the labor market through youth training programs.

On inflation, the labor secretary suggests that the United States has not "paid enough attention in our inflation policy to a sectoral approach, which would try to deal with inflation mainly in those areas of the economy where the greatest inflationary pressures are known to exist. Unless we bring inflation under control, we will not be able to contain or reduce unemployment.

"Where the government has the most control, we will be able to do some things—to use the purchasing power of the government, the taxing power of the government, or the regulating power of the government. The government is a purchaser and employer of considerable magnitude, and a cap has been put on federal employee wages. The President is very serious about efforts to hold the line on the federal budget, and he is doing everything he can do to accomplish that," he says. If all of those efforts fail, he suggests, the alternatives would be worse. "If there were pressure for wage and price controls, that would be extremely unfortunate. I don't believe they would work."

Discussing the problem of regulating carcinogens in the workplace, Marshall says that "we have been trying very hard to take cost-effectiveness into account, consistent with our mandate to do whatever we can to protect workers. Before standards go into operation, we try to consult with the industry extensively. We hold hearings to look at the engineering feasibility and the cost of alternative ways of controlling a problem." However, he goes on to note that "the bottom line

always will be that we will do everything we can to protect the workers."

On international trade, Marshall says that "trade ought to be as free as possible, consistent with fairness in the trade. . . . If the industry is relatively efficient, if there is no indication of technological backwardness or managerial backwardness, and if our main disadvantage is in labor standards—that is to say, some other countries do not require carcinogen standards and we do—then I think we ought to take that into consideration in deciding whether to let those goods into this country."

Advertising Called Way To Decrease Prices

The potential use of advertising to reduce prices is explored in *Advertising, Prices and Consumer Reaction: A Dynamic Analysis*, a new book by John M. Scheidell. The author, a professor of economics at Florida Atlantic University, develops an economic theory that shows how advertising can make price decreases profitable by speeding consumer reaction to the decreases.

In his book, published in December by AEI, Scheidell questions some of the "conventional wisdom" that casts advertising as an economic villain that fires inflation, throws up entry barriers, and encourages rampant product proliferation. His analysis indicates that "advertising may be the most effective method by which a firm can reduce prices and get information about its reduced prices to consumers before rivals can react. This requires speeding up consumer reaction so that, before rivals can cut their own prices, the firm can realize enough additional sales to capture a net gain on its price cut."

The author cites the case of ophthalmic goods and services as one example of the price-reducing potential of advertising. Information gathered by the Federal Trade Commission shows that eyeglasses cost more than twice as much in states where advertising was banned as they did in states where there were no restrictions on ophthalmic advertising, he says.

"Further evidence is provided by a study of toy manufacturers' television advertising," Scheidell writes. "Before the mid-1950s a typical toy with a list price of \$5 tended to retail at \$4.95, with occasional sales advertised around \$4.49. When toy manufacturers began to advertise on local television, however, the retail price dropped to \$3.49, with advertised sales at \$2.99."

Both price and nonprice advertising are important, according to the book. When a firm improves the quality of a product, advertising is a necessary complement to transmitting information about the improvement. When prices are reduced, advertising that provides information about quality as well as price may be necessary to speed consumer reaction.

Scheidell notes that the Federal Trade Commission has been in the forefront of moves to repeal laws restricting the advertising of ophthalmic goods and services. The commission also has moved to end restrictions on advertising by other professionals. "The general policy implications are clear," writes Scheidell. "Advertising can promote price competition and other desirable results, such as product improvement, by increasing consumer reaction to price and other changes. This has particular relevance for price and product differentiation in oligopolistic markets." He points out, however, that "in areas other than professional services and prescription eyeglasses, the FTC maintains that advertising in oligopolistic markets is a form of nonprice competition, which, together with real product differentiation, provides barriers to entry."



Schuck and Meyer Take AEI Positions

HEW deputy assistant secretary Peter Schuck has been named a resident scholar and Council on Wage and Price Stability assistant director Jack A. Meyer assistant director of special projects at the American Enterprise Institute for Public Policy Research, AEI president William J. Baroody, Jr., announced in January.

The new appointees join more than 40 other scholars and fellows now affiliated with AEI who engage in research projects of their own, as well as participating in seminars and other Institute programs. AEI also has 71 adjunct scholars who conduct research projects on their own campuses.

Schuck was deputy assistant secretary for planning and evaluation at HEW from April 1977 to November 1978. Before joining HEW, he was director of the Washington office of Consumers Union, a public interest law firm, for five years. He has also practiced law in New York City, after receiving his degree from Harvard University Law School, where he worked as a graduate prize fellow in government.

Meyer has been with the Council on Wage and Price Stability since September 1975. He has served as assistant director for wage and price monitoring since September 1977, monitoring the private sector of the economy, supervising research and analytical studies, and coordinating data from industry and labor groups. He has also been affiliated with the Organization for Economic Cooperation and Development in Paris, the Department of Housing and Urban Development, and the Department of Labor. He received both his M.A. and Ph.D. in economics from Ohio State University.

Winter Notes Dangers In Federal Chartering

Proposals to curb the power of big corporations through federal chartering or other federal legislation would create a dangerous centralization of power, warns Ralph K. Winter, William K. Townsend Professor of Law at Yale Law School and an adjunct scholar of the American Enterprise Institute. "Although the movement parades under the banners of shareholder protection and decentralization of power, the inevitable consequences of its success would be exactly the opposite. Capital would be driven away and the economy seriously impaired, while government would continue to grow at the expense of the private sector," writes Winter in *Government and the Corporation*, published in December by AEI.

Winter rejects the widely held notion that the competition between states for corporate charters works to the disadvantage of shareholders. Because corporations must attract capital from a vast range of competing opportunities, the state that rigs its code to benefit management unfairly will drive debt and equity capital away, he says. However, he calls for

greater federal control where corporate takeovers are involved. State takeover statutes regulate the market for management control rather than the capital market, according to Winter. They also are extraterritorial in effect. "The recent wave of takeover statutes is evidence of a need for federal regulation to protect competition in that market," Winter says.

Winter also discusses efforts by corporate critics to stimulate federal intervention in the interests of certain social goals, placing their proposed remedies in three basic categories. The first includes requirements that "affected groups" be included in corporate decision making. Requiring corporate boards to have "constituent directors" representing suppliers, labor, consumers, and others would have a centralizing, anticompetitive effect on the economy, according to Winter. He adds that the resulting conversations between competitors about trading terms would necessitate repeal of the Sherman Antitrust Act.

Another goal of reformers is wholesale disclosure of corporate information. The benefits of the resulting mountain of paper would be sporadic, says Winter, while the unavoidable costs surely would result in higher prices. He calls instead for a rifle-shot approach with appropriate congressional committees, regulatory agencies, or law enforcement bodies seeking specific information that is needed to enforce or evaluate government policies.

Some critics have urged the federal chartering of corporations to provide remedies for the violation of such regulatory statutes as the antitrust laws. Winter instead advocates the use of public directors appointed for a limited purpose and time to corporations that chronically fail to comply with the law.

Winter argues that the socioeconomic power of corporations is seriously exaggerated by critics. "The steady shrinkage of the private sector over recent years suggests not that corporations exercise overweening power, but that they are in headlong retreat," he writes. "Indeed, the drumfire of criticism directed at them can be explained only by weakness, not strength, and by the truth of Huey Long's dictum. 'Corporations are the finest political enemies in the world.'"

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and about the free enterprise system itself." Pressures emanating both domestically and from abroad have, in his view, finally forced the federal government to recognize inflation as the country's primary economic problem and forced it to establish a policy for bringing inflation under control.

On the danger of an early recession, Burns said that "a more mature approach to the business cycle is beginning to emerge in our country, and that is a healthy development. More people now realize that our economy is not recession-proof, and that our government's ability to deal with recessions—to say nothing of its ability to anticipate or forestall them—is quite limited."

In conclusion, Burns remarked that "this recent learning process that has thus been going on in our country is to me a basic reason for viewing our economic future with optimism. . . . Responsible citizens have gradually learned that our striving for a better society must be disciplined by prudence. They have learned that our productivity must increase faster if we are to remain a great nation, that governmental regulation can be overdone, that persistent federal deficits release forces of inflation, that inflation has been sapping our nation's strength, and that inflation cannot be brought to an end without making some economic sacrifices. . . . Confidence is still the main driving force of our economy, and . . . business confidence in particular requires sustained governmental policies for encouraging initiative, enterprise, and investment. . . ."

The annual series of Francis Boyer Lectures on Public Policy is made possible through an endowment made by SmithKline Corporation in memory of Mr. Boyer, the corporation's late chairman of the board.

CONFERENCES (Continued from page five)

of Minority Rights," by Robert Cover of Yale Law School; "Overseeing the Political Process," by Ira Glasser; "Overseeing the Administrative Process," by Professor Scalia; and "Overseeing Education and Social Services," by Nathan Glazer of Harvard (delivered by Donald Horowitz of the Smithsonian Institution). A formal comment on each of these papers was presented by (in order) John Ely of the Woodrow Wilson International Center for Scholars; Judith Elder of the Dickinson Law School and Daniel D. Polsby of the Northwestern University Law School; Jerry Mashaw of Yale Law School; and Peter Schuck of the Department of Health, Education and Welfare.

The second conference session examined "Why the Changes Have Taken Place." U.S. Solicitor General Wade H. McCree, Jr. served as chairman. Papers were delivered by Professor Chayes and by Professor Ralph K. Winter of Yale Law School, an AEI adjunct scholar. Commenting on the two papers were William Van Alstyne of Duke Law School. Terrence Sandalow of the University of Michigan Law School, Martin Shapiro of the University of California Law School, Berkeley, and Laurence Silberman.

The concluding session, on "Consequences of the Changing Judicial Role," was chaired by Kenneth Dam, AEI adjunct scholar and professor of law at the University of Chicago Law School. Papers were delivered by Walter Berns of AEI and by Robert Bork of Yale Law School, former U.S. solicitor general and AEI adjunct scholar. Commenting on the papers were Gerhard Casper of the University of Chicago Law School. Charles Fried of Harvard Law School, Gerald Gunther of Stanford Law School and Judge Harold Leventhal of the United States Court of Appeals for the District of Columbia.

The second AEI conference, held on December 12 and 13 and entitled "A New American Political System?," was based upon a recently published AEI book of the same title. Papers delivered at the conference were developed from essays published in the book, and were delivered by the contributors to the volume.

The first conference session was chaired by Jeane J. Kirkpatrick, AEI resident scholar and Leavey Professor of the Foundations of American Freedom at Georgetown University. Three papers were presented: "In Search of a New Public Philosophy," by Samuel H. Beer of Harvard University, "Change and Continuity in the Modern Presidency," by Fred I. Greenstein of Princeton University, and "The Puzzle of Political Participation in America," by Richard A. Brody of Stanford University. Commenting on the papers were Richard Cheney, former White House Chief of Staff to President Ford and currently a congressman from Wyoming, and Edwin M. Yoder, Jr. of the *Washington Star*.



Edwin M. Yoder, Jr., Richard A. Brody, Jeane J. Kirkpatrick, and Richard Cheney at conference session.

Session two was chaired by Howard R. Penniman, AEI resident scholar and professor of government at Georgetown University. Papers were delivered by Martin Shapiro of the University of California, Berkeley, on "The Supreme Court: From Warren to Burger," by Samuel C. Patterson of the University of Iowa on "The Semi-Sovereign Congress," and by Leon D. Epstein of the University of Wisconsin, Madison, on "The Old States in a New System." Commenting on the papers were Mark Siegel, former presidential assistant to President Carter and currently head of Mark Siegel Associates, and Antonin Scalia of the University of Chicago.

The concluding session was chaired by AEI resident scholar Austin Ranney. It featured papers by Hugh Heclo of Harvard University on "Issue Networks and the Executive Establishment" and by Anthony King of the University of Essex, England, on "The American Policy in the Late 1970's: Building Coalitions in the Sand." Commentaries on the two papers were presented by David S. Broder of the *Washington Post* and James G. O'Hara, former congressman from Michigan and currently with Patton, Boggs, and Blow.

The full proceedings of the two conferences will be published by AEI later in 1979.

The American Enterprise Institute for Public Policy Research, established in 1943, is a publicly supported, non-partisan research and educational organization. Its purpose is to assist policy makers, scholars, businessmen, the press and the public by providing objective analysis of national and international issues. Views expressed in the institute's publications are those of the authors and do not necessarily reflect the views of the staff, officers or trustees of AEI. The institute is a tax exempt, educational organization under section 501 (c) (3) of the Internal Revenue Code and is classified as a publicly supported organization under the Tax Reform Act of 1969.

Experts Review Actions On Regulatory Reform

Unsettled Questions on Regulatory Reform, the proceedings of a panel session held by AEI in December 1977, was published by the Institute in December. In the report, regulatory commission members, prominent lawyers and economists deal with such questions as why so little reform has been accomplished, what the priority areas for reform are, where regulation is having its greatest impact, and whether the case for deregulation has been made.

The members of the panel include John Robson, former chairman of the Civil Aeronautics Board; Richard E. Wiley, former chairman of the Federal Communications Commission; John Snow, former administrator of the National Highway Traffic Safety Administration; John Barnum, former deputy secretary of transportation; Stephen G. Breyer of Harvard University; Lloyd N. Cutler of Wilmer, Cutler & Pickering; Hendrik S. Houthakker of Harvard University; Paul Joskow of the Massachusetts Institute of Technology; Paul W. MacAvoy of Yale University; Roger G. Noll, former director of government regulation studies at the Brookings Institution; Merton J. Peck of Yale University; Sam Peltzman of the University of Chicago; Glen O. Robinson, former commissioner of the Federal Communications Commission; and Antonin Scalia of the University of Chicago.

The volume is edited by AEI adjunct scholar and Yale economics professor Paul W. MacAvoy, former member of the Council of Economic Advisers and cochairman of President Ford's Domestic Council Review Group on Regulatory Reform.



Gottfried Haberler



William Fellner

Haberler, Fellner Awarded German Order of Merit

AEI resident scholars Gottfried Haberler and William Fellner have recently been awarded the Commander's Cross of the Order of Merit of the Federal Republic of Germany. Haberler, a native of Austria and Galen L. Stone Professor of International Trade Emeritus at Harvard University, joined AEI as a resident scholar in 1971. Fellner, who is Sterling Professor of Economics Emeritus at Yale University and a native of Hungary, became a resident scholar at AEI in 1972, taking leave from 1973 to 1975 to serve on the President's Council of Economic Advisers.

Haberler received his award on November 15 at a ceremony held in Washington at the Residence of the German Ambassador, the Honorable Berndt von Staden, who presented the award. After conveying his gratitude for the decoration, Haberler remarked: "For an economist brought up in the liberal tradition—liberal, I should add, in the original sense of the word and not in the modern perverted sense—it is especially gratifying to be honored by the Federal Republic of Germany. This is so because the astounding economic success of Germany, the German economic miracle, is a result of the systematic application of liberal policies, what John Maynard Keynes called the classical medicine—the medicine of sound finance, prudent monetary management, and liberal trade policy. The enlightened economic policies initiated by Ludwig Erhard and Alfred Muller-Armack, and continued by their able successors have brought immense benefits, not only to the German people but also to the Western World as a whole—providing first, a demonstration *ad oculos* that the classical medicine still works (a demonstration that was badly needed at the time) and, second, provided powerful direct economic stimulus to other countries, especially Germany's neighbors. My former country, Austria, for example, benefited enormously from close relations with the booming German market. Indeed, the Austrians are quite aware of these benefits, although in self-mockery they often scoff at the German economic success: That is no miracle, they say, because the Germans work so hard; it is Austria's prosperity that is the real miracle.

"Actually, there is no such thing as a free lunch and there is no economic miracle without hard work—and Austria is no exception.

"It is a matter of the greatest importance that the German economic miracle, and the Austrian as well, has been achieved in and through a political system that is as truly democratic and liberal as any that can be found anywhere in the present world.

"Thank you once more, my dear Ambassador, for the great honor."

Fellner received the Commander's Cross from Ambassador von Staden on January 8 in a ceremony that also took place at the ambassador's residence. Expressing his gratitude for the award, Fellner also noted the "almost unbelievably speedy" revival of the German postwar recovery, considering the phenomenon to be proof of the validity of market-oriented policies. He remarked that while the intellectual foundations were laid by economists of many countries, the feat was accomplished by Germans—"by the talents and the industry of the German population itself."

Fellner continued: "It is when I speak with Germans that I am occasionally given the somewhat self-critical reply that Germany's postwar revival, though admittedly remarkable, has so far been lopsided in the sense of being tilted all too strongly toward economic values in the narrower sense. . . . Different varieties of the imbalance in question and of the resulting malaise are observable in practically all countries. At present all nations have difficulties living by what they consider their genuine cultural tradition or 'personality.'

"However, I feel convinced that the basic reason for this is that we live in an era in which circumstances have been changing with great rapidity in an unforeseeable manner. Nowhere has the main line of cultural tradition as yet caught up in all respects with the rapidly changing conditions. The manifestations of this crisis of cultural identity are not the same in all countries, but what Germans so often regard as the lopsidedness of their impressive revival is essentially their own variety of this world-wide difficulty. Pessimism bordering on the morbid would be needed to doubt that the great nations of the world will gradually restore balance in their own cultural evolution. In the restoration of balance at that level economists can help only indirectly, but their indirect contribution can be substantial because having a sound economy is apt to make it much less difficult for a nation to overcome any of the contemporary maladies. This is perhaps the main reason why specialists in economics are entitled to self-respect.

"Economists have particularly strong reasons to stress that economic efficiency is indeed compatible with placing broader cultural values in the prominent place in which they belong. Nothing demonstrates this more conclusively than a long-run view of German cultural history. . . . A long view of that tradition clearly demonstrates the coexistence in it of high economic efficiency with extraordinary achievements in literature, in other branches of the arts, prominently including music, and in the sciences. In German cultural history these values have been complemented by economic efficiency, not displaced by it.

"This relation of long-run complementarity of economic with other values is a fact always to be remembered. It is a fact not overlooked by intelligent observers inside or outside Germany when they voice admiration for the spectacular economic revival which following the collapse has occupied the foreground of the stage. We shall persist in that admiration, while remaining conscious at the same time of a centuries-old line of great German accomplishments in all branches of the arts and sciences. It is with these thoughts in mind and with these sentiments that I repeat, Mr. Ambassador, the expression of my gratitude for the honor I received today."

Sidney L. Jones



Sidney L. Jones Is New Resident Scholar

Former assistant treasury secretary Sidney L. Jones has joined the American Enterprise Institute as a resident scholar, AEI president William J. Baroody, Jr. announced in January. Jones will be director of seminar programs at AEI.

Jones was counselor to the secretary and assistant secretary for economic policy at the U.S. Treasury Department from 1974 to 1977. Since leaving the Treasury, he has been a fellow at the Woodrow Wilson International Center for Scholars and, more recently, assistant to the board of governors of the Federal Reserve System. He served on the White House staff as deputy assistant to the President and deputy to the counsellor for economic policy to the President in 1974-75 and earlier for two years as a senior economist with the Council of Economic Advisers. Jones also served as minister-counselor for economic affairs with the U.S. Mission to NATO in Brussels.

Before entering government, Jones was a professor of finance at the University of Michigan and Northwestern University. He has served as a visiting lecturer at some two dozen private and public institutions. Among his published works, Jones has co-authored *Financial Institutions, Managerial Problems in Finance* and *The Generalist-Specialist Dichotomy in the Management of Creative Personnel*.

Kahn Outlines Methods For Regulatory Action

Alfred E. Kahn, Advisor to the President on Inflation and chairman of the Council on Wage and Price Stability, draws on his past regulatory experience in the lead article of the November/December issue of AEI's *Regulation* magazine.

In "Applying Economics to an Imperfect World," Kahn says that the "slate on which the economist-regulator writes is all scribbled over with the scratchings of lawyers, jurists, and politicians," and "the world to which he would apply his principles is excruciatingly imperfect and resistant." Given the scribbling and the imperfect world, what can the regulator do? If he is regulating electric utilities and telephone companies, he can—and should—apply principles of marginal-cost pricing, charging more or less what it costs to provide a particular service (including a fair profit). If he is regulating airlines, he can—and should—in one word, deregulate.

And when he deregulates, he should do it as quickly and completely as possible. Kahn discusses his "conversion from a belief that gradualism is desirable" to a belief that "we must

make the act of faith" in deregulation. "Our uncertainty about the outcome of the competitive struggle," he writes, "is no reason to prevent its taking place." With the airlines, there are unpredictable inequalities in competitive ability; there would be distortions in moving piecemeal.

Kahn was chairman of the Civil Aeronautics Board during 1977-1978 and chairman of the New York State Public Service Commission from 1974 to 1977. The article is drawn from the 1978 Richard T. Ely Lecture delivered by Kahn before the American Economic Association.

Other subjects of interest are covered by Finis Welch, who in another major article reviews "The Rising Impact of Minimum Wages" forty years after the first minimum wage law; Administrator Joan Claybrook of the National Highway Traffic Safety Administration, who accuses corporations (and especially the Big Three auto makers) of "crying wolf" at the regulators instead of tending to business; Edward Cowan, economics reporter for the *New York Times*, who reports on "Apples and Aliens"—the annual battle between apple growers and the Labor Department about who shall harvest the apple crop; Professors Gordon Tullock and Robert Tollison of Virginia Polytechnic Institute, who present two essays on deregulation, "A Public Choice Perspective" and "An Historical Note," respectively; and Professor Emeritus Bruce Knight of Dartmouth, who offers "The Ballad of the 'Right Price,'" a history in verse of price controls from the apocryphal Kingdom of Hoomhomho.

Referendum Experiences Reviewed by Authors

Referendums are increasing in number and importance both here and abroad, and the trend is almost certain to continue, according to *Referendums: A Comparative Study of Practice and Theory*, published in December by the American Enterprise Institute. The study provides evidence that most referendums, in most democratic countries, are held because governments wish to avoid or legitimize difficult decisions. It indicates that referendums are inherently neither liberal nor conservative devices, but may produce outcomes favorable to either the left or the right depending on the current state of public opinion.

Editors David Butler and Austin Ranney have undertaken the study of referendums because of the lack of any recent comprehensive or comparative work on the subject. They have called upon experts from the countries where referendums have been used most frequently to contribute to the study. Butler, an adjunct scholar of the American Enterprise Institute, is a noted British political scientist. A fellow of Nuffield College at Oxford University, he also is the British Broadcasting Corporation's leading elections analyst and chief author of the "British General Election" series. Ranney, a resident scholar of the American Enterprise Institute, is co-director of AEI's program on Political and Social Processes.

Among events that underscore the growing importance of the referendum, the editors cite Britain's first referendum ever in 1975, the Quebec separatists' announcement that they intend to hold a referendum on secession from Canada, the favorable vote on California's Proposition 13, and the first congressional hearings in history on a constitutional amendment to establish a national initiative in the United States. "Even where referendums have not been held, the possibility has been discussed more extensively in the 1970s, especially in the major English-speaking democracies, than at any time since the early 1900s," they write.

Continued on page twelve

African Policy Moves Recommended by Palmer

The United States should seek political, economic and military leverage in those areas or states of Southern Africa that are of strategic importance to the West, according to an analysis published in December by AEI.

A military presence, "however small," should also be maintained where appropriate, writes Gen. Bruce Palmer, Jr. (USA, Ret.) in "U.S. Security Interests and Africa South of the Sahara," published in the *AEI Defense Review*. General Palmer, who served from 1976 to 1978 as a consultant to the chairman of AEI's Public Policy Project on National Defense and as co-editor of the *AEI Defense Review*, was army vice chief of staff. His study covers the historical background of the region, its strategic significance to the United States since World War II, and the current economic, political and military situation in each of the sub-Saharan African countries.

Among Palmer's specific recommendations for U.S. policy thrusts in Africa:

—In peace-keeping efforts, the United States should opt for inter-African peace-keeping forces, but should provide logistical support where necessary.

—The current military planning and policy vacuum, including administration of the military assistance program, should be filled by assigning responsibility for the area to the U.S. Readiness Command headquartered at MacDill Air Force Base, Florida.

—U.S. business investment and trade should be encouraged, aimed not only at exploiting Africa's raw materials but also at a broader economic relationship.

—Overall U.S. economic aid to sub-Saharan Africa should be, proportionately, at least as large as that provided to other comparably poor and less developed regions of the world.

—The current "arbitrary" ceiling on U.S. military aid to the region should be removed.

—Black Americans should be encouraged to participate in such activities as the Peace Corps and military assignments in black Africa. ("Such a policy makes much sense for the United States, whose black population is larger than that of any African nation except Nigeria.")

Arguing for a low-level, non-combat military presence in Southern Africa, Palmer writes: "To deny American policy objectives the significant and constructive contributions an appropriate U.S. military presence can provide, simply because it is military and, per se, 'undesirable,' is extremely short-sighted, if not irrational."

Palmer writes that the U.S. military presence should be "designed not simply to counter Soviet or some other undesirable military presence in the African nations, but rather intended to help in local nation building in a significant way." He warns: "One should not overlook African attitudes and sensibilities with respect to their own development and particularly with respect to outside assistance. The United States should have sound and cogent political, economic, military and other reasons for lending assistance, but the denial of such assistance should also require good reasons. For such a denial is considered patronizing and condescending in African eyes, even racist by some Africans, and in any case will be deeply resented . . . Our competitors in Africa understand this, unfortunately, all too well."

Of the current presence of significant Soviet and Cuban military forces in sub-Saharan Africa, Palmer concludes: "It is not clear whether the Soviet Union has a grand design to seek domination of the African continent, or whether the Soviets are simply 'playing it by ear,' pursuing an aggressive,

opportunistic policy where a weakness in the local regime is perceived. In practical terms, it makes little difference which conclusion is correct, because U.S. inaction, or procrastination, can give the Soviet Union a free ride in Africa—and if the Soviets do not have a grand design, they will invent one."

Palmer's study is accompanied by an appendix of arms transfers to the sub-Saharan states since 1970. The appendix was compiled and written by James W. Abellera, associate editor of the *AEI Defense Review*.



John Connally

Wage-Price Controls Can't Work: Connally

"In my judgment, wage and price controls will not work, never have worked, and never will work over any protracted period of time," says John Connally, former secretary of the treasury and three-time governor of Texas.

In a discussion with scholars and invited guests of the American Enterprise Institute for Public Policy Research on September 18, Connally said that "the wage and price controls imposed in 1971 were a mistake." The proceedings of the session, titled *A Conversation with John Connally of Texas*, were published in January by AEI.

Connally's recommendations for the economy include a \$25 billion tax cut, a cutback of five percent in spending at the federal level and continuation of an open trade policy. "We have too much inflation in this country," he says, "and it is basically caused by federal spending and federal deficits. There is too much bureaucracy. There are too many regulations in this country. I think any credible voluntary policy to control inflation in this country has to start with the federal government."

On other subjects:

"In the field of agriculture, [President Carter] ought to ask the Congress to develop a long-range marketing program in cooperation with other nations for agricultural commodities."

"I think it is a mistake to use human rights doctrine as a weapon. It is noble to use it as an expression of faith, of belief, of basic commitment of this country. But we must be far more sophisticated and far more mature than we have been in applying such doctrines in the field of diplomacy and foreign policy."

In the wide-ranging discussion, Connally also considers the relationship of oil imports to the health of the economy, U.S. relations with southern African nations and his own political plans and prospects.

Competition of ideas is fundamental to a free society. A free society, if it is to remain free, cannot permit itself to be dominated by one strain of thought. Public policy derives from the ideas, speculation, and theories of thoughtful men and women. Policy makers themselves rarely originate the concepts underlying the laws by which we are governed. They choose among practical options to formulate legislation, governmental directives, regulations, and programs. If there is no testing of ideas by competition, public policy decisions may undermine rather than bolster the foundations of a free society.

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Ellis Identifies Means To Control Stagflation

The Keynesian belief that increased employment can be purchased by inflation except in the short run is a great error that has cost England and the United States dearly, according to *Notes on Stagflation*, published in November by AEI. It is a dangerous doctrine for two reasons, writes Howard S. Ellis, Flood Professor of Economics Emeritus at the University of California, Berkeley, and former president of both the American and the International Economic Associations.

"First," Ellis says, "until the public realizes that it is being duped and while it has not contrived to escape the trap, inflation can for a time actually expand effective demand; when inflation comes to be built into expectations, the fun is largely over.

"Second, inflation is extraordinarily dangerous because it is a beguilingly easy way to finance the federal government," Ellis writes.

Ellis's study traces the demise of the Keynesian revolution from the early doubts of Keynes's contemporaries to the discovery that inflation can add to employment only temporarily and that it finally impedes output. "Virtually all the important constituent parts of Keynes's theory have proved to be fallacies: the underconsumption basis, the definition of involuntary unemployment, the multiplier, the theory of interest, and the attack on Say's Law," writes Ellis.

The author also discusses causes and cures for the current economic situation. Stagflation, which permits no illusions about the results of budget deficits and cheap money in the present scene, would certainly seem to necessitate a year-by-year reduction of deficits and a movement toward a balanced budget, Ellis writes. He calls for the prudent application of both monetary and fiscal measures in future programs to control stagflation, discounting the Keynesian notion that fiscal policies are superior. He sets high levels of production and consumption as basic goals, with employment as a secondary objective.

Ellis criticizes President Carter's decision to expand federal grants-in-aid to states and municipalities because of the inflationary nature of the program. He also calls for a general but gradual shift of the burden of taxation from business to the personal income tax. He emphasizes the role of both wage increases and product monopolies in producing inflation. "Successful control of inflation depends finally on reducing union power, securing freer international trade, improving productivity, reducing rigidities, and, in general, increasing

competition," the author writes. Ellis lays stress on the role of public anticipation in fueling inflation, adding that unless these expectations are validated by monetary policy they cannot prevail.

"Pride of place at the end of a list of factors making for and perpetuating stagflation belongs to policies of the federal government," writes Ellis. "Foremost among these are policies related to agriculture, followed closely by policies related to labor unions and wages and to industry."

REFERENDUMS (Continued from page ten)

While reasons for calling referendums differ, the authors find that some common elements are constitutional necessity, the need of governments to demonstrate public support for policies, and the desire of governments to "pass the buck" when faced with decisions they don't want to make. With the exception of a few referendums which are compulsory for constitutional amendments and special types of legislation, most referendums are held entirely at the option of elected officials, the editors write. The exception is the initiative in Switzerland and several American states, a type of referendum that is held in response to other petitions whether the elected officials like it or not. More referendums have been held in Switzerland, in California and in a few other American states than in all other democratic polities, according to the book. "The most likely explanation is that only in these polities was there long-standing prereferendum experience with direct government by face-to-face assemblies of citizens," the editors write. "In both Switzerland and these American states . . . referendums came into being as useful ways of adapting the principles of direct democracy to the limitations and necessities of large populations."

Elsewhere, referendums are held infrequently, "usually only when the government thinks they are likely to provide a useful *ad hoc* solution to a particular constitutional or political problem or to set the seal of legitimacy on a change of regime." The United States is one of the very few democratic countries that has never had a referendum at the national level, Ranney writes. Nevertheless, he adds, it rivals Switzerland as the nation with the most experience with referendums because of use made of them by the states. "Generally speaking, measures proposed by state legislatures and constitutional conventions have been approved twice as frequently as measures proposed by popular initiatives," Ranney says in his analysis of statewide referendums. "There is some reason to believe that voters have tended to favor liberal economic measures and conservative social measures."

Eugene C. Lee, professor of political science and director of the Institute of Governmental Studies, University of California, Berkeley, contributes a special chapter on California, the only large urban industrial state that employs both the constitutional amendment initiative and direct statutory initiative. He draws conclusions about the use of the initiative in the wake of the success of Proposition 13.

The book also contains statistical information on referendums, including a list of all referendums held on a nationwide level in independent countries since the early 19th century, the percent of voters who turned out, and the percent who voted affirmatively.

In summing up the case pro and con, the editors find referendums disturbing because they force a decision between two fixed alternatives and by their very nature set up confrontations rather than encourage compromises. Yet, they point out, when a decision is necessary and no suitable compromise appears likely, a referendum has the great virtue of producing a decision that is likely to be regarded as legitimate because it was made directly by the people.

"One thing is clear: referendums are here to stay; and they are almost certain to increase in number and importance in the years ahead," the editors conclude.

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Revolt in Iran Called Spur To U.S.-Saudi Growth

The sudden loss of American influence in Iran dictates the need for closer relations with Saudi Arabia in order to protect vital Western interests in the oil-rich Gulf region, according to two scholars of the American Enterprise Institute. Robert J. Pranger and Dale R. Tahtinen, director and assistant director, respectively, of defense and foreign policy studies at AEI, note that the new Iranian government that replaced the rule of Shah Mohammed Reza Pahlavi can be expected to drift further away from the United States. If the political costs of closer relations with Saudi Arabia prove too high, the United States should consider other options, including that of "substantial . . . disengagement from the Persian Gulf with an arrangement with the Soviet Union to keep from intervening in Persian Gulf affairs," they write in "American Policy Options in Iran and the Persian Gulf" in the second issue of *AEI Foreign Policy and Defense Review*.

American policy toward Iran, dating back to World War II, has been aimed at protecting the oil resources of the Persian Gulf, which represent 30 percent of U.S. needs—and 70 percent of those of Western Europe and 85 percent of Japan. As a result, aid to Iran has represented one of two so-called pillars of U.S. policy in that area; relations with Saudi Arabia is the other. But Iran is important in its own right, the authors add. Nearly equal in size to France, East and West Germany, Spain and Italy together, Iran has a 1250-mile border with the Soviet Union. It occupies a strategic location and has other important mineral and agricultural resources besides oil.

The United States contracted for \$22 billion in outright arms sales to Iran in addition to previous military assistance that accounted for about half of *all* U.S. military aid to foreign countries during the period 1953-1969. Although the United States has been its principal supplier of arms, Iran actually has closer treaty relationships with the Soviet Union. Overlooked in much that has been written about Iran lately is the fact that Iran and the Soviet Union have a treaty of friendship dating back to 1921 that permits Soviet troops to enter the country should Iran become a base of operations for a third party—such as the United States—against the Soviet Union.

"An armed clash between Iran and the Soviet Union could occur, therefore, when the USSR was acting not as an aggressor but as a party with rights under international law to intervene southward for its own security," the authors point out.

"We cannot live in bad relations with the chief powers in the (Persian Gulf) region if we wish to survive this century," Pranger and Tahtinen state. "Only truly incompetent American leadership could destroy the intricate web of interdependency that links us to the Gulf and Peninsula states. If it should, however, a world war over resources could occur between oil producers and oil consumers, spreading beyond the Persian Gulf to include all of OPEC and its many allies."

The authors do not rule out the possibility that internal tensions in Iran could end the rule of Ayatollah Ruhollah Khomeini and lead to a restoration of the monarchy, but they conclude that American options should be predicated on the probability of an Islamic republic in that country. This, in turn, leads to the conclusion that American interests require bolstering the role of Saudi Arabia in the Gulf area.

"The United States should draw even closer to Saudi Arabia in its defense relations than it now is, and Riyadh (the Saudi capital) should be considered less in regard to the Arab-Israeli conflict and more as a major power in the Persian Gulf," they note. "For countries such as Egypt, Israel, and

Saudi Arabia, the alliance of Iran with Arab extremists can only be viewed with great alarm. In other words, current unrest in Iran could, paradoxically, cause a movement toward peace in the Middle East, if the United States can somehow develop an initiative that emphasizes the shared interests of Egypt, Israel, and Saudi Arabia in a settlement."

MEXICO (Continued from page two)

"A Regional Perspective" on relationships between the neighboring countries, including problem areas and policy alternatives, was then presented by Peter Flawn, who is Leonidas T. Barrow Professor in Mineral Resources at the University of Texas at Austin. In addition to discussing the subjects of oil and gas, Flawn examined such issues as water, migration, law enforcement, and regional trade flows.

"A National Perspective" was then presented by Ambassador Gale W. McGee, permanent U.S. representative to the Organization of American States. McGee served as chairman of the Senate Foreign Relations Committee's Western Hemisphere subcommittee and was a leading internationalist while a member of the U.S. Senate.

AEI will publish the edited conference proceedings at a later date.

Government Called Threat To Meals-on-Wheels

A recently passed act of Congress aimed at providing home delivered meals for the elderly could unintentionally pose a hazard to the survival of hundreds of privately operated "meals-on-wheels" programs, concludes a study published in January by the American Enterprise Institute. *Federalizing Meals-on-Wheels: Private Sector Loss or Gain?* was written by Michael Balzano, former head of ACTION and now an AEI resident fellow.

Balzano analyzes a major change made last year in the Older Americans Act: the creation of a federal meals-on-wheels program for the elderly. The congressional intent was to provide a home delivered meal for senior citizens who, for reasons of ill health or physical incapacity, are unable to prepare meals for themselves or to attend congregate nutrition centers.

Balzano notes that meals-on-wheels programs have operated in the United States for well over twenty-five years. During this period, Balzano says, "hundreds, possibly thousands [of such programs] have sprung up in response to an ever-rising demand for service. Most of these private neighborhood meals-on-wheels programs have relied almost exclusively on volunteers to organize the program and deliver the meals to the homes of the elderly, and on charitable institutions—churches, civic organizations, the United Way—to subsidize recipients who are unable to pay for their meals."

Balzano contends that although the private sector meals-on-wheels programs were used as a model for the federal program and were seen as the key to any low cost delivery system, the federal funds may establish yet another costly bureaucracy that would duplicate rather than utilize the private programs.

The author argues that existing local grass roots organizations already possess the capability for administering meals-on-wheels programs and should be empowered to do so. "In most cases common sense and the desire to help one's neighbor are all that are necessary. One does not need a master's degree in social work or gerontology to dish out chow at a nutrition center."

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G. Warren Nutter, AEI Adviser, Dies

G. Warren Nutter, Paul Goodloe McIntire Professor of Economics at the University of Virginia, died of cancer on January 15 at his home in Charlottesville.

Warren Nutter's ties to the American Enterprise Institute go back over twenty years. As a close friend and colleague of my father, he worked closely with him in building the foundations of the strong scholarship which underlies the work of the Institute. As that program broadened in scope from its initial emphasis on economic policy issues, Warren was there to contribute his expertise on matters relating to international affairs and defense.

It was my privilege to work with Warren in the Department of Defense, where I developed a deep appreciation for two most estimable traits that all who knew him came to associate with Warren: his ability to integrate what are often seen as disparate facts of experience and analysis—economics, politics, history and philosophy—into a coherent whole, and his insistence that such a synthesis be grounded upon, and constantly tested against, hard fact.

When Warren left government service to return to the University of Virginia, we prevailed upon him to accept

Warren Nutter was profoundly committed to AEI's guiding philosophy of competition of ideas. For many years he was deeply involved in AEI's programs as author, counsellor and friend. His intellectual commitment to rational debate as basic to the founding of the United States inspired the kind of independent spirit typical of AEI research and publications. Indeed, everything from the rational debate series to our present pro-con format in the *AEI Foreign Policy and Defense Review* owes a debt of gratitude to Warren's inspiration.

Warren Nutter distinguished himself as assistant secretary of defense for international security affairs from 1969 until 1973 during four turbulent years of American history. He was one of a handful of persons responsible for honorable extrication of the United States from Vietnam. With great intensity he masterminded and directed the program for this withdrawal while having to cope with vast inertia within the bureaucracy. Similarly, Warren took the lead in examining new initiatives for U.S. policy in other areas of the world including NATO and the Middle East. From my personal experience as one of his deputies, I can say that Warren exemplified Burke's standard for statesmanship—"a disposition to preserve, and an ability to improve, taken together."

Warren Nutter received his bachelors, masters and doctoral degrees from the University of Chicago where he distinguished himself with academic honors. He taught at Lawrence College and Yale University before joining the faculty at Charlottesville. His publications were numerous. In recent years for AEI alone he published *Kissinger's Grand Design*, *Central Economic Planning: The Visible Hand*, and *Growth of Government in the West*. Under his name in our newest publications catalog are ten titles.

Of all Warren's scholarly writings perhaps none has created more impact than his *Growth of Industrial Production in the Soviet Union*, a study sponsored by the National Bureau of Economic Research and published by Princeton University Press in 1962. His sensitivity to the interpretation of statistical data in this volume was central to his approach to the Soviet Union. He gives evidence here of myth and reality, including the large Soviet allocation of industrial output to military purposes which has finally come to be accepted by establishment thinking in the late 1970s. Warren never underestimated Soviet dedication to unity of purpose and enhancement of state power, when compared with our own pluralistic society, but he also recognized that all might change in the future. "We cannot know the future from the course of the past," he wrote in his 1962 study of the Soviet



appointment as an "adjunct scholar" at AEI; later he became a member of AEI's Council of Academic Advisers in recognition of the central importance his contributions have had in the Institute's affairs. Warren's legacy to his family, to his country, to the American Enterprise Institute is a rich and enduring one. In recognition of that legacy, AEI will institute next year an annual G. Warren Nutter Memorial Lecture.

Below, two of Warren's former deputies at the Pentagon contribute reflections on his passing.

William J. Baroody, Jr.

G. WARREN NUTTER (1923-1979): The University of Chicago (Phi Beta Kappa and three degrees), Combat Infantryman's Badge and the Bronze Star with Oak Leaf Cluster, Paul Goodloe McIntire Professor of Economics at Mr. Jefferson's University, Distinguished Public Service Medal from the Secretary of Defense. Fleshing out this outline of an illustrious life reveals an absorptive and incisive mind; a skilled economic analyst (see his book *Extent of Enterprise Monopoly in the United States*), with the courage, honesty and tenacity to allow the facts to speak for themselves (see his book *Growth of Industrial Production in the Soviet Union*); a political economist in the majestic breadth of the nineteenth century liberal tradition, but one who encompassed also political-military considerations; an author who used words sparingly and with precision; a citizen serving at the highest military councils of the Republic; a teacher to those in his classes or within his circle of influence world wide (especially in Eastern Europe); a counsellor, provider, husband and father in his family; a decent civilized man of the West; a complicated man of many moods, sometimes difficult to know; and a sensitive man, loyal to his friends and beloved by them. We shall miss him.

I make bold to select a short passage from the shelf of writings Mr. Nutter assembled by the fireplace in his home that I suggest he might like remembered:

"Let me then end on a soft note of hope in keeping with the occasion. My mood is unfortunately one of hope rather than expectation, for there is little in the momentum of unfolding history to comfort those who cherish freedom. What is there to prevent the fraction of income taxed by government from rising to half, three-quarters and more? There is a hope, and it is this: having become so impressed with the fact that freedom is not everything or the only thing, perhaps we shall put that discovery behind us and comprehend, before it is too late, that without freedom all else is nothing."

Richard A. Ware
President
The Earhart Foundation

economy. "The most we can ask of history is some perspective, some background, against which we can more meaningfully view the unfolding present and interpret the receding past."

Robert J. Pranger
American Enterprise Institute

Conservative Drift Seen In Israeli Public Opinion

The victory of Menachem Begin's Likud party in the Knesset elections of 1977 pushed the Labor Alignment out of power for the first time since the foundation of the state of Israel. According to Asher Arian, a political scientist at Tel Aviv University writing in a study published in February by the American Enterprise Institute, the Likud's breakthrough also signaled a conservative drift in Israeli public opinion that is likely to continue.

Israel at the Polls: The Knesset Elections of 1977, edited by AEI resident scholar and Georgetown University professor of government Howard R. Penniman, is the work of eleven authors, nine of whom are from Israel. Each chapter examines the election through a different prism—a political party, the media, the electorate, campaign financing, foreign policy, and so on—while a statistical appendix compiled by Richard Scammon of AEI provides data on the nine elections since Israel's independence in 1948. Israel is the eleventh country examined in the "At the Polls" series directed by Penniman.

Although no single party has ever gained a majority in the unicameral Knesset, in 1977 the winner was clear: to the surprise of most observers, the Likud captured forty-three seats and 33.4 percent of the popular vote, while Labor, with 24.6 percent of the vote, dropped from fifty-one seats to thirty-two. Initially the Likud built its governing majority coalition with support from the religious parties and a few minor groupings; only later did members of the Democratic Movement for Change (DMC) join.

Benjamin Akzin, professor emeritus at the Hebrew University in Jerusalem and author of the chapter on the Likud, writes, "Hardly anyone had foreseen so complete a change in the political landscape as a Likud victory large enough to enable it to form a government without help" from either Labor or the Democratic Movement for Change.

Several of the authors describe the events that converged to undermine Labor's popularity. Inflation, which the voters identified as the nation's most pressing problem, was running at an annual rate of 35 percent during the campaign. The Yom Kippur War, which had claimed the lives of 3,000 Israeli soldiers, had left a deep residue of bitterness. And Labor was plagued by a succession of major scandals eventually forcing the resignation of Prime Minister Yitzhak Rabin himself. Some disillusioned Labor leaders and voters defected to the reform-minded Democratic Movement for Change, which polled 11.6 percent of the vote. Myron J. Aronoff, associate professor of political science at Livingston College, Rutgers University, concludes, "The party that had dominated Israeli society for fifty years had lost its ideological or moral dominance by becoming arrogant in power and by ceasing to respond to the public."

In addition, long-term trends favorable to the opposition were at work within the electorate. According to Asher Arian, by 1977 the number of voters had increased fivefold from the half-million eligible in the nation's first elections in 1949. At that time the balance of power had been with European immigrants, but by 1977 the Likud could draw support from the growing numbers of nativeborn Israelis and from new waves of immigrants from Arab countries in Asia and Africa. The Likud also found new strength among younger voters and those with less income and education, who tended to be hawkish on foreign policy.

While Begin himself had the reputation of a hard-liner, his party's foreign policy position, according to Bernard Reich of Georgetown University, was well within a broad national consensus. Even the other major political parties

were in general agreement with the Likud's basic stand on defense: "No return to the lines of June 4, 1967, no negotiations with the PLO, and no independent Palestinian state on the West Bank."

The other contributors to *Israel at the Polls* are Daniel J. Elazar of Bar-Ilan and Temple Universities, Leon Boim and Efraim Torgovnik of Tel Aviv University, Judith Elizur and Elihu Katz of the Hebrew University in Jerusalem, Avraham Brichta of Haifa University, and Elyakim Rubenstein of Bar-Ilan University.

U.S. Policy Options On Africa Presented

Secretary of State Cyrus Vance, U.N. Ambassador Andrew Young, and the heads of four African countries are among those whose views on U.S. policy toward Africa are presented in a new periodical publication of the American Enterprise Institute.

The essays, addressing "Options for U.S. Policy toward Africa," appear in the inaugural issue of the *AEI Foreign Policy & Defense Review*, a new AEI publication which incorporates the *AEI Defense Review*, a bimonthly journal that has been published by AEI since February 1977. The new expanded publication will appear ten times annually.

AEI President William J. Baroody, Jr., in announcing the new journal, said that "while recognizing that our foreign policy is founded on continuity with our past actions, the *Review* will nevertheless stress the new challenges of the present and the future, for only by successfully adjusting to rapidly changing domestic and international circumstances can the United States assume a role of leadership in the world appropriate to its ideals, capacities, and interests."

The *Review* will be edited by Robert J. Pranger, director of AEI's Foreign and Defense Policy Studies. AEI President Baroody serves as publisher.

The first issue is devoted in its entirety to discussions of the various proposals as to how the United States should relate to Africa. It examines six possibilities: the geostrategic option, the Afro-centric perspective, the "no policy" policy, tempered idealism, concern for credibility, and helping Africa to transform itself.

Helen Kitchen, guest editor for the issue and editor of the semi-monthly *African Index*, notes that "the six options present arguments for different, indeed contrary, choices: for sizable increases in U.S. aid to Africa, or for sharp cuts; for an expanded American role in the political and military affairs of the continent, or for no role at all; for dealing with the Soviet-Cuban presence in Africa primarily in terms of global superpower rivalry, or as a normal post-colonial development which need not affect the help and respect Americans and Africans give one another."

Perspectives on each option are presented in a selection of writings either commissioned for the *Review* or excerpted from speeches, testimony and published commentaries.

The geostrategic option (Option I) theorizes the continuance of the cold war. Current events in Africa are viewed as an integral part of an orchestrated Soviet policy of worldwide imperial expansion. Articles bearing on this position are by Lieutenant General Daniel O. Graham, USA (ret.), Bayard Rustin and Carl Graham, Ray S. Cline, Kenneth L. Adelman, Senegalese President Leopold Sedar Senghor, and Peter Duignan and L. H. Gann.

Option II, the Afro-centric perspective, includes support for black majority rule, greater economic justice for developing countries, the U.N.'s Universal Declaration of Hu-

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Mutual Broadcasting System Airs Weekly AEI Series

"Public Policy Forum" is a weekly radio series produced by the American Enterprise Institute and aired over the Mutual Broadcasting System, the world's largest radio system. The series of programs features the nation's top authorities offering a variety of views on the public policy issues of the day.

The MBS series includes the audio versions of the programs produced each month in AEI's televised Public Policy Forums series as well as interviews with prominent policy makers and analysts on timely subjects. Those who have appeared on the series in recent months include Senate Minority Leader Howard Baker and House Majority Whip John Brademas, on prospective issues before the 96th Congress; Minnesota Representative Richard Nolan and Agriculture Department official Kenneth Farrell, on the plight of the American farmer; AEI's Robert Pranger and Dale Tahtinen, on the unrest in Iran; Michigan Representative John Conyers and criminal justice expert Robert Woodson, on youth crime;

CONSTITUTION (Continued from page one)

"instead of on particular provisions or clauses as revealed in opinions of the Supreme Court. This nonlegal approach will draw attention to massively significant provisions that have remained largely unexamined because they have not been a matter of legal dispute."

In addition to the scholars and fellows connected with AEI, the Institute has formed an advisory panel composed of members of Congress, practicing lawyers, sitting judges, a journalist and professors of philosophy, history, law, political science and sociology. Panel members include:

Walter Berns (chairman)
AEI resident scholar;
professor of political science,
University of Toronto

Robert Bork
Alexander M. Bickel
Professor of Public Law,
Yale University; former
solicitor general of the
United States

M. Caldwell Butler
congressman (R-Va.);
member, House Judiciary
Committee

Ann Stuart Diamond
associate editor, *Regulation*
magazine

Gertrude Himmelfarb
professor of history,
Graduate School, City
University of New York;
former Woodrow Wilson
Center fellow

Max M. Kampelman
attorney, Fried, Frank,
Harris, Shriver &
Kampelman; vice-chairman,
Coalition for a Democratic
Majority

Harvey Mansfield, Jr.
professor of government,
Harvard University

Abner J. Mikva
congressman (D-Ill.); circuit
judge nominee, United States
Court of Appeals for the
District of Columbia Circuit

Robert Nisbet
AEI resident scholar; Albert

Schweitzer Professor of the
Humanities Emeritus,
Columbia University

Howard Penniman
co-director, AEI's Political
and Social Processes
Program; professor of
government, Georgetown
University

Austin Ranney
co-director, AEI's Political
and Social Processes
Program; former president,
American Political Science
Association

Antonin Scalia
professor of law, University
of Chicago; former assistant
attorney general

Laurence H. Silberman
attorney, Morrison and
Foerster; former U.S. deputy
attorney general

Hobart Taylor, Jr.
attorney, Dawson, Riddell,
Taylor, Davis & Holroyd;
former director, Export-
Import Bank of the U.S.

J. Clifford Wallace
circuit judge, United States
Court of Appeals for the
Ninth Circuit; former
Woodrow Wilson Inter-
national Center scholar

George Will
nationally syndicated col-
umnist; former professor of
political philosophy, Mich-
igan State University

current Council of Economic Advisers chairman Charles Schultze and former CEA head Paul McCracken, on problems in the American economy; Jesse Jackson of Operation PUSH, on race relations; former HUD secretary Carla Hills and onetime deputy attorney general Laurence Silberman, on the virtues of a merit system for appointing federal judges and attorneys; OAS Secretary General Alejandro Orfila on Latin America; and American ambassador to Turkey Ronald Spiers on U.S.-Turkish relations.

The Public Policy Forum series is made available to all the affiliated stations of the Mutual Broadcasting System. Contact your local MBS affiliate for information on the air times of the series. For information on the MBS-affiliated stations in your area, contact Martin Rubenstein, executive vice president for administration, Mutual Broadcasting System, Inc., 1755 South Jefferson Davis Highway, Arlington VA 22202 (703/685-2006).



Weidenbaum, Scalia Are Co-Editors of *Regulation*

Washington University economics professor Murray L. Weidenbaum and University of Chicago law professor Antonin Scalia have been appointed co-editors of *Regulation: AEI Journal on Government and Society*, the bimonthly magazine published by the American Enterprise Institute, AEI President William J. Baroody, Jr. announced in March. Both Weidenbaum and Scalia have served on the journal's editorial board.

Weidenbaum is Edward Mallinckrodt Distinguished University Professor at Washington University, St. Louis, in the department of economics, and director of the Center for the Study of American Business. He formerly served as assistant secretary of the treasury for economic policy. He is a member of the advisory council of AEI's Center for the Study of Government Regulation, a member of the technical advisory committee of AEI's Tax Policy Studies Program, and an AEI adjunct scholar. He is the author of *Government-Mandated Price Increases: A Neglected Aspect of Inflation* (AEI, 1975).

Scalia, professor of law at the University of Chicago Law School, was assistant attorney general in the office of the legal counsel of the Justice Department from 1974 to 1977. He earlier served as general counsel of the White House Office of Telecommunications Policy and chairman of the Administrative Conference of the United States. He is a member of the advisory council of AEI's Legal Policy Studies program and an AEI adjunct scholar.

Anne Brunsdale assumes the post of managing editor of *Regulation* magazine. Brunsdale joined AEI in 1967 as a research associate, becoming director of its publications program in 1970, and also has served as associate director of communications in the White House under President Ford.

Panelists Evaluate U.S. Policy in Africa

Senators George McGovern (D-S.D.), S. I. Hayakawa (R-Cal.) and James A. McClure (R-Idaho) and Randall Robinson, executive director of TransAfrica, discussed "Africa: U.S. Policy at a Crossroads" in a televised Public Policy Forum sponsored by the American Enterprise Institute on March 7. Former ABC News executive John Charles Daly moderated.

Robinson, whose black American lobby aims to "help achieve a more progressive U.S. foreign policy toward the nations of Africa and the Caribbean," criticized U.S. policy in southern Africa. "Africans now seriously question the extent of U.S. commitment to majority rule throughout southern Africa. We say one thing and do quite another by providing material support for white minorities."

Hayakawa, who is ranking minority member of the Foreign Relations Committee's African Affairs Subcommittee, stressed the benefits of capital investment for the poor. "Social change does not come under conditions of poverty, it comes under conditions of prosperity. . . . The more poverty there is, the more rigid the established customs of a society become. And that is inevitably true of South Africa. If we impoverish South Africa, the blacks there are doomed to poverty."

McGovern, who is chairman of the African Affairs Subcommittee, pointed out the limited effectiveness that any major changes in U.S. policy would have. "[South African] society has to make certain changes to avoid the kind of civil war we had in the United States a hundred years ago. . . . Neither the United States nor American corporations can dictate these changes. We can make our position clear, but fundamental social and political change, if it takes place in Africa, is going to have to evolve from the conscience and the concern of the people in those countries more than from anything we do as an outside power."

McClure, who is a member of the Natural Resources Committee, argued that initiatives to spur "human progress" in the African nations should not deprive the industrial societies of needed raw materials. "I do not mean to suggest that the United States or the free world can or should expect to get natural resources without regard to the rights or the well-being of the people who inhabit the areas where they exist. . . . Investment and cooperation and joint planning are required so that those resources are available on terms beneficial to both the supplier and the industrialized nations."

The published transcript of "Africa: U.S. Policy at a Crossroads" can be obtained from the American Enterprise Institute. Audio and video cassettes are available from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

THE PRESS (Continued from page one)

trendiness . . . over-elevating as a news story something that is hot on the cocktail circuit. Thirdly, one can make the case that . . . the view of reality that one gets from the collective body of the American press seems to align itself with a left-of-center spot on the political spectrum."

Wicker disputed the notion of bias in the media, stating that the real issue is more one of power. "When the government stopped the *New York Times* from publishing the Pentagon Papers, we felt that by every measure we had, public opinion was on our side. . . . Then the Supreme Court ruled that we could proceed with publishing, and immediately, by every measure we had, we felt public opinion swing around against us. Whereas the public had felt that it was a terrible thing for the government to stop the free press from publishing, I think overnight they thought it was a terrible thing that even the government couldn't stop the arrogant press from publishing. . . . I think it's much more a suspicion of power than a conviction of ideological bias."

Will felt the issue was not so much media power as the complexity of the modern world and people's reluctance to embrace dependency. "What's at stake here is a feeling of dependency that people resent in modern society. They don't like being dependent on complicated lawyers . . . or complicated medicine. That's why the President can do well—if not good—by going around attacking doctors and lawyers. Attacking the press is, as Agnew discovered, a good idea. . . . But if you look at the issues . . . it's very hard to ascribe great power to the press. The press didn't make campus radicals popular. The press hardly brought Nixon down: judges and lawyers and other people had more to do with that." Will offered Bertrand Russell's definition of "power": "the ability to achieve intended effects. The usefulness of that definition is that it focuses on the extent to which the press has intentions to manipulate the public. I think it rarely has those intentions: it's too busy, by and large, trying to keep up with the flow of events that are way beyond it."

Sevareid agreed that it is complexity more than power and bias that accounts for many shortcomings by the media. "I think the really in-built trouble with our business . . . isn't really bias, it's haste. It's a very hasty business . . . [It is important to regard] the complexity of covering this government and its activities now." He asserted that too often "reporting the news every day is not followed closely enough by an explanation of the news. The facts are always running ahead of what we can try to do to put them in perspective and explain them. It is a constant problem."

The published transcript of "The Press and Public Policy" can be obtained from the American Enterprise Institute. Audio and video cassettes are available from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).



John Shenefield

Shenefield Assesses Antitrust at AEI Talk

Assistant Attorney General for Antitrust John H. Shenefield discusses competition and antitrust policy in a February publication of the American Enterprise Institute. Entitled *A Conversation with John H. Shenefield*, the book is the edited transcript of a meeting with AEI scholars and invited guests held at AEI on October 6, 1978.

Shenefield evaluates the current strengths and weaknesses of the Justice Department's Antitrust Division and outlines his goals and priorities. He stresses the need for a broadening of the boundaries of merger law and of the theories of competition behind the law.

The discussion covers such issues as:

- the Antitrust Division's focus on concentrated industries as candidates for noncompetitive performance;

- the danger of political factors influencing antitrust decisions;

- the value of "competition improvement" legislation to increase the weight of competitive considerations in regulatory decision making.



Thomas Mann



John Bibby

New AEI Project Will Study Congress

The American Enterprise Institute for Public Policy Research has created a new project for the study of the Congress, AEI President William J. Baroody, Jr. announced in March.

According to Baroody, the AEI Congress Project will conduct sustained scholarly investigation into the Congress as an institution. "Congress has undergone enormous change over the past decade—in its formal rules, informal norms, party structure, staffs, internal distribution of power and in the recruitment and composition of its membership. These changes have important consequences for the relations between Congress and the President, for the influence of organized interests, and more generally for the shape and direction of public policy decisions."

Codirectors of the project will be Thomas Mann, who has become an AEI visiting fellow, and John Bibby, professor of political science at the University of Wisconsin/Milwaukee, named an AEI adjunct scholar.

Norman Ornstein, associate professor of politics at the Catholic University of America and an AEI adjunct scholar, and Michael Malbin, an AEI resident fellow, will also have significant involvement in the project.

The work of the project will include a biennial congressional review analyzing important institutional and membership changes; analyses of major changes in Congress over the past two decades, their consequences, and prospects for the future; and monographs on congressional process, politics and policy.

The project will be part of AEI's ongoing program on political and social processes, which is directed by AEI resident scholars Howard Penniman and Austin Ranney.

Thomas E. Mann is assistant director of the American Political Science Association and director of its Congressional Fellowship Program. He served as a political polling consultant to the Democratic Study Group Campaign Fund from 1974 to 1978, and was a member of the Democratic National Committee's Commission on Presidential Nomination and Party Structure. Among his publications is *Unsafe at Any Margin: Interpreting Congressional Elections*, published by AEI in 1978.

John F. Bibby is professor of political science at the University of Wisconsin/Milwaukee, where he has taught since 1966. His long involvement in practical politics includes service as staff director for the Platform Committee at the 1976 Republican National Convention, and a year as director of research at the House Republican Conference in 1969-70. He is co-author of *On Capitol Hill: Studies in the Legislative*

Process, and other publications on political parties and the legislative process.

Norman J. Ornstein is associate professor with the department of politics at the Catholic University of America. He has served in a variety of positions on Capitol Hill, most recently as staff director for the committee which reorganized the Senate's committee system in 1976-77. His publications include *Congress in Change: Evolution and Reform*, *Interest Groups*, *Lobbying and Policymaking*, and articles in the *Washington Post*, *Washington Star*, *Foreign Policy*, *Fortune*, and numerous other publications.

Michael J. Malbin is a resident fellow at AEI, now conducting research on congressional staffs. Before joining AEI, he was a political and congressional reporter for the *National Journal*, where he remains a contributing editor. Prior to working with the *National Journal*, he taught political science at New York University and Brooklyn College in New York.

Oil Pipeline Ownership Is Conference Theme

Proposals to prohibit oil pipeline ownership by companies doing business in other parts of the petroleum industry were examined in a two-day AEI conference held on March 1 and 2, 1979. Representatives of the antitrust division of the Department of Justice, the Federal Trade Commission and the Congress joined with economists and representatives from industry to participate in the conference. Edward J. Mitchell, director of AEI's energy policy studies, served as conference coordinator.

The initial session, on "Structural Issues," was chaired by Donald I. Baker, a partner in the firm of Jones, Day, Reavis and Pogue. It featured papers by Donald L. Flexner, deputy assistant attorney general with the Justice Department, and by economist Edward W. Erickson of the North Carolina State University. Discussing the papers were attorney George S. Wolbert and Walter S. Measday, chief economist on the Senate Subcommittee on Antitrust and Monopoly.

Senator Howard M. Metzenbaum (Democrat, Ohio) delivered a luncheon address following the conclusion of the first conference session.

Professor Edmund W. Kitch of the University of Chicago Law School, an AEI adjunct scholar, was chairman of the second session, on the "Effectiveness of Government Regulation." Presenting papers were economist Thomas C. Spavins of the Economic Policy Office of the Antitrust Division of the Justice Department and Exxon Corporation controller Ulyesse J. LeGrange. Professor Shayam Sunder of the University of Chicago Graduate School of Business provided commentary on the two papers.

Session three, on "Alternatives to the Present System," was chaired by Professor Mitchell. Papers were presented by economist Robert J. Reynolds of the Economic Policy Office of the Antitrust Division of the Department of Justice, and by Michael E. Canes, policy analysis director of the American Petroleum Institute. Discussants were economists Michael J. Piette of the University of Hartford and Stanley Boyle of the University of South Carolina.

Also participating in the meetings were Morris Livingston, consultant with the Standard Oil Company of Indiana; economist George A. Hay of the Economic Policy Office of the Antitrust Division of the Justice Department; Henry M. Banta, counsel on the Senate Subcommittee on Antitrust and Monopoly; and economists Calvin Roush and Scott Harvey of the Federal Trade Commission's Bureau of Economics.

AEI will publish the edited proceedings of the conference in May.

George F. Jewett, Jr.



Jewett Is Named To AEI Development Post

George F. Jewett, Jr., vice chairman of the board of the Potlatch Corporation, will chair and direct the capital gifts drive of the American Enterprise Institute's recently launched \$60 million development effort. The campaign parallels one headed by Willard C. Butcher, president of the Chase Manhattan Bank, aimed at broadening the base and increasing the level of annual support of AEI's program within the corporate community.

In addition to Jewett and Butcher, the AEI development group includes: former President Gerald R. Ford, honorary chairman; William J. Baroody, Sr., chairman; Irving Kristol, AEI senior fellow and Henry R. Luce Professor of Urban Values at New York University; Paul W. McCracken, chairman of AEI's Council of Academic Advisers and Edmund Ezra Day University Professor of Business Administration at the University of Michigan; Walter B. Wriston, chairman of Citicorp; Reginald H. Jones, chairman of the General Electric Company; and Thomas A. Murphy, chairman of the General Motors Corporation.

Jewett's activities will be directed toward individuals, foundations, and corporations to provide major grants for name designated chairs and centers of concentrated activity at AEI. Present centers at AEI comprise the following: government regulation, tax policy, legal policy, social security and retirement, health policy, foreign and defense policy, economic policy, political and social processes, energy policy, and inflation and unemployment.

Jewett has held a number of positions with the Potlatch Corporation since joining the company in 1954. He became vice chairman of the board in 1977. He also serves on the boards of the Asia Foundation, the California Academy of Sciences, the Pacific Medical Center and the Asian Art Foundation of San Francisco, and is a member of the Asian Art Commission of San Francisco.

Bork, Stein Join AEI's Academic Advisory Body

Legal scholar Robert H. Bork and economist Herbert Stein have joined the American Enterprise Institute's Council of Academic Advisers, AEI President William J. Baroody, Jr. announced in March.

Bork is Alexander M. Bickel Professor of Public Law at Yale Law School. From 1973 to 1977, he was solicitor general of the United States. Bork became an adjunct scholar of the American Enterprise Institute in 1971, and was a

resident scholar at the Institute during 1977. He taught at Yale Law School from 1965 to 1973. He had earlier been a partner and associate of the Chicago firm of Kirkland, Ellis, Hodson, Chaffetz & Masters (now Kirkland & Ellis).

Stein is A. Willis Robertson Professor of Economics at the University of Virginia. From 1969 to 1974, he was a member of the President's Council of Economic Advisers, serving as its chairman from 1971 to 1974. Stein is a senior fellow at the American Enterprise Institute. He is editor of the Institute's monthly newsletter, the *AEI Economist*, a contributor to AEI's annual volume *Contemporary Economic Problems*, and a participant in AEI's project to develop "A Positive Program for a Modern Market Economy." Stein is a member of the Board of Contributors of the *Wall Street Journal* and also writes a weekly column, "The Economy Today," which appears in the Scripps-Howard newspapers around the country.

AEI's Council of Academic Advisers is chaired by Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration at the University of Michigan. Other members of the council, in addition to Bork and Stein, are Kenneth W. Dam, Harold J. and Marion F. Green Professor of Law, University of Chicago Law School; Donald C. Hellmann, professor of political science and comparative and foreign area studies, University of Washington; D. Gale Johnson, Eliakim Hastings Moore Distinguished Service Professor of Economics and Provost, University of Chicago; Robert A. Nisbet, Albert Schweitzer Professor of Humanities Emeritus, Columbia University; Marina v. N. Whitman, Distinguished Public Service Professor of Economics, University of Pittsburgh; and James Q. Wilson, Henry Lee Shattuck Professor of Government, Harvard University.

AEI Houston Meetings Explore U.S.-Mexican Ties

Increasingly important public policy issues concerning U.S.-Mexican relations were the subject of a conference presented by the American Enterprise Institute on February 5, 1979 at the Galleria Plaza Hotel in Houston, Texas. The goal of the conference, according to AEI President William J. Baroody, Jr., was "to provide a better understanding of the issues underlying relations between Mexico and the United States, and to present a range of views toward the resolution of policy issues involving present and future problem areas." AEI sponsored the conference through its Public Policy Project on the Future Conduct of American Foreign Policy in cooperation with various organizations in the Houston area, including the Houston Chamber of Commerce, the Houston World Trade Association, the Institute of International Education, and the Port of Houston Authority. Chairman of the conference was George Bush, who until recently served as chairman of the advisory council to AEI's project.

The conference opened with overview papers presented by Richard D. Erb, AEI resident fellow and former deputy assistant secretary of the treasury for developing nations finance, and by Stanley R. Ross, coordinator of the Mexico-United States Border Research Program at the University of Texas at Austin.

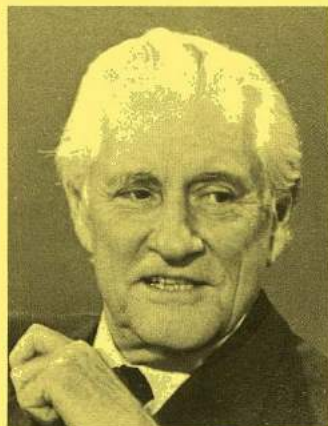
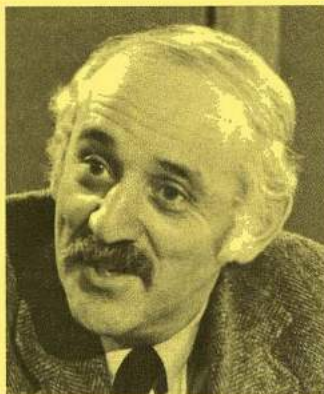
President Victor Urquidi of El Colegio de Mexico then examined U.S. policies toward Mexico from "A Mexican Perspective." His address examined the positive and negative aspects of relations between the two countries, current congruences and differences in interests and priorities, and alternative future courses open to the United States and probable Mexican responses.

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MEMORANDUM

1150 17th Street, N.W., Washington, D.C. 20036

March-April 1979—Number Twenty-Seven



Sevareid and Wattenberg, top, Will and Wicker discuss the press and public policy.

Panelists Examine Roles Of Press in Public Policy

Former CBS News commentator Eric Sevareid, AEI senior fellow Ben Wattenberg, *New York Times* associate editor Tom Wicker and syndicated columnist George Will discussed "The Press and Public Policy" in a televised Public Policy Forum presented by AEI on January 10 in Washington. Former ABC News executive John Charles Daly moderated the discussion.

Wattenberg, who is coeditor of AEI's *Public Opinion* magazine, asserted that certain structural imbalances create distortions in the media's reporting of public policy issues. "Three of them come to mind. First is the feeling that good news is no news, that there's always a better story in poor-mouthing what's happening in the United States. Second is

Continued on page four

AEI Announces Ten-Year Study of U.S. Constitution

The American Enterprise Institute announced in April the establishment of a new project, "A Decade of Study of the Constitution," looking forward to the observation of the bicentennial of the writing of the U.S. Constitution. "This project will encourage serious study of the Constitution, so that by 1987 completed research, books, courses, articles, programs and speakers will be available to the public," AEI president William J. Baroody, Jr. said in announcing the project. The project will be financed in part by a Bicentennial Challenge Grant from the National Endowment for the Humanities and in part by funds to be raised by AEI.

"In line with the basic AEI philosophy stressing the importance of competition of ideas in a free society, the 10-year study will bring together diverse viewpoints on the Constitution as an over-all frame of government," Baroody said. Director of the project is Robert A. Goldwin, AEI resident scholar and newly designated director of constitutional studies. William A. Schambra, until recently associate editor of AEI's *Public Opinion* magazine, has been named assistant director of the project. Goldwin has taught political science at the University of Chicago and Kenyon College, and was the dean of St. John's College in Annapolis. He then served in the White House as special consultant to President Ford and in the Pentagon as advisor to Secretary of Defense Donald Rumsfeld before joining AEI in 1976.

The ten-year program, according to Goldwin, will include annual conferences on constitutional themes, with participants from government, journalism, the private sector and academia; numerous essays on the Constitution from differing viewpoints to be published in annual volumes by AEI; conferences at colleges and universities in many parts of the country; additional full-length scholarly studies of research and interpretation; new courses of study on the Constitution for use in high schools, colleges and possibly adult education programs; videotaped panel discussions on a variety of constitutional issues; and programs of study in other countries that have been influenced by the U.S. Constitution.

Some of the types of questions that the project may address include: How democratic is the Constitution? What is the constitutional status, if any, of the two-party system? Is capitalism the only economic system possible under the Constitution? How effective is the constitutional scheme for protecting individual rights?

"The topics to be studied will focus attention on the Constitution in its wholeness and cohesiveness," Goldwin said, *Continued on page five*

Murray Foss



Economist Murray Foss Is AEI Visiting Scholar

Murray F. Foss, formerly an economist with the Council of Economic Advisers, is conducting research at the American Enterprise Institute as a visiting scholar.

Foss was with the CEA from 1969 to 1975 as senior staff economist in charge of forecasting and business conditions analysis. Before that he was with the Bureau of Economic Analysis at the Commerce Department, serving as editor of the Survey of Current Business and chief of the Current Business Analysis Division for several years. From 1975 to 1978 Foss was a senior research associate with the National Bureau of Economic Research in Washington.

At AEI, Foss has been working on a grant from the National Science Foundation to investigate long-run changes in the workweek of capital, which is significant in analyzing the growth of productivity. While the workweek of labor has gone down, the workweek of fixed capital—plants, warehouses, stores, etc.—has increased as a result of shift work.

Occupational Licensure Examined by Conferees

Problems of licensing and regulating occupations were examined in a conference sponsored by the American Enterprise Institute and held on February 22 and 23, 1979. The purpose of the conference was to present analyses of occupational licensure and regulation, discuss effects of licensure, and examine recent proposals for reform.

The first session of the conference, chaired by James C. Miller III, co-director of AEI's Center for the Study of Government Regulation, examined occupational licensing as it relates to income distribution and the quality of services. The effect of licensing on registered nurses and dentists also was addressed. Papers were presented by Washington University professor Lee Benham, consulting economist Alex Maurizi, University of Illinois professor William D. White and Princeton University professor Bryan Boulier.

The Honorable Michael Pertschuk, chairman of the Federal Trade Commission, addressed the conference at a luncheon.

The afternoon session was chaired by Marvin H. Kosters, director of AEI's Center for the Study of Government Regulation. Papers examined the effects of state "sunset" laws on occupational licensing boards, the Federal Trade Commission's activities in the occupational licensing area, the use of licensure in the past as a means of discrimination, and development of regulatory policy with respect to occupational licensing. Authors included University of Miami professors Kenneth Clarkson, Timothy J. Muris, and Donald L.

Martin, Harvard University professor Richard B. Freeman, and University of Toronto professors Michael Trebilcock, Carolyn Jay Tuohy and Alan David Wolfson.

Topics explored in the final session, chaired by AEI's director of health policy studies Robert Helms, included competition and efficiency, quality standards, collusion opportunities, and the question of whether occupational licensing has increased geographical mobility and resulted in higher earnings. University of British Columbia professor Robert Evans, University of California professor Hayne E. Leland, California Institute of Technology professor Charles R. Plott and University of Chicago professor B. Peter Pashigian presented papers.

George J. Stigler, Charles R. Walgreen Distinguished Service Professor at the University of Chicago and director of the University's Center for the Study of the Economy and the State, delivered a luncheon address following the final conference session.

AEI will publish the edited proceedings of the conference at a later date.

Study Weighs Reliability Of Econometric Models

The jury is still out on the performance of econometric models for economic forecasts and trends, according to a study published in February by the American Enterprise Institute. *Econometric Model Performance in Forecasting and Policy Assessment* by W. Allen Spivey and William J. Wroblewski reviews current evaluations of the reliability of large-scale econometric model forecasting in analysis and policy making. Spivey and Wroblewski are professors of statistics at the Graduate School of Business Administration at the University of Michigan.

"Our conclusions support the hypothesis that the jury is still out assessing the forecasting performance of econometric models and their use in policy assessment," the authors write. "They support the stronger hypothesis that econometric model evaluation will remain inconclusive until model proprietors make available to the research community forecast error data sets for longer periods of time, and until appropriate methods of statistical inference are applied to them."

The authors note that some proponents of econometric models believe they perform better than alternative means of economic forecasting. "Critics, on the other hand, have suggested that econometric models do not, by and large, outperform simpler time-series models or forecasts based only on the judgment of individuals or panels."

Competition of ideas is fundamental to a free society. A free society, if it is to remain free, cannot permit itself to be dominated by one strain of thought. Public policy derives from the ideas, speculation, and theories of thoughtful men and women. Policy makers themselves rarely originate the concepts underlying the laws by which we are governed. They choose among practical options to formulate legislation, governmental directives, regulations, and programs. If there is no testing of ideas by competition, public policy decisions may undermine rather than bolster the foundations of a free society.

The American Enterprise Institute for Public Policy Research fosters innovative research, identifies and presents varying points of view on issues, formulates practical options, and analyzes objectively public policy proposals.

Assuring effective competition in the arena of idea formation is the principal objective of AEI.

Hospital Investment Curbs Called Cost-Cutting Failure

State laws requiring hospitals to get advance authorization for new capital investments have failed to check spiraling health care costs, according to a February AEI study. *Hospital Certificate-of-Need Controls: Impact on Investment Costs and Use* concludes that while certificate-of-need legislation may have prevented hospitals from adding some unnecessary beds, hospital investment in other types of facilities—advanced medical equipment, for example—has increased despite the controls. The net result is that the controls did not significantly affect total investment by hospitals, but altered only its composition. Furthermore, no significant savings in total hospital costs were achieved through the programs.

The study's authors are David S. Salkever, associate professor of health services administration and political economy at the Johns Hopkins University, and Thomas W. Bice, professor of health services at the University of Washington.

The authors suggest a number of reasons why certificate-of-need agencies have failed to control investment in new equipment. Salkever and Bice note, for example, that information about the supply, uses, and costs of special equipment and services is generally sketchy, and as a result consistent standards for reviewing expenditure plans are virtually nonexistent. This lack of data not only shapes certificate-of-need agency decisions but also how legislative oversight committees evaluate agency performance, Salkever and Bice contend. Unwilling or unable to undertake costly studies to obtain information necessary to scrutinize regulatory decisions about equipment and special services, the evaluators tend to focus on how well growth in the bed supply has been controlled. To the extent that legislative oversight is skewed by the lack of information about non-bed investment, agencies are rewarded more for controlling supply of beds than for stopping the spread of special services and equipment.

The authors' findings are derived from an empirical comparison of hospital investment in states with certificate-of-need regulation to investment in states without such regulation. Salkever and Bice emphasize that their study is based on data from 1968 to 1972 and that policymakers should be careful when extrapolating the results of this study to the present.

But they also point out that their empirical findings are consistent with the predictions of some critical theories about regulation. On this basis, Salkever and Bice urge skepticism toward proposals for more extensive and stringent restrictions on hospital investment until later information indicates that such controls will not inadvertently distort investment patterns and perhaps even raise total hospital costs.

The book includes a foreword by Gerald Rosenthal, director of the National Center for Health Services Research in the Department of Health, Education, and Welfare.

MEALS-ON-WHEELS (continued from page eight)

Balzano identifies the actors, issues, and conflicts that will surround the distribution of federal funds. All of these conflicts will be brought to the Administration on Aging, where Balzano says a genuine effort is presently under way to deal fairly with all of those contending for control of the new funds. Nonetheless, Balzano maintains that the conflicts will not be resolved without a clear statement of congressional intent with respect to the role of the private sector in the new program. "Despite the Administration on Aging's desire to be an honest broker, its decisions will be constrained by congressional mandates of fiscal accountability, which will determine a large percentage of the regulations."

Balzano feels that the most important aspect of the federal meals-on-wheels program is the precedent it will set for future federal entrance into other programs heretofore privately operated. "The federal government's duplication of the meals-on-wheels program could constitute a threat to other non-profit organizations, large or small, which might one day find a federal competitor delivering services they now perform."

AFRICA (continued from page six)

man Rights, and increased U.S. assistance to Africa to the level of that to states in the Middle East, Asia and Latin America. Articles on that option are by TransAfrica executive director Randall Robinson, Tanzania President Julius K. Nyerere, and Edgar Lockwood.

Advocates of the "no policy" policy (Option III) include both leftists who oppose what they perceive to be the American government's counterrevolutionary purposes in southern Africa, and centrists and some conservatives who have concluded that Africa is so unstable that the United States should not help shape the continent's political destiny. Such a policy is considered in articles by former Assistant Secretary of State for African Affairs David D. Newsom, Immanuel Wallerstein, and Arthur Schlesinger, Jr.

The proponents of Option IV, tempered idealism, are mainly concerned with the southern subregion of Africa, advocating the general objective of minimizing the external military component and the level of violence in whatever political changes take place. Secretary of State Cyrus Vance, Philip C. Habib, Robert M. Price, Philip L. Christenson, Robert I. Rotberg, the Reverend Leon H. Sullivan, Paul Wilson and Chester A. Crocker are among those whose articles bear on the fourth option.

Option V, concern for credibility, is the belief that the United States should approach Africa on a basis of shared mutual interest, assuming that Africans are basically pragmatic and reasonable people. Various aspects of this option are examined by Chester A. Crocker, I. William Zartman, David Packard, Robert C. Good, George W. Ball, Gerrit Olivier, Bruce Oudes, and John Stockwell.

Proponents of the "transforming" option (Option VI) ask that Americans focus their energies and resources on building new links among Africans as people, with the long-term goal of modernizing Africa. The views of U.N. Ambassador Andrew Young, Zambia's President Kenneth Kaunda, Lieutenant General Olusegun Obasanjo, and Robert S. McNamara appear in this section.

The new magazine departs from the approach of other foreign affairs journals in that it will focus each issue on a single topic. Contrasting viewpoints from the private sector, foreign observers and U.S. government specialists will regularly be presented. At least five of the ten regular issues of the *AEI Foreign Policy & Defense Review* will follow the format of *AEI Defense Review*, dealing with topical issues in defense and foreign policy. One issue each quarter will examine U.S. policy options in areas of the world critical to U.S. long-term national interests. The agenda also includes an annual review of the defense budget.

The American Enterprise Institute for Public Policy Research, established in 1943, is a publicly supported, non-partisan research and educational organization. Its purpose is to assist policy makers, scholars, businessmen, the press and the public by providing objective analysis of national and international issues. Views expressed in the institute's publications are those of the authors and do not necessarily reflect the views of the staff, officers or trustees of AEI. The institute is a tax exempt, educational organization under section 501 (c) (3) of the Internal Revenue Code and is classified as a publicly supported organization under the Tax Reform Act of 1969.

MEMORANDUM

1150 17th Street, N.W., Washington, D.C. 20036

May-June 1979—Number Twenty-Eight

Conferees Seek Means For Regulatory Reform

"Regulatory Reform: Striking a Balance" was the topic of a two-day conference cosponsored by AEI and the *National Journal* and held on May 21-22 in Washington. Government regulatory officials, members of Congress, and critics and supporters of regulation met with representatives from academia and the press to discuss ways in which problems caused by regulation that are generally recognized by scholars and policymakers can be addressed in an efficacious, yet politically feasible manner.

Following welcoming remarks delivered by AEI president William J. Baroody, Jr. and *National Journal* publisher John F. Sullivan, the first conference session featured an "Overview of Regulatory Reform Initiatives" presented by Paul W. MacAvoy, a Yale economics professor and AEI adjunct scholar, and George C. Eads, a member of the Council of Economic Advisers. A panel on "Proposals for Sunset Review," moderated by Richard E. Cohen, *National Journal* staff correspondent, followed. Panelists were Senator Charles H. Percy (R-Ill.); Laurence H. Silberman, an attorney with Morrison & Foerster in Washington and an AEI visiting fellow; and Gary L. Seevers, vice chairman of the Commodity Futures Trading Commission. A second panel examined "The Legislative Veto" in a discussion moderated by W. S. Moore, director of legal policy studies at AEI. Participants were Senator Harrison J. Schmitt (R-N.Mex.), Representative Elliott H. Levitas (D-Ga.) and Professor Antonin Scalia of the University of Chicago Law School, an AEI adjunct scholar.

Senator Edward M. Kennedy (D-Mass.) addressed the conferees in a luncheon speech following the morning session.

Session Two featured three panel meetings. The first, on "The Regulatory Budget," was moderated by Marvin H. Kosters, director of AEI's Center for the Study of Government Regulation. On the panel were consumer advocate Ralph Nader, Representative Clarence J. Brown (R-Ohio) and AEI senior fellow Irving Kristol. The second panel session, moderated by staff correspondent Robert J. Samuelson of the *National Journal*, was on "Reform of Economic Regulatory Agencies: The Case-by-Case Approach." Panelists were Representative Bud Shuster (R-Pa.), Professor Stephen Breyer of Harvard University Law School, Harold A. Shay, president of Shay's Service Inc., and John W. Snow, vice president for governmental affairs with the Chessie System. The third session, on "Reform of Social Regulation: Benefit-Cost Analysis," was moderated by James C. Miller, codirector of AEI's Center for the Study of Government Regulation. Participating were Mark J. Green, director of Congress Watch; Suzanne

Continued on page ten

Studies Chart Courses For Palestinian Autonomy

Two studies published in May by the American Enterprise Institute, *The West Bank and Gaza: Toward the Making of a Palestinian State* and *The Camp David Framework for Peace: A Shift in the Direction of Federal Solutions*, cover many of the competing options which will be discussed in negotiations between Egypt and Israel on autonomy for Palestinians in occupied Arab territories.

The question of land ownership will be a key factor in attempts to achieve a lasting Middle East peace, according to *The West Bank and Gaza: The Making of a Palestinian State*. "Most likely to create friction during or after the negotiations . . . is the issue of land," writes Emile A. Nakhleh, professor of political science and chairman of the department of history and political science at Mount St. Mary's College, Emmitsburg, Maryland. In 1977, Nakhleh taught at Birzeit University in the West Bank.

"Specifically," writes Nakhleh, the issue is "who owns what lands in the occupied areas? It is believed that Israel's Jewish National Fund has acquired through purchase and other means hundreds of thousands of acres in the West Bank since 1967. This is obviously in addition to the so-called state lands which Israeli authorities have confiscated for settlements, military posts and other purposes."

During field research for the book, the author conducted wide-ranging interviews with representatives of the West Bank and Gaza political and social elites. He talked with municipal officials, lawyers, professors, writers, and representatives of charitable groups in the two regions. From those interviews emerged a picture of the existing political order in the West Bank and Gaza. Despite the long Israeli occupation, Nakhleh found a workable political system made up of both public and private institutions. He believes these institutions will play a significant role in any transitional regime once the occupation ends. These institutions are capable of dealing with many issues that are essentially nonpolitical, including population relocation, housing, municipal authority, health, education and welfare services, agriculture, and public services, he writes.

The ultimate success of any Middle East peace agreement will depend on cooperation from the Palestinians, according to Nakhleh. "It can be stated with certainty that two fundamental conditions must be met before the cooperation of West Bank and Gaza leaders can be obtained: termination of the Israeli occupation and a clarification of the autonomy and eventual sovereignty of the West Bank and Gaza."

The leaders interviewed by Nakhleh admit that a settlement might be imposed on the Palestinians, who are not an

Continued on page ten



Richard R. Shinn



Edwin L. Cox

Shinn and Cox Are New Members of AEI Board

Herman J. Schmidt, chairman of the board of the American Enterprise Institute, has announced the election of Richard R. Shinn and Edwin L. Cox to AEI's board of trustees. The new trustees will serve for a three-year period until May 1982.

Mr. Shinn is president and chief executive officer of the Metropolitan Life Insurance Company. He has been associated with that company since 1939. An officer since 1953, he assumed his present position in 1973. Mr. Shinn also serves on the board of directors of the Chase Manhattan Bank, Allied Chemical Corporation, May Department Store Company, Norton Simon, Inc., Putnam Trust Company and Sperry Rand Corporation. He is a graduate of Rider College.

Mr. Cox is president of the Edwin L. Cox Company, an oil and gas producing concern in Dallas, Texas. He is chairman of the board of trustees of Southern Methodist University and is a member of the board of directors of several Dallas-based companies, including the Southwestern Life Insurance Company, First International Bancshares, SEDCO, Inc., and the Dr. Pepper Company, as well as of the Gillette Company. Mr. Cox is a graduate of the University of Texas and the Harvard Business School.

Experts Argue Merits Of Presidential Debates

Should the major party candidates for President in 1980 be required to participate in televised public debate? Political scientists, commentators and professionals give arguments for and against mandatory debates in a June AEI publication. *The Past and Future of Presidential Debates* presents the proceedings of a conference sponsored by AEI on October 19-20, 1977. It is edited by AEI resident scholar Austin Ranney, former president of the American Political Science Association and co-director of AEI's political and social processes program.

"Debates reinforce the power of entertainment values in politics; they encourage choices for the wrong reasons; they accelerate the trend to personalism; they contribute to dismantling the parties; they discourage appropriate attention to the institutional aspects of presidential contests and the presidency," concludes Evron M. Kirkpatrick, executive director

of the American Political Science Association, in a paper entitled "Presidential Candidate 'Debates': What Can We Learn from 1960?" Similarly, Nelson W. Polsby, professor of political science at the University of California, Berkeley, writes in "Debatable Thoughts on Presidential Debates" that "in their present format presidential debates are uninteresting, uninformative, and unedifying. They are not worth preserving and they are not worth prohibiting. The potential for civic enlightenment in audiences such as debates typically command is so great, however, that it is worth trying to figure out how to transform them into something more real and more eventful."

On the other hand, Steven H. Chaffee and Jack Dennis, in a paper on "Presidential Debates: An Empirical Assessment," find that "there remain unanswered questions. On the whole, however, the studies made to date warrant the conclusions that the debates served their audiences well and that they reinforced ideas of democratic electoral competition and of the regime's legitimacy. Thus, the thrust of what we have learned so far supports the continuation, perhaps the institutionalization, of presidential debates." Chaffee is Vilas Research Professor in the School of Journalism and Mass Communication at the University of Wisconsin-Madison. Dennis is professor and chairman of the department of political science at the same school.

Another advocate of the debates is Jim Karayn, who was director of the 1976 presidential debates for the League of Women Voters and is currently president and general manager of WHY? Inc. in Philadelphia. Writing in "The Case for Permanent Presidential Debates," he says: "I am firmly convinced that the best interest of America's voting public is at stake in the concept of the National Debate Commission and its activities. In this age of growing voter apathy and less than candid political campaign activities, the possibility of direct communication between candidates and the public cannot be dismissed. In the face of weakening party affiliations and fuzzy definitions of issues, candidates, and their policies, the benefits and potentials of televised debates are immense."

Jack W. Germond and Jules Witcover, in "Presidential Debates: An Overview," also argue for continuation of the debates. "As the first priority, the decision of whether to participate in televised presidential and vice-presidential debates should be taken out of the hands of the candidates and away from their yardstick of self-interest, and the debates should be given institutional status. . . . By the same token, the debates should not be allowed to become a substitute for all the elements that now comprise a presidential campaign." Germond and Witcover write a daily syndicated column on national politics appearing in more than eighty newspapers across the country.

Two chapters, "The 1976 Presidential Debates: A Republican Perspective" by Richard B. Cheney and "Did the Debates Help Jimmy Carter?" by Stephen Leshner with Patrick Caddell and Gerald Rafshoon, detail the Ford and Carter debate strategies in 1976. Cheney served as White House chief of staff to President Ford from 1974 to 1976. Leshner is executive vice-president of Rafshoon Communications. Caddell is president of Cambridge Survey Research and President Carter's chief pollster. Rafshoon is assistant for communications to President Carter.

In "Historical Evolution of Section 315," Nicholas Zapple looks at the fairness doctrine and concludes that, because television has become an integral part of political campaigning, Section 315 of the Federal Communications Act should be modified. Zapple served as communications counsel to the United States Senate Committee on Commerce from 1949 to 1975.



Discussing ways to reduce health care costs are, from left, Clark Havighurst, Dave Stockman, John Charles Daly, Hale Champion and Joseph M. Boyle.

Panelists Debate Response to Rising Health Costs

"Rising Health Costs: Public and Private Responses" was the subject of a televised Public Policy Forum presented by AEI on April 26 in Washington. HEW Undersecretary Hale Champion, U.S. Representative Dave Stockman, American Medical Association official Joseph M. Boyle, and Duke University law professor Clark Havighurst participated in the panel discussion. Former ABC News executive John Charles Daly moderated.

Champion, who also serves as chairman of HEW's Advisory Committee on National Health Insurance Issues, outlined the Carter administration's program to contain health costs. "Hospital cost containment is, indeed, the core: about 40 percent of health costs are hospital costs. But the administration is proposing many different ways to attack the problem of rising health costs. One way is to induce competition by expanding Health Maintenance Organizations. Another is to eliminate excesses in the system. Obtaining second opinions may prevent unnecessary surgery, and health planning can reduce excess beds. The administration is also trying to get rid of fraud and abuse in Medicaid and Medicare."

Stockman, a Michigan Republican who is a member of the House Commerce Committee's Health and Environment Subcommittee and advisory council member of AEI's Tax Policy Studies Program, believes that the Hospital Cost Containment Act will actually be counterproductive to reducing medical care costs. "There is a basic defect in the demand side of the equation in the reimbursement mechanism that is central to the real issue of health costs. . . . There is no rationally structured copayment system that encourages both the consumer and the provider to consider the care they seek. Private third-party insurance that pays for health and hospital care for most Americans is the heart of the system, and is particularly perverse, because it encourages people to behave in noneconomic ways. . . . It is wholly wrong to blame the providers who responded to the demand we created through tax and third-party Medicare-Medicaid programs."

Havighurst, who is professor of community health sciences at Duke University and a member of the advisory council to AEI's Center for Health Policy Research, agrees that the potentially most effective mechanism for cost containment lies in the private sector. "We keep regulating the supply side—

the providers, the hospitals, the doctors—with the idea that regulation can cure the problem, but it is time we gave up. . . . Effective regulation must contain demand by supplying only the necessary resources, not the frills. . . . Existing regulation is part of the problem, but also inhibiting the private sector is the notion that government will soon solve the problem of health costs. The government should let it be known not only that the private sector has a role, but that government is looking to it for solutions."

Boyle, a member of the board of trustees of the American Medical Association, concurs that the administration's cost containment bill is aimed at the wrong target. "If the administration were interested in resolving the problem, it would address the question of the cost of regulation in running hospitals. That is where real savings could be effected in this system. . . . The AMA agrees that consumers should become actively involved in the choices they make, that they do need more information, and that they need to know how much care costs. Doctors also need more information about costs."

The published transcript of "Rising Health Costs: Public and Private Responses" can be obtained from the American Enterprise Institute. Audio and video cassettes are available from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

The American Enterprise Institute for Public Policy Research, established in 1943, is a publicly supported, non-partisan research and educational organization. Its purpose is to assist policy makers, scholars, businessmen, the press and the public by providing objective analysis of national and international issues. Views expressed in the institute's publications are those of the authors and do not necessarily reflect the views of the staff, officers or trustees of AEI. The institute is a tax exempt, educational organization under section 501 (c) (3) of the Internal Revenue Code and is classified as a publicly supported organization under the Tax Reform Act of 1969.

Authors Cite Priorities For U.S. Defense Policy

Broad priorities for American defense policy are outlined by three prominent military observers in the third 1979 issue of the *AEI Foreign Policy and Defense Review*, published in April by the American Enterprise Institute.

Former Joint Chiefs chairman General Maxwell D. Taylor, former Newsweek Pentagon reporter Lloyd Norman, and Washington defense policy analyst Steven L. Canby stress the importance of hewing to the overall priorities of American defense policy. The overriding concern, they agree, is to deter a strategic nuclear war caused intentionally or inadvertently by the Soviet Union. Although all three believe the American deterrent is presently adequate, they note disturbing trends in the buildup of Soviet strategic forces that may upset the balance. Other concerns, in order of priority, are the defense of NATO and such other allies as Japan, and maintaining some degree of peace and stability throughout the world—with particular attention to potential disruption of American sources of needed raw materials.

While they see the probability of nuclear war as minimal, the authors voice concern over a conventional attack on Western Europe by the Soviet Union and its Warsaw Pact allies and still greater concern over the long-range implications of present instabilities in the Middle East and Africa. All agree that improvement in American defenses is needed and that it should match these priorities, but each takes a somewhat different approach to the problem.

Taylor calls for more attention to what he calls the imperfectly recognized threat to American interests from forces outside the direct confrontation between the United States and Soviet Union. "It consists of the dangers to the national economy resulting from its growing dependence on imports, particularly oil, and from hostile efforts to interfere with our access to their sources," he writes. To counter this diffuse threat, Taylor urges an improvement of general-purpose military forces. Among his areas of concern are strengthening security in the Western Hemisphere; securing sea lanes to allies and essential world markets; and developing a quick reaction force capable of 60 days of combat abroad without reinforcement, adequate manpower reserves, and a specialized anti-terrorist force.

Norman notes "the majority of experts and laymen alike agree that the U.S.S.R. has accumulated more military power than it needs to defend itself against any reasonable danger, and it has continued to build this strength at more than 3 percent a year over more than fifteen years." The motives for this buildup are in dispute, he notes, "but the fact remains they have large stocks of second-hand weapons that they can use to promote 'wars of national liberation' to support the Cuban proxy troops in Africa, the Middle East, and Asia, and to stir up mischief elsewhere."

As the debate continues over the proper deterrent for the future, he suggests an interim solution to the question of proceeding with an MX or improved new ICBM: As a deterrent, the United States should seriously prepare to launch all or most of its vulnerable ICBMs against the Soviet divisions and their supporting forces threatening NATO if U.S. warning systems confirm with huge confidence that the Soviets have launched a first strike upon U.S. ICBMs. Norman also recommends deployment in Germany of two of the three brigades of six additional Army divisions as a means of assuring NATO a much faster response to a Soviet attack.

Norman cautions that the United States must neither underuse nor overuse its power. "It is difficult for the United States to hold the rest of the world in awe of its great military power if it renounces the role of global policeman. Power is

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not respected if it is not used when needed, or if the authority controlling it appears to be diffident or indecisive. On the other hand, the world does not respect the reckless or inappropriate use of power when other, less dangerous (or less provocative) measures will do the job." He concludes with the belief that "with all our faults and failures, all our errors in backing the wrong regimes or corrupt dictatorships, in the end we are respected in the world for our generosity to our friends and to our former defeated enemies, for our fairness, for our conscience and our commitment to justice, for our concern for human suffering and our support of peace and human rights. In the ultimate tallying of the score of world leader-

Continued on page twelve

Religious Bases Probed For Capitalism, Socialism

The religious bases of economic systems are analyzed in *Capitalism and Socialism: A Theological Inquiry*, published in May by AEI, through papers presented by seven Protestant, Catholic, Jewish and Moslem scholars at the first annual summer institute co-sponsored by AEI and Syracuse University on July 9-15, 1978 at Airlie, Virginia.

In examining economic systems theologically, the scholars seek to identify the religious impact of multinational corporations, bureaucracy, utopianism, and the "new class." Among the lecturers were Seymour Martin Lipset, professor of political science and sociology at Stanford University and an AEI adjunct scholar; Irving Kristol, professor of urban values at New York University and AEI senior fellow; Peter Berger, professor of sociology at Rutgers University and AEI adjunct scholar; Muhammed Abdoul Rauf, director of the Islamic Center in Washington, D.C.; Penn Kemble, former executive director of the Coalition for a Democratic Majority; Ben J. Wattenberg, a senior fellow at AEI; and Michael Novak, a resident scholar at AEI.

The competing attractions of capitalism and socialism for the classic world religions was a basic theme of the conference. "Capitalism survives because it still satisfies the basic, simple impulses of ordinary men and women," comments Kristol. "It will not continue to satisfy them, however, without the bedrock provided by the Judeo-Christian tradition that ordinary men and women need—that we all need." "The reason why the socialist vision has such persistent appeal, is that it is a vision of a restored community," adds Berger. "It is a kind of world in which people will again know who they are and with whom they belong and will have operative values in common." While sympathizing with this vision, Berger doubts that it could be realized in a modern world in which vast bureaucratic and technological institutions are necessary. Instead of achieving solidarity, according to Berger, socialism has led to even greater alienation.

The Islamic doctrine of economics, according to Rauf, embraces both the individualism and property rights of capitalism and the sense of obligation to community embodied in socialism, but it goes a step further by placing all economic activity within the well-defined moral framework of the Koran. "A moral content seems to be inherent in all types of human behavior, including economic behavior," Rauf says. "Even capitalism and socialism, often thought to be purely economic concepts, seem to have their moral roots. The *laissez faire* philosophy of capitalism and socialism sought to release the laboring class from oppressive exploitation. Economic justice, however, cannot be achieved in a vacuum or in a climate morally lacking in other areas. Economic justice, to be truly attained, has to be part of a total moral code."



Weidenbaum



Glazer



Huntington

Three New Scholars Appointed at Institute

Washington University economics professor Murray L. Weidenbaum has been appointed a resident scholar of the American Enterprise Institute. AEI president William J. Baroody, Jr. announced in June. Baroody also announced the appointment of Harvard professors Nathan Glazer and Samuel P. Huntington as adjunct scholars of the Institute.

Weidenbaum's appointment becomes effective September 1, and will extend through his one-year sabbatical from Washington University, St. Louis. His research while at AEI will address government regulation of business.

Weidenbaum is Edward Mallinckrodt Distinguished University Professor at Washington University and director of the Center for the Study of American Business there. He formerly served as assistant secretary of the treasury for economic policy.

First appointed an AEI adjunct scholar in 1972, Weidenbaum is now co-editor of AEI's *Regulation* journal, a member of the advisory council of AEI's Center for the Study of Government Regulation, and a member of the technical advisory committee of AEI's Tax Policy Studies program. Among his written books is *Government-Mandated Price Increases: A Neglected Aspect of Inflation*, published by AEI in 1975, and *The Future of Business Regulation*, to be published by Amacom later this year.

Glazer and Huntington join a network of 72 other adjunct scholars who conduct research for AEI on their own campuses as part of AEI's academic outreach program.

Glazer's work for AEI will concentrate on the role of mediating structures in American social welfare policy, with special attention to their social, political and legal aspects. In addition to his position as professor of education and sociology at Harvard, Glazer is co-editor of *The Public Interest* magazine. He previously taught at the University of California, Berkeley, and has served as an urban sociologist with the Housing and Home Finance Agency in Washington, an editorial advisor for Random House and Doubleday Anchor Books, and a staff member of *Commentary* magazine.

Glazer is now chairman of the welfare panel of AEI's Mediating Structures Project, one of five panels examining the institutions that stand between the individual and the mega-structures of American society. He also participated in a 1976 AEI panel discussion on "Busing: Constructive or Divisive?" Among his many books are *Affirmative Discrimination: Ethnic Inequality and Public Policy* (1976) and *Remembering the Answers: Essays on the American Student Revolt* (1970).

Huntington's research will center on the future of economic and political development policies in developing countries. Huntington is Frank G. Thomson Professor of Govern-

ment at Harvard and director of the Center for International Affairs there. During 1977-78, he served at the White House as coordinator of security planning for the National Security Council. He founded the quarterly journal *Foreign Policy* in 1970, and served as its co-editor until his entry into government in 1977.

Huntington is a fellow of the American Academy of Arts and Sciences and a member of the Council on Foreign Relations and the International Institute of Strategic Studies. Among his many books and articles is *Civil-Military Relations*, a multi-authored work published by AEI in 1977. He also participated in AEI's conference on "Arab and American Cultures" and in AEI's Public Policy Forum television show "Can Cultures Communicate?" in 1976.

Authors Apply Measure To Regulatory Efforts

The commonly used business management tool of benefit-cost analysis can be applied to a broad variety of the federal government's social regulatory programs, according to a book published in April by the American Enterprise Institute. "Since resources are limited, we cannot avoid the need to identify—and, in some way, to estimate—benefits and costs," the study says. "The more compassion we have for our fellow human beings, the more important this becomes."

The book, *Benefit-Cost Analyses of Social Regulation*, is a collection of case studies edited by James C. Miller III, co-director of the Center for the Study of Government Regulation at the American Enterprise Institute, and Bruce Yandle, professor of economics at Clemson University and AEI adjunct scholar. During 1975-77, Miller served as assistant director for government operations and research on the Council on Wage and Price Stability; during 1976-77, Yandle was a member of the council's senior staff on sabbatical leave from Clemson.

The need for benefit-cost analysis, the editors contend, emerges from the "growing awareness of a linkage between regulation and inflationary pressures." Available estimates suggest that regulatory costs to the private sector may exceed \$100 billion in 1978. "This growing edge of federal regulation is not only large, it is different in character from that of the past," Miller and Yandle note. "Instead of the more traditional economic regulation dealing with rates and services of specific firms and industries (for example, airlines, truckers, broadcasters, telephones and power companies), the new social regulation covers a broad range of industries and types of commercial activity. Moreover, it is highly specific in terms of its requirements. For example, regulations dictate the contents of labels attached to consumer products, prescribe in minute detail a multitude of work practices, mandate specific processes for the treatment of industrial wastes, and establish uniform designs for products as simple as book matches or as complex as automobiles." Use of the benefit-cost technique, the authors contend, would enable a policy maker to weigh "the benefits and costs of a proposal before action is taken," which would enable the policy maker to identify ways to decide whether a given proposal should or should not be adopted and to analyze alternatives in order to minimize costs and to maximize benefits.

The case studies published assess the benefits and costs of various regulatory proposals and programs dealing with safety, health, and the environment. They were inspired by efforts of the Ford Administration's Council on Wage and Price Stability to determine whether proposed regulations might contribute to inflation. The essays share the view that benefit-cost analysis can be applied to a broad variety of social regulation. *Continued on page eight*



Project director Pedro Sanjuan, left, and Argentine economics minister Jose Martinez de Hoz.

AEI Launches Center On Hemispheric Priorities

American Enterprise Institute president William J. Baroody, Jr. has announced the formation of a Center for the Definition of Hemispheric Priorities at AEI. The work of the center is being carried out with the Council of the Americas, an institution that for many years has channeled its efforts towards the improvement of U.S.-Latin American business relations.

Policymakers and businessmen in the Western Hemisphere exchange views infrequently, and the time is overdue for the initiation of a dialogue among political leaders, bankers and businessmen. The work of the center is addressed to developing such a dialogue.

The center's activities are based on the premise that joint action between the United States and the countries of Latin America can, within the divergence of cultures and traditions in the hemisphere, contribute to the resolution of common problems. Among the areas of shared concern are reliable sources of affordable energy; favorable investment possibilities in Brazil and the Southern Cone countries; migration problems; hemispheric security and common defense; the broadening of the Atlantic Community; the creation of a North American Common Market and the need to resolve problems in U.S.-Mexican relations; common hemispheric trading interests with Europe, Japan and the Third World; and solution of the economic crisis in the Caribbean.

A distinguished board of advisors concerned with improvement of channels of hemispheric communication has been appointed to assist the center in its work. Committee members include:

Hrant T. Baboyian
Vice President, UOP, Inc.

Joseph Blatchford
President, Committee for the Caribbean

Michael Boggs
Assistant Director, AFL-CIO

Jose A. Cabranes
Legal Advisor, Yale University

Thibault de Saint Phalle
Director, Export-Import Bank

William C. Doherty, Jr.
Executive Director, Institute for Free Labor Development

Robert Ellsworth
Chairman, St. John International, Inc.

Henry Geyelin

President, Council of the Americas

Georgie Anne Geyer
Los Angeles Times Syndicated Columnist

Robert P. Griffin
Senior Fellow, AEI

Les Janka
Consultant, DGA International, Inc.

Myron Kratzer
Senior Consultant, International Energy Associates, Ltd.

Gregori Lebedev
Principal, Hay Associates

Harry C. McPherson
Verner, Liipfert, Bernhard & McPherson

Edwin M. Martin
former Assistant Secretary of

State and former Ambassador to Argentina

Jeremiah O'Leary
The Washington Star

F. Jackson Piotrow
Associate Dean, American University

Riordan Roett
Director, Center for Brazilian Studies, The Johns Hopkins University

Armistead I. Selden
former Congressman and

former Ambassador to New Zealand

James W. Symington
Smathers, Symington & Herlong

Richard J. Whalen
author and economic consultant

James Wine
Vice President & Member of the Board, International Bank
Curtin Winsor

Associate Director, Alliance for Free Enterprise

The first major undertaking of the center will be a "Conference on Economic Alternatives and Investment Possibilities in the Caribbean." The meetings will be hosted by the city of Miami and sponsored by both the State of Florida and Dade County. All three government bodies have appropriated funds for the conference. The AEI conference has been endorsed by the U.S. Department of State as being this year's most promising private-sector approach to the problems of the Caribbean. The conference reflects a formula that the center will continue to employ in stimulating private-sector interest in a number of large U.S. communities for better communications with the rest of the hemisphere.

A number of smaller scale discussions have been held already. The chief of staff of the President of Colombia spoke on March 2, 1979, at AEI on the subject of the "Colombian Perspective on the Problems of Collaboration with the U.S. Border and Traffic Problems." On April 30, 1979, the Ambassador of Argentina, Jose Aja Espil, appeared in a Conversation with AEI on the subject of the nuclear energy policy of Argentina. Subsequently another Conversation with AEI was held on May 31, 1979, featuring the Minister of the Economy of Argentina, Jose Martinez de Hoz, who spoke on the future economic development of Argentina.

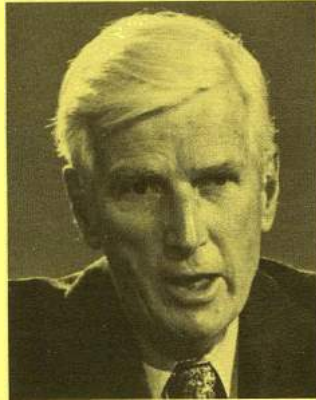
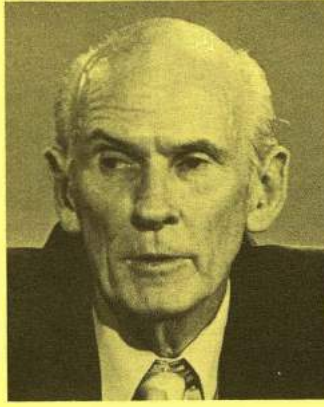
The work of the project is being directed at AEI by resident fellow Pedro Sanjuan, and is being conducted through AEI's foreign and defense studies program under the direction of Robert J. Pranger.

Social Security Effects On Capital Are Explored

The Effects of Social Security on Income and the Capital Stock. a March AEI study, examines disagreements over the effects of social security on the saving-income ratio. The work was written by Michael R. Darby, professor of economics at the University of California, Los Angeles.

Darby evaluates the bases for previous estimates of the reductions in the capital stock resulting from social security, and attempts to improve on those estimates. He shows that a reduction in either the saving-income ratio or the fraction of the population participating in the labor force will lower income and the capital stock. New time series evidence corroborates earlier estimates that social security has in fact caused a large reduction in the saving-income ratio, whereas under reasonable alternatives the estimates indicate no reductions in this ratio, or even increases in it, according to the author. Overall, it is estimated that the social security program reduces domestic output from 0 to 4 percent and reduces the capital stock from 0 to 15 percent.

A major conclusion of the study is that the bulk of capital is held and net saving is made in anticipation of bequests. Such bequests arise not only out of concern for the welfare of heirs, but also because assets serve as a form of generalized insurance against contingencies. Most past studies of the effects of social security on the saving-income ratio have neglected the bequest motive for saving.



Dole and Cranston, top, Bingham and Goldwater discuss the Chinese-American relations.

Panelists Probe Future Of U.S.-China Relations

Representative Jonathan Bingham (D-N.Y.), and Senators Alan Cranston (D-Cal.), Robert Dole (R-Kansas), and Barry Goldwater (R-Ariz.) discussed "The Future of Chinese-American Relations" in a televised Public Policy Forum presented by AEI on March 28 in Washington. John Charles Daly, former ABC News executive, moderated the discussion.

Representative Bingham serves on the House Foreign Affairs Committee, where he is chairman of the Subcommittee on International Economic Policy and Trade and a member of the Subcommittee on International Security. Bingham called for even-handed relationships between the United States and the two Communist superpowers, stating that Americans should not favor China at the expense of the Soviet Union. "Playing the China card . . . would be unwise. I think it would be a mistake to give the Chinese most favored nation treatment if we are not going to do the same for the Soviet Union. . . . Even though they want our trade and technology, they are not going to accept any conditions or do what we tell them in foreign policy."

Senator Cranston, Majority Whip in the Senate, foresees significant economic development in the People's Republic. "We have witnessed the miraculous economic growth brought about by the intelligence of the people of Taiwan. We have seen how well the Koreans and Japanese have done economically. Now, the People's Republic seems to recognize that some of the doctrinaire Maoist approaches . . . do not work. They want Western technology and are going to adopt some of our practices. In the course of time, we will see a strong economy emerging. The PRC certainly has the resource of hard-working, disciplined people to use as a foundation."

Senator Goldwater serves on the Armed Services Committee and the Select Committee on Intelligence, where he is ranking Republican member. Goldwater took a skeptical view of Chinese economic progress. "I do not have high hopes for China's becoming a great industrial power very rapidly. They have no money. I am convinced that the big American corporations that have already gone there have the idea that if they lose the gamble, the federal government is going to make up the loss. The Chinese are an agricultural people and cannot be industrialized overnight. We recognized the Soviet Union in 1934, and its economy is now about on a par with what ours was in 1925 or 1930."

Senator Dole, the ranking Republican on the Senate Finance Committee, warned against overestimating the benefits from recognition of the People's Republic. "This flirtation we are having with Peking cannot be a substitute for U.S. resolve vis-a-vis the Soviets. China is still a weak and impoverished nation; they are still a closed totalitarian society, and they do not share our fundamental beliefs. . . . I hope we do not suddenly believe that, because we have normalized relations with the People's Republic of China on the one hand and the Soviets on the other, we can relax our efforts. We have relaxed too much already."

The published transcript of "The Future of Chinese-American Relations" can be obtained from the American Enterprise Institute. Audio and video cassettes are available from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

Monetary Ties Assessed Between U.S., Europe

Proposals to halt or reverse trends toward national fragmentation in global and in European regional monetary affairs are examined in *U.S.-European Monetary Relations*, the proceedings of a conference sponsored by the American Enterprise Institute and Georgetown University on March 17-18, 1977 published in June by AEI.

The volume is edited by Georgetown economics professor Samuel I. Katz. Seven major papers are presented in the book, along with comments by bankers, government officials, and economists from Europe, Brazil and the United States.

Alexandre Lamfalussy, economic adviser at the Bank of International Settlements (Basle, Switzerland), presents a general introduction to the problems of global or regional monetary integration in a paper entitled "An Overview of the Problem."

The European experience in efforts at regional unification is discussed by Bela Balassa, professor of economics at the Johns Hopkins University, in "European Monetary Arrangements: Problem Areas and Policy Options."

Proposed moves toward regional integration in Europe that were under discussion in 1977 are analyzed by Niels Thygesen of the University of Copenhagen in "Introduction and Summary of OPTICA Proposals"; by Roland Vaubel of the Institut fur Weltwirtschaft (Kiel, Germany) in "A Europe-Wide Parallel Currency"; by Giorgio Basevi of the University of Bologna in "Summary of the OPTICA 1976 Proposals for Exchange-Rate Management"; and by C. J. Oort of the Ministry of Finance of the Hague in "Managed Floating in the European Community."

Problems of global monetary integration are addressed by Thomas D. Willett, professor of economics at Claremont Graduate School and AEI adjunct scholar, in "The Evolving Exchange-Rate Mechanism and Its Control," as well as in a discussion of the international coordination of national economic policies.

Study Hits Restrictions On Business Mobility

The flight of manufacturing firms from the industrialized states of the North to the so-called Sun Belt states of the South and West is neither as extensive nor as ruinous as critics of this practice have maintained, according to a June AEI study. In *Restrictions on Business Mobility: A Study in Political Rhetoric and Economic Reality*, Clemson University economics professor Richard B. McKenzie contends that legislative remedies proposed for the situation would do more economic harm than good.

Such proposals, according to McKenzie, "would bring about a dramatic and far-reaching shift in domestic economic policy and would substantially increase state and federal government supervision of business decisions." Specifically, he sees dangers in state and federal legislative proposals that would restrict plant moves or closings and establish assistance programs for employees and communities.

"Proposals to restrict business mobility are, no doubt, founded upon noble objectives as well as a strong sense of pragmatic politics," McKenzie notes. "They may help alleviate the short-run economic hardship of some people who are laid off by plant closings or relocations, although ameliorative measures such as unemployment compensation are already in place, and little would be added by another program such as this." The other side of the coin, in McKenzie's view, is that the proposed remedy adds another layer of bureaucracy for a problem that does not even exist to the degree its sponsors insist. He cites government statistics that show only "a miniscule percentage of all plant closing, 1.5 percent, are caused by relocation. The overwhelming majority of job losses in the North is due to the deaths of firms. Those stark facts suggest that many of the economic problems of the North may be attributed to misguided public policies, not to wage attractions and other attractions elsewhere."

McKenzie finds that more important than the lure of lower cost, and generally non-union, labor in the South is the changing nature of the workforce in the North. Manufacturing industries are forced to migrate south because they cannot compete with the higher wages offered by the service industries centered in the northeastern and midwestern states. "Further, the North is not as economically depressed, relative to the South, as has been suggested or as may be inferred by looking only at the manufacturing sector of the northern economy," he notes. "Changes in the northern service sector have more than compensated for any loss in manufacturing employment and have kept the mean standard of living in the North rising and above the standard of living in the South."

McKenzie concludes that attempts to legislate a change in underlying economic forces would penalize both North and South by hampering economic growth, contributing to inflation, increasing unemployment, and reducing the social mobility of workers while at the same time reducing business profits and the efficiency of the domestic economy.

BENEFIT/COST (Continued from page five)

latory programs. A common theme is the danger of striving for complete perfection in narrow areas when far cheaper solutions might free resources for other useful undertakings. The principal authors of the essays are all economists. However, the studies were prepared in consultation with the Council on Wage and Price Stability's staff of attorneys and political appointees, and thus each reflects an awareness of the statutory limitations as well as the political constraints under which the programs operate.

The book is divided into three parts: (1) consumer and worker health, (2) product safety, and (3) energy, the envi-

ronment, and international trade. Each case study is a complete and independent unit that can be turned to, read, and discussed without having read those that came before. A short introduction at the beginning of each case gives some background to the issue analyzed.

Part One contains cases on consumer and worker health. An analysis by Dianne Levine considers proposed regulations for labeling blood according to the type of supplier. The issue relates to consumer information and the relative benefits and costs of differentiating purchased blood from that taken from volunteers. A second analysis by Levine treats the problem of worker exposure to inorganic arsenic. At issue is a proposal by the Occupational Safety and Health Administration (OSHA) to reduce the maximum allowable exposure level because of evidence that the substance causes cancer. A third case, an OSHA proposal addressed by John Morrall, deals with the maximum allowable noise exposure experienced by industrial workers. Both OSHA analyses are seen to illustrate that in efforts to achieve perfection, the costs rise markedly whereas the additional benefits tend to decline.

In Part Two, on product safety, Thomas Lenard analyzes a proposal by the Consumer Product Safety Commission (CPSC) that would require manufacturers of lawn mowers to install certain safety devices. Milton Kafoglis analyzes another CPSC proposal—to issue standards for the production of ordinary matchbooks. These two cases illustrate a fairly common aspect of regulatory proposals, that certain components of the proposed standards appear cost-effective while others do not. Clear questions are raised about the "reasonableness" of the requirements that dead-man switches be installed on the lawn mowers and that latches be installed on matchbooks.

A selection by Thomas Hopkins and Gerald Threadgill addresses another safety issue—an early proposal by the National Highway Traffic Safety Administration to require passive restraints in automobiles (for example, airbags). This case suggests that use by auto passengers of the safety devices at hand (seatbelts) could eliminate the need for much more costly passive restraint systems.

In Part Three, on energy, the environment, and international trade, Milton Kafoglis and Robert Greene address a proposal by the Federal Energy Administration (now a part of the Department of Energy) to require manufacturers of appliances to improve the overall "energy efficiency" of their products in steps over the coming years. This is basically a cost-effectiveness issue. How should standards be set so as to minimize the cost to society of meeting a given objective, which in this case is a reduction in energy consumption by appliances?

Next, Roger Mallett analyzes a proposal by the Environmental Protection Agency (EPA) to place a limit on the air emissions of motorcycles, and Robert Greene analyzes an EPA proposal to require manufacturers of iron and steel to reduce effluents discharged into the nation's waterways. In both cases, the analysts raise questions about the overall severity of the standards and point to modifications that would lower the cost of achieving the regulatory goals. Then, John Morrall analyzes proposals by the EPA and the Federal Aviation Administration to reduce noise exposure around airports by requiring that old aircraft be "retrofitted" or that the airlines acquire new, quieter aircraft. Morrall concludes that a tax-incentive approach to reducing such noise exposure would be far superior to the standards approach favored by the government agencies.

The final selection, by Thomas Lenard, deals with a proposal before the International Trade Commission to grant relief to the U.S. sugar industry because of rising sugar imports. In concise fashion, Lenard analyzes the costs (and who bears them) and the benefits (and who receives them) of the major alternatives: quotas, tariffs, and adjustment assistance.



Antonin Scalia, right, discusses the Constitution and the budget with Walter Berns, Gerald Gunther, John Charles Daly and Paul Bator.

Constitution and Budget Is Conference Theme

Proposals for constitutional limits on tax, spending and budget powers at the federal level were the subject of a two-day conference on "The Constitution and the Budget," sponsored by AEI and held on May 23-24 in Washington. Representatives of the government and citizens' groups joined with economists and attorneys to assess the issues.

A highlight of the conference was the televised Public Policy Forum "A Constitutional Convention: How Well Would It Work?" Participating in the round table discussion were Professor Paul Bator of Harvard Law School, Professor Gerald Gunther of the Stanford Law School, AEI resident scholar Walter Berns, and Professor Antonin Scalia of the University of Chicago Law School. Former ABC News executive John Charles Daly moderated the discussion.

The initial session, on "Amending the Constitution by Convention," was chaired by W. S. Moore, director of legal policy studies at AEI. Panel members included Gerald Gunther, professor of law at Stanford Law School; Charles Black, professor of law at Yale Law School; Philip Kurland, professor of law at the University of Chicago Law School; Laurence H. Silberman, AEI visiting fellow and an attorney with Morrison & Foerster in Washington, D.C.; and Gordon Wood, professor of history at Brown University.

Session Two, on "The Effects of Constitutional Restraints



Discussing the process of amending the Constitution by convention are Charles Black of Yale Law School, W. S. Moore of the American Enterprise Institute, historian Gordon Wood of Brown University and Philip Kurland of the University of Chicago Law School.

on Economic Policy Making," was chaired by Herbert Stein, AEI senior fellow and professor of economics at the University of Virginia. Participating as panelists were James McIntyre, director of the Office of Management and Budget; Arthur Burns, distinguished scholar in residence at AEI; Bruce MacLaury, president of the Brookings Institution; and Craig Stubblebine, professor of economics at the Claremont Graduate School.



From left: AEI's Burns, Claremont's Stubblebine, AEI's Stein, OMB director McIntyre, Brookings president MacLaury.

The third session, on "Constitutional Restrictions on the Power of the Purse and the Theory of Public Choice," was chaired by Rudolph Penner, director of tax policy studies at AEI. Panelists included James Buchanan, professor of economics at the Virginia Polytechnic Institute; Anthony Downs, senior fellow at the Brookings Institution; Mancur Olson, professor of economics at the University of Maryland; and William Riker, professor of political science at the University of Rochester.

The concluding conference session featured "A Roundup of the Policy Issues Raised by Proposals for Constitutional Limits." Chairing the session was former Senator Robert P. Griffin, now an AEI senior fellow. Panelists were Richard Lugar, U.S. senator from Indiana; Charles L. Schultze, chairman of the President's Council of Economic Advisers; James Davidson, chairman of the National Taxpayers Union; David R. Obey, U.S. representative from Wisconsin; and Ralph Winter, professor of law at Yale Law School.

The published transcript of "A Constitutional Convention: How Well Would It Work?" is available from the American Enterprise Institute. Audio and video cassettes of the Public Policy Forum can be obtained from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville MD 20850 (301/948-0540). AEI will publish the full conference proceedings at a later date.

Competition of ideas is fundamental to a free society. A free society, if it is to remain free, cannot permit itself to be dominated by one strain of thought. Public policy derives from the ideas, speculation, and theories of thoughtful men and women. Policy makers themselves rarely originate the concepts underlying the laws by which we are governed. They choose among practical options to formulate legislation, governmental directives, regulations, and programs. If there is no testing of ideas by competition, public policy decisions may undermine rather than bolster the foundations of a free society.

The American Enterprise Institute for Public Policy Research fosters innovative research, identifies and presents varying points of view on issues, formulates practical options, and analyzes objectively public policy proposals.

Assuring effective competition in the arena of idea formation is the principal objective of AEI.

REGULATION (Continued from page one)

Weaver, editorial page writer with the *Wall Street Journal*; and AEI resident scholar Peter H. Schuck.

The concluding conference session was devoted to "The Administration's Regulatory Reform Initiatives." *National Journal* staff correspondent Timothy B. Clark served as moderator. Participants in the discussion included Douglas M. Costle, administrator of the Environmental Protection Agency; Charles L. Schultze, chairman of the Council of Economic Advisers; Wayne G. Granquist, associate director for management and regulatory policy at the Office of Management and Budget; Richard M. Neustadt, assistant director of the Domestic Policy Staff in the White House; Robert W. Crandall, senior fellow at the Brookings Institution; and Paul G. Rogers, a partner with Hogan & Hartson in Washington, D.C. The session concluded with summary responses presented by John T. Dunlop, Lamont University Professor at Harvard University, and Lloyd N. Cutler, a partner with Wilmer, Cutler & Pickering of Washington, D.C.

PALESTINIANS (Continued from page one)

active partner in the negotiations. But they maintain that the Palestinians could by apathy and noncooperation render any imposed settlement ineffective, according to Nakhleh. Beyond their insistence on fundamental demands, the majority of Palestinian leaders interviewed exhibited "a genuine attitude of political moderation and a sincere commitment to peace," Nakhleh writes. They accept the reality that a sovereign Palestinian state would not come into being immediately but would be preceded by some sort of transitional regime where sovereignty would most likely be shared, he says. "They also realize that, at least for the foreseeable future, Palestinian independence and sovereignty, when established, would be subject to constraints imposed by neighboring states, particularly Jordan and Israel. While they find it difficult to accept this eventuality, many of them have resigned themselves to it."

The other expression of moderation that emerged clearly during the interviews, according to Nakhleh, was the Palestinian acceptance of the reality of the state of Israel. He found willingness on the part of the Palestinians to negotiate with Israel on the future of the occupied territories. "Those interviewed indicated with genuine enthusiasm that once a workable political process is put into effect, the basic economic, social and legal problems can be solved," the author writes.

New ideas such as a "condominium" arrangement are the best approach to break through conventional thinkers about how to deal with the problem of the West Bank and Gaza, according to author Daniel J. Elazar. "Shared Israeli-Jordanian/Palestinian rule could be established over the Palestinian-administered territories as part of an overall settlement that recognizes the rights of both Jews and Arabs to a state in the area," writes Elazar, president of the Jerusalem Institute for Federal Studies in *The Camp David Framework for Peace*.

Past proposals for partitioning lands claimed by the Jews and Arabs all failed, according to Elazar, because they did not recognize the unique pattern of living in the area. "The Middle East essentially consists of oasis areas surrounded by deserts, and the struggle between the desert and the sown areas is one of its few constants," he states. "There is not a single boundary in the Middle East today that is as much as a hundred years old." Over the thousands of years that various ethnic groups have occupied these lands, Elazar continues, they have established a sort of quiltwork pattern of separate communities that defy establishment of sovereign states with defined borders in the Western tradition. Instead, he notes, stability in the areas has been possible only when it has been imposed by outsiders.

"The empires that have brought peace to the region, particularly the ancient Persian Empire and the more recent Ottoman Empire, were built on principles of local autonomy.

... Each of the peoples within the imperial system was granted or guaranteed some significant measures of cultural, religious, and even political self-determination or home rule within the imperial framework. None of the peoples in the region would wish for a return of imperialism, even in the name of peace. Nor would any of the states in the area wish to sacrifice their independence for peace. However, the record has once again demonstrated that a system of fully sovereign states as developed in modern Europe is not appropriate to the Middle East."

The solution, in Elazar's view, is to apply some of the methods of the imperial eras, but to adapt them to modern realities. Specifically, he recommends ethnic autonomy, or home rule, and the principle of extraterritoriality, which he describes as a situation whereby particular groups are protected by external powers with which they have an affinity. In fact, such an alternative to partition lies at the heart of the Camp David agreement and Israeli Prime Minister Menachem Begin's autonomy plan for the West Bank and Gaza, according to Elazar. "The first formal break in partitionist thinking came with Begin's announcement of his autonomy plan in December 1977. That plan, although purposely limited, for the first time formally suggested that the solution to the problem lies not in partition but in some combination of self-rule and shared rule. Rejected at first by the Arabs, it was accepted by the Americans as a possible basis for an interim arrangement. With some significant modifications, it became the basis for the interim arrangement agreed upon for a five-year period at Camp David."

Now, Elazar says, it is time to implement the peace plan by establishing a federal structure that recognizes both Israeli and Palestinian rights. "The history of federalism shows that it takes two to federate," he comments, but adds that the condominium approach offers the only solution. "In view of Israel's position against full evacuation of the territories and the Arabs' position against full relinquishment of any part of them, only one option remains, namely some kind of shared arrangement," according to Elazar. "All told, the Camp David agreement is a major step toward some combination of self-rule and shared rule, which is characteristic of all federal arrangements."

Elazar outlines the framework for such a condominium arrangement, in which the disputed territories as a whole would be placed under Israeli-Jordan administration while local administrative functions would be handled by the residents. He contends this approach would give the Palestinians the maximum home rule they could expect from any international agreement.

"On one hand, Israeli and Jordanian civil jurisdiction could be divided along municipal boundaries, with the inhabitants of each town and village choosing the state to exercise governmental powers over them. At the same time, the vacant state lands would, in the main, pass under Israel's control to give it added protection. Jordan, in return, could be given a formal presence and certain rights in Jerusalem, especially over the Moslem holy places.

"The plan has many advantages and, using a little imagination, would be workable," Elazar concludes. "Clearly it requires the cooperation of Jordan as well as the Palestinian Arabs."

The American Enterprise Institute invites your participation in the competition of ideas through its AEI Associates program. The Institute's publications and audio cassettes are available at a savings, and the program helps support research activity and dissemination of published materials to policy makers, the academic community, journalists, and thought leaders in society.

Please write for more information about the AEI Associates program.

Horizontal Integration In Transit Explored

A book discussing the pros and cons of a single transportation company owning several types of carriers was published in May by AEI. *Forming Multimodal Transportation Companies: Barriers, Benefits, and Problems* was edited by Clinton H. Whitehurst, Jr., of Clemson University, an AEI adjunct scholar. The volume is a compilation of papers presented in February 1978 at an AEI conference on elimination of barriers to the formation of multimodal transportation companies. John W. Barnum, former deputy secretary of transportation and AEI visiting fellow, has written the book's foreword.

The volume, which examines the case for removing legal barriers and/or using discretionary regulatory authority to allow the formation of multimodal transportation companies without restriction as to modes included, is divided into two parts.

The first part is composed of background papers by Paul O. Roberts, former director of the Center for Transportation Studies and presently professor of transportation at the Massachusetts Institute of Technology; Rodney E. Eyster, former general counsel at the Department of Transportation; and Harvey M. Romoff, assistant vice president for corporate development with Canadian Pacific.

These papers provide a general overview of the issue. They consider the economic conditions necessary for successful multimodal operations, a history of federal regulation of and policy on multimodal ownership, and a view of multimodal transportation companies in Canada—a nation in which barriers to multimodal ownership do not exist.

In Part II, representatives of carriers, shippers, the financial community, transportation, labor, freight forwarders, and relevant congressional committees and government agencies discuss the following topics:

- How would carriers react to the elimination of statutory and regulatory barriers to multimodal ownership?
- How would the formation of multimodal companies affect shippers?
- How would the formation of multimodal companies affect transportation labor?
- Would the formation of multimodal companies affect the carriers' ability to obtain financing?
- If the statutory prohibitions were eliminated, what (if any) regulatory controls on multimodal ownership would be desirable?

The book also includes an address by Transportation Secretary Brock Adams in which he assesses the possible impact of multimodal ownership on the increasing need to utilize U.S. energy resources efficiently.

An epilogue by Professor Whitehurst considers multimodal transportation in the context of the current transportation environment in the United States. The book also includes an annotated bibliography of publications on multimodal transportation companies.

Korb Charts Cuts In Defense Budget

President Carter's defense budget for fiscal year 1980 "will call for less, in both an absolute and relative sense," compared with the program laid down a year ago, according to a study of the FY 1980 Defense Department budget published in issue four of the new *AEI Foreign Policy and Defense Review*. The analysis was prepared by Lawrence J. Korb,

professor of management at the U.S. Naval War College and an adjunct scholar of the American Enterprise Institute.

The analysis is divided into thirteen parts and a concluding summary. The first part discusses the FY 1979 Supplemental Budget. The next three parts focus on the size, distribution, and total effect of the components of the FY 1980 budget. The remaining parts are a brief overview of the eight major issues raised by the FY 1980 budget. The eight issues are: the level of defense spending, policy assumptions, the strategic nuclear forces, the strategic balance, the carrier controversy, the naval balance, the emphasis on NATO strategy, and the proposed reform of the military retirement system.

President Carter has said that the FY 1980 defense budget, now under consideration by the Congress, includes a three percent increase in military spending. The increase would fulfill Carter's pledge to other members of the North Atlantic Treaty Organization to beef up U.S. military forces.

Korb's analysis, however, shows that "rhetoric aside, the FY 1980 budget (like the FY 1979 budget) is at best a level one." And he warns that "massive reductions made in this budget in the name of efficiency or for the purpose of slowing down the rapidly increasing size of the defense budget, or because defense did not receive its fair share of the overall cut in the federal budget, not only are inappropriate but also will compound the problem of maintaining a volunteer force and keeping a military balance with the Soviet Union."

Korb writes that "there is no doubt that we have a great many domestic problems that cry out for funds. But the answer to these difficulties should not be found in cutting the defense budget. That would only substitute one problem for another. We have no choice but to handle both."

Korb notes that "many people predict that the 1980s will be a difficult and dangerous decade for the United States and the world. Recent events in places such as Iran and Southeast Asia have shown that such predictions may come true. A strong military posture will be a necessary backdrop for conducting an effective foreign policy in the decade ahead, and this nation may have to employ military force to protect its interests. Providing for this effective military posture will not be inexpensive. Our principal adversary, the Soviet Union, shows no sign of slowing down its expanding military budget." He notes that "it is estimated that in 1978 the Soviets spent \$146 billion on defense, 45 percent more than the United States, and over the past decade they have outspent this nation by \$104 billion in weapons procurement."

"Whether one considers the strategic balance, the naval balance, or the balance in central Europe, the trends are moving against us," Korb continues. "While we may be more resourceful and efficient than our adversary, there are limits to the extent to which these characteristics can compensate for our lack of effort. If anything, we have consistently underestimated the capabilities of the Soviet Union."

The *AEI Foreign Policy and Defense Review* is published ten times annually by the American Enterprise Institute. Initially published in January 1979, the expanded version of the previous *AEI Defense Review* has examined options for U.S. policy toward Africa, American policy options in Iran and the Persian Gulf, and priorities in U.S. defense policy in addition to the annual Korb defense budget analysis. Future numbers will explore U.S. policy options in Northeast Asia and the credibility of the United States in world affairs. Subscriptions to the *Review* are \$18.00 for one year, \$25.00 for two (add \$4.00 per year for foreign subscriptions).

Conferees View Financing Of Social Security System

Government officials, congressmen, economists and academicians examine the social security system in *Financing Social Security*, the proceedings of a conference sponsored by AEI on October 27 and 28, 1977 and published in April. The volume, which is divided into five sections, is edited by AEI adjunct scholar Colin D. Campbell. Campbell is Loren M. Berry Professor of Economics at Dartmouth College and director of AEI's social security project.

In Part One, William C. Hsiao explains how the future cost of the system could be held at current levels by indexing the benefit formula to prices rather than to wages. Lawrence D. Thompson presents the arguments for wage indexing the benefit formula, the technique that was adopted in the 1977 amendments to the Social Security Act. John L. Palmer, Dean R. Leimer, Michael R. Darby and Robert J. Myers comment on the two papers.

In Part Two, Martin S. Feldstein and Anthony Pellechio contrast the different ways in which price indexing and wage indexing affect calculations of social security wealth. Robert S. Kaplan describes the effect of the alternative indexing methods on the rate of return received by social security retirees. Robert J. Barro, Barry R. Chiswick and Rudolph G. Penner provide the commentaries.

In Part Three, June O'Neill examines the causes of the expected rise in the cost of the social security system and evaluates alternative solutions. Edgar K. Browning analyzes the indexing alternatives and other social security reforms in the context of public choice theory. James M. Buchanan, J. W. Van Gorkom, Alan N. Freiden and Michael K. Taussig are the commentators.

Part Four includes papers by Alicia H. Munnell and Dennis E. Logue, who conclude that the recent expansion in social security will reduce the demand for private pensions. Comments on these papers are made by Edwin F. Boynton, Norman B. Ture and Thomas C. Edwards.

Part Five is a panel discussion on the future of the social security system with Social Security Administration Commissioner James B. Cardwell, Rep. Barber B. Conable (R-N.Y.), Rep. Al Ullman (D-Ore.), and University of Rochester Chancellor W. Allen Wallis. A full listing of the conference participants and their affiliations appears in the Fall 1977 issue of the *AEI Memorandum*.

Baldwin Views Agreement On Multilateral Trade

Details of a new trade agreement worked out by the industrialized nations of the world to correct inequities in past trade practices are discussed in *The Multilateral Trade Negotiations—Toward Greater Liberalization?*, a May AEI publication. The analysis was written by Robert E. Baldwin, professor of economics at the University of Wisconsin and trade consultant to various national and international organizations.

Tariffs have been consistently cut in the six previous rounds of Multilateral Trade Negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT) since the end of World War II, but trade practices have generally been left alone because the member countries considered them too complex to be improved through negotiation. "As a result, the average duty for dutiable manufactured goods declined to only about 10 percent in the United States, the European Community, and Japan by the conclusion of the Kennedy Round cuts," Baldwin notes. "This is in contrast to a U.S. tariff level for dutiable imports

of nearly 60 percent in 1931."

Although the latest negotiations (also known as the Toyko Round) envision further tariff reductions of about 33 percent, the main focus is on non-tariff measures. Items on the agenda include subsidies by governments to protect their own industries; "anti-dumping" laws to prevent foreign industries from selling products abroad below their cost at home; opening up government procurement to foreign competition; stimulation of more uniform licensing practices; the easing of product standards and other technical barriers to trade; providing more favorable treatment for developing countries; developing safeguards for adverse impacts on countries' balance of payments stemming from freer trade; and establishing grievance procedures to settle disputes among GATT member countries.

Baldwin considers these reforms essential to the liberalization of world trade despite governmental and industrial pressures for more government restrictions posing under such labels as "managed free trade," "fair trade" and "orderly growth." Some of these pressures are inevitable, according to Baldwin, "but an abundance of evidence indicates that greater government intervention in the trade field increases rather than reduces international economic disputes and, more important, decreases the long-run efficiency and growth of nations."

Baldwin contends that concessions had to be made to protectionist groups in order to secure congressional support for passage of legislation to implement the agreements initialed during the latest round. He considers this an unfortunate, but necessary, price to pay for the reforms. "As the various interest groups pressuring for special treatment know very well, in the short run it is important for international political relations that Congress approve the nontariff trade agreements and the changes necessary to implement them," he comments. "Not to do so would be highly damaging to the leadership role of the United States." Nor does the matter end there in Baldwin's view. "In the longer run, the possibility of restoring greater international order and consensus within a liberal framework of world trade seems very much worth the downside risk that the agreements may lead to a less dynamic, inward-looking international trade environment.

"But if the liberal-trade goal is to be implemented and the Multilateral Trade Negotiations are to go down in history as a forward rather than backward step in expanding world trade on a rational basis and in promoting international political stability, it is necessary that private groups and the government make every effort to see that the codes are enforced," Baldwin concludes. "It is necessary to ensure not only that industries receiving protection are really in need of it and are attempting to adjust to import competition but also that vigorous efforts are made both to eliminate foreign subsidies that injure U.S. firms and to reduce foreign discrimination in government purchasing policies."

DEFENSE (Continued from page four)

ship, I believe the United States will continue to rank first."

More money alone is not the answer to improving American defense, contends Canby. "The obstacle lies not in our lack of money but in our institutions," he writes. "Our political leadership hears what it wants to hear. Our military establishment has become too costly. It is an establishment that operates within itself, according to its own inner rules, and finds it difficult to recognize and adapt to the changing environments of conflict and to the new opportunities inherent in them." While Canby does not quarrel with President Carter's promise to increase defense spending by three percent annually in real terms, he argues that this money could be used more effectively to improve NATO alliance capabilities. He cites examples of how the British, West German, Swedish and Dutch forces are able to get more for their defense dollars.

MEMORANDUM

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Summer-Fall 1979—Number Twenty-Nine

Campaign Finance Laws Are Conference Theme

The American Enterprise Institute sponsored a conference on September 4 and 5 at the Washington Hilton Hotel on "Parties, Interest Groups and Campaign Finance Laws" as part of its political and social processes program. Representatives of both major party organizations and the Federal Election Commission joined national political journalists, academic specialists, and people active in labor, business, ideological and single-issue groups to discuss the impact of recent changes in the federal election laws on the relative power and the internal operations of political parties and organized interest groups. Michael J. Malbin, resident fellow at AEI, served as conference coordinator.

The first day of meetings focused on political action committees. William J. Baroody, Jr., president of the American Enterprise Institute, welcomed the participants with opening remarks. The morning session, entitled "PACs and the Federal Law: Some Insider Perspectives," heard from Walter Moore of the National Committee for an Effective Congress on "Problems of an Independent PAC" and from David Jessup of the AFL-CIO political action committee (COPE) on "Labor and the Law." Bernadette Budde of the Business-Industry Political Action Committee delivered a paper on "Corporations and the Law" and Paul Weyrich of the Committee for the Survival of a Free Congress spoke on "The 'New Right' and the Law." Discussants included Steven Thomas from the Council for a Livable World, Larry Pratt of Gun Owners of America, and William Oldaker, who is general counsel for the Federal Election Commission.

Robert O'Keefe, former campaign manager for Senator Henry Jackson's 1976 presidential campaign, was the featured luncheon speaker. He spoke on "The Campaign Finance Laws and Presidential Campaign Strategy."

The afternoon session, on "PACs and the Federal Law: Two Overviews," featured papers by Professor Edwin M. Epstein of the University of California at Berkeley and Michael J. Malbin. Epstein spoke on "Business and Labor Under the Law," while Malbin dealt with "The Extent and Significance of PAC Growth." Commenting on these papers were Fred Wertheimer of Common Cause, Richard Conlon of the Democratic Study Group, and Clark MacGregor of United Technologies Corporation.

The third session of the conference focused on "Parties and Campaign Finance Laws." Delivering papers were Xandra Kayden of the Hoover Institution at Stanford University on "The Nationalizing of the Party System" and Professor Ruth Jones of the University of Missouri at St. Louis on "State Public Financing and the State Parties." Discussants

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Experts Air Criticism Of Carter Energy Plans

Present administration energy proposals suffer from a number of shortcomings, including an overly ambitious synthetic fuels plan, reliance on mandatory measures and non-price incentives to encourage conservation, and inefficient policies to reduce oil imports, according to five energy experts whose views appear in *Seminar on Energy Policy: The Carter Proposals*, an October AEI publication. The work is the edited transcript of an AEI seminar held for the press following the President's July 16 announcement of a plan aimed at reducing U.S. oil imports by 4.5 million barrels a day by 1990. The speakers, all academicians, and their topics were:

Edward J. Mitchell, director of AEI's energy policy studies program and professor of business economics at the University of Michigan—oil import quotas;

Morris A. Adelman, professor of economics at Massachusetts Institute of Technology—the world oil market;

Richard L. Gordon, professor of mineral economics at the Pennsylvania State University—coal policy;

William W. Hogan, professor of political economy and director of the Energy and Environmental Policy Center at Harvard University—conservation;

Milton Russell, senior fellow at Resources for the Future, the Washington-based environmental group—synthetic fuels.

Russell says he advocates the development of synthetic fuels as a potential substitute for oil but opposes what he considers the President's crash program to build as many as 50 plants to convert coal and oil shale. "A crash program probably implies a higher long-run cost of synthetic-based energy than a more orderly program and, depending on oil exporter reactions, could lead to higher, not lower, intermediate term oil term costs, as well." In addition, he continues, a crash program would place strains on labor and capital markets and production capacities. The Resources for the Future scholar urges a more orderly federal program to investigate the most economical energy alternatives and to subsidize efficient synthetic fuels production without commitment to particular technologies.

Hogan says the elimination of price controls on oil and natural gas is a needed step toward achieving prices that reflect the true costs of these forms of energy and thereby encourage more public attention to conservation measures. The longer term conservation gains which rising prices can induce are often underestimated, he says. He expresses concerns about "the main thrust of the President's latest package, which is a supply-oriented synthetic fuels proposal, and the kinds of subsidies that are developed there. Rather than carrying the message to the consumer that imported oil is

Continued on page seven

AEI Volume Traces History of Diplomacy

The changing role of diplomacy in world affairs is traced in a September publication of the American Enterprise Institute for Public Policy Research entitled *Modern Diplomacy: The Art and the Artisans*, as part of the on-going work of AEI's Project on the Future Conduct of American Foreign Policy.

The volume is a collection of analyses by 33 leading figures, including former United Nations Secretary-General Dag Hammarskjöld, former President Harry Truman, former secretaries of state Henry Kissinger and Dean Rusk, and a number of professional diplomats and scholars. It was edited by Elmer Plischke, professor emeritus of government and politics at the University of Maryland and an adjunct scholar of AEI.

The authors examine how the practice of diplomacy has changed substantially since the days when kings exchanged envoys to represent them at other royal courts. In those days before the telegraph and telephone, ambassadors had considerable autonomy to act on behalf of their governments. There were also fewer independent countries, so the actual conduct of international relations involved a relatively small community of mostly European sovereign states. Plischke recalls that when the United States was formed, it established diplomatic relations with just eight other countries—England,

Modern Diplomacy: The Art and the Artisans, edited by Elmer Plischke. 456 pages, 3350-4, \$7.75.

France, the Netherlands, Portugal, Prussia, Russia, Spain and Sweden. That number grew slowly during the 19th century, reaching 45 by 1900, and stood at only 64 on the eve of World War II. Today the United States recognizes more than 150 countries.

With the wave of independence in the 1960s, Plischke notes that about 80 countries, more than half of all the countries in the world, have a smaller population than metropolitan Chicago. That trend is expected to continue for a few more years, he adds, as more small former colonies—which he calls “microstates”—are granted their independence. “Because the preponderant majority of the 50 potential states considered for self-government by the United Nations are also small in population, it is not inconceivable that the global community could soon have 130 members with a population under five million,” he writes. “More than three of every ten would be microstates, and about 50 submicrostates would have a population smaller than the enrollments at the University of California or the attendance at the Super Bowl.”

Diplomacy has changed in another way since the era of kings, according to the contributors to the study. Democratic countries make their foreign policy decisions in public, and this has further eroded the traditional role of the diplomat.

Former President Truman, in an excerpt from a speech delivered in Chicago in 1949, noted that such major foreign policy decisions as joining the United Nations and providing aid to Europe after World War II were publicly debated and ratified by the Congress. Such public participation is time consuming, said Truman, but produces lasting results. “It is only the totalitarian states, where all decisions are made by a few men at the top, that foreign policies can be reversed or radically altered in secrecy, or changed abruptly without warning,” Truman continued. “Between totalitarian states, disagreements can suddenly become open conflicts, and allies

can change into enemies overnight. The democratic nations, by contrast, because they rely on the collective judgment of their people, are dependable and stable in their foreign relations.”

The volume consists of seven sections: the nature and development of diplomacy, changing diplomatic practice, democratic and open diplomacy, some dimensions of diplomacy, envoys ordinary and extraordinary, professionals and amateurs, and functions of diplomats.

SALT Documents, Issues Contained in Handbook

The history of the Strategic Arms Limitation Talks and the evolution of major issues in strategic nuclear arms policy since the signing of the first SALT agreements in May 1972 are traced in *SALT Handbook: Key Documents and Issues, 1972-1979*, published in September by the American Enterprise Institute for Public Policy Research.

Robert J. Pranger, director of foreign and defense policy studies at AEI, writes in the foreword, “This volume is designed to provide the interested public with easy access to the agreements and major policy declarations associated with the Strategic Arms Limitation Talks—in short, a history of the negotiations and an exposition of objectives as stated by those government officials most intimately involved in SALT.”

The 736-page volume, edited by Roger P. Labrie, includes the texts of treaties and agreements, as well as the statements and congressional testimony of Presidents Ford and Carter; General Secretary Brezhnev; Secretaries of State Rogers, Kissinger, and Vance; Soviet Foreign Minister Gromyko; and others. Also included are background essays, an appendix covering the current SALT II debate, annotated bibliographies, a glossary and an index.

Roger P. Labrie is a research associate specializing in defense policy at the American Enterprise Institute. He is co-editor with Pranger of *Nuclear Strategy and National Security: Points of View*, also published by AEI.

SALT Handbook: Key Documents and Issues, 1972-1979, edited by Roger P. Labrie. 736 pages, 3316-4, \$10.75.

Competition of ideas is fundamental to a free society. A free society, if it is to remain free, cannot permit itself to be dominated by one strain of thought. Public policy derives from the ideas, speculation, and theories of thoughtful men and women. Policy makers themselves rarely originate the concepts underlying the laws by which we are governed. They choose among practical options to formulate legislation, governmental directives, regulations, and programs. If there is no testing of ideas by competition, public policy decisions may undermine rather than bolster the foundations of a free society.

The American Enterprise Institute for Public Policy Research fosters innovative research, identifies and presents varying points of view on issues, formulates practical options, and analyzes objectively public policy proposals.

Assuring effective competition in the arena of idea formation is the principal objective of AEI.

Government Bail Out Of Industry Debated

"U.S. Industry in Trouble: What Is the Government's Responsibility?" was the topic of discussion at a televised Public Policy Forum presented by AEI on September 12 in Washington. Former Secretary of Transportation Brock Adams, Senator William Proxmire (D-WI), Representative James Blanchard (D-MI) and AEI resident scholar Murray Weidenbaum participated in the discussion. Peter Hackes of NBC News served as moderator.

William Proxmire



Proxmire, who is chairman of the Senate Banking Committee, argued that the federal government should not come to the aid of financially distressed companies such as the Chrysler Corporation. "Last year, there were some 6,000 firms that went bankrupt. The year before, 7,000 firms went bankrupt. Nobody bailed them out. Why? Because they weren't able to hire the top lobbyists in Washington. They didn't have a powerful labor union working for them. They didn't have a number of banks come in and make a pitch for them. They didn't put the squeeze on Congress that gets things done." As regards bankruptcy, he contended: "We have a vision that if we don't help Chrysler, they're going to go out through the floor. All those jobs are going to disappear, and that's the end of the game. That isn't true. . . . You keep all your profitable operations going . . . highly costly operations would not; also, inefficient management would have to step aside."



James Blanchard

Blanchard, a member of the House Banking, Finance and Urban Affairs Committee, argued that while the government has no necessary responsibility to any corporation, "we have a responsibility to the people affected. . . . We are talking about tens of thousands of people. . . . I think people will forget that almost every industry is subsidized today, and helped, and rescued in many ways, shapes and forms."

Brock Adams



Adams, who is also a former House Budget Committee chairman, addressed the issue in terms of the international business environment. "Our industries, many of them, do not have the capital to modernize their plants to be competitive. I don't think we ought to bail [them] out. [But] I do think there is a point where the national interest becomes involved. You have to push up ideas." One such idea suggested by Adams was economic inducement for companies to follow courses of action deemed to be in the national interest. He used the example of offering automakers \$500 a car for every car (up to one million units) that meets fuel economy standards, with the provision that that money must be used to retool plants for the standards of future years.



Murray Weidenbaum

Weidenbaum, who is Edward Mallinckrodt Distinguished Professor at Washington University in St. Louis and director of the Center for the Study of American Business there, argued that American industry is becoming less competitive because of regulation. "It is incomplete to talk about what government should do for Chrysler. We need to recognize how much government is doing adversely to Chrysler." He went on to say that "the automotive industry has become in the past decade the most heavily regulated industry in America."

* * *

The published transcript of "U.S. Industry in Trouble: What Is the Government's Responsibility?" is available from AEI at a cost of \$3.00. Audio and video cassettes of the program can be obtained from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

Annual AEI Volume Views

Current Economic Problems

Productivity, inflation and the special problems of agriculture, the Natural Gas Policy Act, immigrants, and leading indicators are analyzed in *Contemporary Economic Problems 1979*, the annual publication of a continuing project of the American Enterprise Institute for Public Policy Research.

Part One of the volume is devoted to the recent U.S. productivity slowdown. The average annual rate of increase in output per hour has fallen from about three percent in 1948-1973 to about one percent in 1973-1978. This pronounced reduction of productivity growth in the United States is now recognized by all policy makers, and to understand why this reduction has occurred is crucial.

In his introductory note, project director and AEI resident scholar William Fellner suggests that roughly half of the weakening in American productivity growth is attributable to recent changes in the social-political environment. These changes include inflationary policies, tax disincentives, inefficiencies caused by controls and regulations, and hiring and job-organization practices that place too little emphasis on competence and work effort.

In his contribution to this section, AEI senior fellow Herbert Stein explains how, in view of changes in the employment ratio and in the relative weight of defense spending, the rise in per capita living standards could steepen during the recent decade in spite of the worsening growth rate of productivity.

George Washington University economics professor John W. Kendrick presents and analyzes in detail the long-run historical record of productivity trends along with projections to 1990. He emphasizes two policy options by which the productivity growth rate could be raised to close to that of the period preceding 1966.

Edward F. Denison, associate director for national economic accounts for the Bureau of Economic Analysis, suggests that 1973-74 is the watershed for the emergence of a

Contemporary Economic Problems 1979, William Fellner, Project Director. 436 pages, 1334-1, \$6.75.

major "unexplained" element in the productivity slowdown. He presents a partial explanation of the slowdown in terms of his analytical framework.

University of Pittsburgh economics professor Mark Perlman discusses the development of four stages of productivity analysis. He stresses the need to take account of changes in social-political objectives in the United States and abroad, and also of the need to examine the productivity slowdown from the standpoint of traditional managerial responsibility for production efficiency.

Part Two contains five studies bearing directly on the present inflationary environment.

Columbia University economics professor Phillip Cagan discusses the recent confusion over interpreting the traditional monetary aggregates due to innovations in the payments system—NOW accounts, automatic transfers of savings deposits, repurchase agreements, and expected growth of an electronic transfer system. Then, in light of these recent financial developments, he reviews needed regulatory reforms that will keep the erosion of monetary controls to a minimum.

In his study of American household wealth, Fellner analyzes changes in the composition of assets held by households

between the inflationary period 1965-1978 and the non-inflationary period 1952-1965. This study shows the overall wealth-income ratio declining from its 1965 level of about 4.8 to 4.2 in 1978; it shows a decline of the ratio of net financial household assets to tangible assets (homes and durable consumer goods) from 0.8 to 0.4.

In his historical review of budget balancing policies, Stein presents a specific alternative to a policy of annually balancing the budget. Even with respect to the alternative he develops, he emphasizes that the problem of deciding when surpluses or deficits are appropriate would probably remain.

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Intellectuals Probe Link Of Capitalism, Democracy

Capitalism, Socialism and Democracy is the first of a new series of Papers on Philosophy, Religion and Public Policy being published by the American Enterprise Institute and edited by AEI resident scholar Michael Novak. The initial work in the series, which was published by the Institute in August, is a symposium reprinted from the April 1978 issue of *Commentary* magazine.

Early in 1978, the editors of *Commentary* addressed the following statement to a group of intellectuals of varying political views:

"The idea that there may be an inescapable connection between capitalism and democracy has recently begun to seem plausible to a number of intellectuals who would once have regarded such a view not only as wrong but even as politically

Capitalism, Socialism and Democracy, edited by Michael Novak. 43 pages, 80162-5, \$1.50.

dangerous. So, too, with the idea that there may be something intrinsic to socialism which exposes it ineluctably to the 'totalitarian temptation.' Thus far, the growing influence of these ideas has been especially marked in Europe—for example, among the so-called 'new philosophers' in France and in the work of Paul Johnson and others in England—but they seem to be receiving more and more sympathetic attention in the United States as well. How significant do you judge this development to be? Do you yourself share in it, either fully or even to the extent of feeling impelled to rethink your own ideas about capitalism and socialism and the relation of each to democracy?"

The responses, 26 in all, present the views of the following collection of thinkers:

Kenneth J. Arrow
William Barrett
Peter L. Berger
William F. Buckley, Jr.
Theodore Draper
Charles Frankel
Milton Friedman
Eugene D. Genovese
Carl Gershman
Nathan Glazer
Robert L. Heilbroner
Sidney Hook
Penn Kemble

Irving Kristol
Robert Lekachman
Charles E. Lindblom
Seymour Martin Lipset
Eugen Loeb
Robert Nisbet
Michael Novak
William Pfaff
Richard Pipes
David Riesman
Bayard Rustin
Arthur Schlesinger, Jr.
Michael Walzer



Pauly, Conable, Daly, Berenson and Fine discuss national health insurance.

Conferees Air Prospects for National Health Insurance

"National Health Insurance: What Now, What Later, What Never?" was the topic of a two-day conference sponsored by the Center for Health Policy Research of the American Enterprise Institute and held on October 4 and 5 at the Washington Hilton Hotel. Participants explored current issues in the debate over national health insurance, including the budgetary implications of current proposals before the Congress, future provisions of health insurance for the poor, and an analysis of present and proposed catastrophic health insurance programs. Additional sessions focused on the causes of health cost increases and alternative strategies to bring them under control.

A Public Policy Forum entitled "National Health Insurance: Now, Later, Never?" highlighted the conference. Participating in the televised panel discussion were White House policy staff member Robert A. Berenson, U.S. Representative Barber B. Conable Jr., Committee for National Health Insurance executive director Max Fine, and Northwestern University economics professor Mark V. Pauly. Former ABC News executive John Charles Daly moderated the forum.

Professor Pauly, who served as coordinator of the conference, is affiliated with the Center for Health Services and Policy Research at Northwestern University and published an analysis of national health insurance for AEI in 1971. He outlined major changes in the health policy debate since then and explained why the United States does not yet have a comprehensive health plan. "Let me offer two guesses in terms of what's prevented the enactment of national health insurance. One clearly is the federal budgetary situation—the high rate of inflation—which has made it very difficult to persuade congressmen to impose additional taxes on their constituencies. . . . The other one has been the actions of lobbyists for comprehensive national health insurance who, in a kind of all or nothing posture, have defeated actions or at least prevented actions which would have provided catastrophic coverage and reform of Medicaid. . . . The things that are needed to solve [poor people's] problems, which are the main problems in this country, are cheap and easy to do.

Berenson, who serves as assistant director of the White House domestic policy staff, pointed out that President Car-

ter's cost containment bill is intended to lay the framework for a future comprehensive national health insurance plan. "We have to have a mechanism in place to protect against the possible inflation that would take place with expanded benefits [under a national plan]. . . . Savings that we would be able to generate from hospital cost containment would, to a substantial extent, help pay for new benefits under national health insurance. . . . The administration considers cost containment and the expansion of benefits in a national health plan to go hand in hand. We can't really move on national health insurance until we pass cost containment. . . . [Yet] our proposal is not just for hospital cost containment—in a very real sense, we try to create some competition in the health market and try to make it, in the long run, less necessary to have controls. But we had to put in hospital cost containment now because essentially the long-term changes that are perhaps possible in the health system are not going to produce the savings right now, when we need them."

Congressman Conable (R-NY), ranking minority member on the House Ways and Means Committee, disagreed that it is possible to control health costs while expanding insurance benefits. "One of the problems with comprehensive national health insurance is that it tends to increase utilization and ultimately to drive costs up. You can finance it in different ways and stabilize the cost to the individual patient by loading more on the tax side, but one way or another, you're going to pay more for it if you increase the demand and the utilization and don't improve the delivery system. . . . Most cost control devices for hospitals usually wind up controlling only those costs that involve technological progress. I'm afraid that would be the effect of the administration's hospital cost containment program at this point. . . . A plural system of medical delivery is desirable. I think there's a good deal of value in competition."

Max Fine, executive director of the Committee for National Health Insurance, elaborated upon the role of the federal government in health care and defended the need for comprehensive, universal national health insurance. "We're trying to deal concurrently with costs, with lack of

Continued on page eight

Pertschuk Outlines Role Of FTC at AEI Talk

A Conversation with Michael Pertschuk, the edited transcript of a meeting with the chairman of the Federal Trade Commission held at the American Enterprise Institute, was published in November by AEI.

In the discussion, Pertschuk emphasizes his agency's role in increasing the competitiveness of the American economy and in protecting the consumer. He also discusses priorities the commission has set and its attitudes toward proposed legislation.

A Conversation With Michael Pertschuk. 26 pages, 3358-X, \$1.75.

The exchange of views, involving AEI scholars and fellows, covers such issues as:

- the relationship between concentration and economic performance;
- the recent wave of conglomerate mergers;
- federal versus state regulation;
- FTC interventions before other federal regulatory agencies.

Key to Efficient Economy Seen in Nature of Markets

A better understanding of the development of spot markets, futures markets, and options markets is necessary for more efficient economic policy, writes Joseph M. Burns in *A Treatise on Markets: Spot, Futures, and Options*, an August AEI publication.

"The development of markets is perhaps the most important aspect of the development of our free-enterprise economy . . . , yet economic analysts have devoted little attention to this subject," writes Burns, a newly appointed member of the senior staff of the antitrust division of the U.S. Department of Justice. The book was completed during the author's service at the Commodity Futures Trading Commission.

Burns examines both the nature of various markets and the effects of market development on the economy. He also analyzes the rationale for regulating these markets and the effects of governmental policies on market efficiency. "Government policy that is clear and predictable is conducive to orderly market conditions; policy that is ambiguous usually impairs market conditions, and thereby market efficiency," writes Burns. Historically, governments have often sought to stabilize prices in some spot markets, Burns says. But the long-run effect of these efforts usually is to increase price

A Treatise on Markets: Spot, Futures, and Options, by Joseph M. Burns. 145 pages, 3340-7, \$4.75.

stability and uncertainty. Governmental efforts to stabilize spot prices also impair the efficiency of futures markets, he writes.

"It is indeed somewhat paradoxical that the government,

which wishes in many cases to improve the flow of information to the private sector, frequently adds to uncertainty in the private sector by being silent about its own actions—for example, whether or not it is intervening in markets and, if so, when and on what scale," Burns says.

Inflationary conditions, which tend to result from government excesses in fiscal and monetary policy, impair the efficiency of markets for spot transactions, but they particularly affect those for future transactions, according to Burns. "These long-run costs of inflationary governmental policies, together with the slow but steady erosion of property rights, have not received sufficient attention by policy makers," Burns writes. "This is partly because the political process has a short-run orientation. It also reflects a lack of understanding of the role of free markets and of speculators' contributions to that role."

Burns notes that futures and options markets improve information about the effects of governmental policy on demand-supply conditions, thus making it more difficult for government to obtain short-run benefits from macroeconomic policies at the risk of long-run damage to the economy. "For example," writes Burns, "if the federal budget deficit or money supply is increased sharply with a view to accelerating an ongoing economic expansion in the short run, the futures contracts for debt securities are likely to register rather promptly an increase in interest rates. Such increases tend to spill over quickly to the spot markets for securities. The real economy will therefore expand less than it otherwise would have, while the general price level will tend to respond more promptly. This development places another burden on the short-run orientation of policy officials."

A Treatise on Markets examines the interrelationships among the spot, futures, and options markets and points up many similarities among these markets. The study shows that the development and increasing specialization of markets in an advanced, free enterprise economy provides immense benefits to the economy.

CAMPAIGN FINANCE (Continued from page one)

Interest Groups, Parties, and Campaign Finance Laws. Edited by Michael J. Malbin. 2167-0 cloth \$11.75, 2168-9 paper \$5.75.

included David Broder of the *Washington Post*; Morley Winograd, president of the Association of Democratic Party State Chairpersons; Steven Stockmeyer, executive director of the Republican Congressional Campaign Committee; and Professor David Adamany of California State University at Long Beach, author of *Campaign Finance in America*.

The featured luncheon speaker was Congressman Richard Cheney (R-Wyo.), former White House chief of staff in 1975-1976, talking on "The Campaign Finance Laws and Campaign Strategy in a Presidential and Congressional Election."

The final session of meetings dealt with "Campaign Finance Regulation in International Perspective." Herbert Alexander of Citizen's Research Foundation and the University of Southern California presented a paper entitled "Political Finance Regulation in International Perspective." Khayyam Paltiel of Carleton University at Ottawa, Canada, spoke on "Public Financing Abroad: Contrasts and Effects." Commenting on these papers was George E. Agree, director of a Freedom House study on Transnational Interactions of Political Parties and co-author with David Adamany of *Political Money*.

The American Enterprise Institute will publish the full proceedings of the campaign finance regulation conference in December.

Yugoslav Social Security Called Unique System

Social Security in Yugoslavia describes the unique organization of the social security system in Yugoslavia, the first socialist state to decentralize its economy and abolish administrative planning. Written by Svetozar Pejovich, the book was published in November by the American Enterprise Institute. Svetozar Pejovich is dean of the Graduate School of Management at the University of Dallas, Irving, Texas, and visiting professor of economics at Texas A&M University.

In the Yugoslav system, social security taxes are collected and benefits are paid under regional administration rather than by the national government, as in most countries. Social security tax rates and benefit payments vary among

Social Security in Yugoslavia, by Svetozar Pejovich. 46 pages, 3348-2, \$3.25.

the republics, and an individual's retirement benefits depend on the earnings of the enterprise in which he is employed. The author concludes that an advantage of the Yugoslav system may be its more effective control over costs and benefits than in other countries, since the decision-making powers have been kept in the hands of reasonably small groups of persons who both receive and pay for the benefits.

ENERGY (Continued from page one)

expensive, at least more expensive than is indicated by the price of oil, in the view of the President, we are constructing an ever more elaborate array of subsidies, on the supply side, to compensate for the imported oil, without carrying higher prices to the consumer."

Gordon expresses the view that "the real thrust of public policy on the coal industry has been to impose ever-increasing restrictions on the production and use of coal." He characterizes the current proposals as "complicated new programs that purport to offset the existing barriers to coal production." Unless environmental and other regulatory pres-

Seminar On Energy Policy: The Carter Proposals, edited by Edward J. Mitchell. 29 pages, 3355-5, \$2.75.

ures on coal are loosened, he says, "we are heading for near paralysis of action in the energy realm."

Speaking on the issues associated with international oil policies, Adelman and Mitchell say that world oil prices should be expected to rise regardless of the President's proposals. The OPEC countries have great latitude to adjust prices and output, and "lower oil imports, which seem to be the centerpiece of this administration's policy, will not get us lower prices," according to Adelman. Nor will lower imports directly increase reliability of supplies or national security, he adds.

Mitchell comments that a windfall profits tax will reduce domestic supply incentives, and "the whole burden of adjusting to the quota and the limited imports will be borne by higher prices inducing consumption." If domestic decontrol of crude oil prices does not occur, the quota will induce shortages, he adds. An import tariff would not have this shortage-inducing effect, he says, and is less costly than a quota as a means of reducing imports.

Insurance System Blamed For Rising Health Costs

Neither the proposed hospital cost containment plan nor the National Health Plan would end sharply rising health costs, according to a special analysis published in July by the American Enterprise Institute for Public Policy Research. *Health Care Cost Increases* was written by Jack A. Meyer, acting director of special projects at AEI and former assistant director of the Council on Wage and Price Stability.

Meyer concludes that the two proposals "do not seem to address the fundamental forces contributing to the upward spiral of those costs. Both proposals would plunge the government deep into the health care field without promising any lasting progress in the struggle against rising costs."

Referring to the cost containment proposal, he says, "If there is a single thread running through the recent literature on health care cost increases, it is that these increases are fueled by the system of financial incentives surrounding the utilization of health facilities, the purchase of insurance, and the reimbursement of providers. Yet various hospital cost containment proposals, while differing in minor respects, all share the defect of ignoring the need for altering this system of signals and incentives." Meyer therefore concludes, "By glossing over the underlying forces driving spending, this bill would bypass the chance for meaningful reforms that promise a less expensive way of providing the same services."

He further argues that the National Health Plan, "like the proposed cost containment legislation, seems to try to control the effects of inflation (through pressure on providers) without addressing the causes. Restraint on supply, either through capital controls or efforts to hold down the

Health Care Cost Increases, by Jack A. Meyer. 43 pages, 1083-0, \$3.00.

number of physicians, together with a continuation of the forces stimulating demand, would intensify the upward pressure on costs and charges."

After reviewing recent research into the causes of cost increases, Meyer concludes that the nature of our health insurance system is the real reason for rising costs. "Developments such as increased resource intensity, waste and inefficiency, increased utilization, and high-cost technological innovation are more appropriately viewed as manifestations of the health care cost problem than as primary causes. The major factor perpetuating these elements of rising costs is the growth (and current nature) of insurance." This insurance system, he argues, emerges from the interaction of open-ended federal tax subsidies for the purchase of insurance with the increasing incidence of employer-provided group insurance offering workers little choice in plans and little savings from selecting a low-cost plan.

In his review of the literature, he notes that those authors favoring market-oriented solutions to the problem of rising health costs, as opposed to government regulation, would rely on five steps: (1) greater cost-sharing to create an incentive to economize on the purchase of health care; (2) modification of open-ended tax subsidies; (3) severance of the link between jobs and insurance and creation of incentives for consumers to shop around among a variety of insurance plans; (4) substitution of private sector for government involvement in the decisions of providers regarding the amount and quality of services produced; and (5) greater antitrust enforcement.

Ernesto Mulato Discusses Angolan Political Struggle

A Conversation with Ernesto Mulato, the edited transcript of a meeting held in March 1979 at the American Enterprise Institute for Public Policy Research with a leading member of the political bureau of Angola's l'UNITA party, was published in July by AEI.

Mulato describes and evaluates the current state of the political and military struggle in Angola and its implications for conflict elsewhere in Africa. It is important, he emphasizes, for Americans to understand that the struggle in Angola continues, despite the presence of thousands of Cuban troops.

The discussion, involving AEI scholars and fellows and

A Conversation With Ernesto Mulato: The Political and Military Struggle In Angola. 23 pages, 3341-5, \$1.75.

invited guests from the media, government, and Washington-area universities, covers such issues as:

- the role of Cuban and Eastern European forces in Angola's continuing military struggle;
- the social bases of l'UNITA's efforts;
- the importance of events in Angola to the politics of Zaire and Southern Africa.

HEALTH INSURANCE (Continued from page five)

universal coverage, and with lack of adequate coverage for a lot of people, and we believe that competition belongs with all of these elements. . . . I believe that health care is a vital service, and people need it for themselves and their families. They really can't decide not to have it, and therefore we need to have regulations. . . . We need to have regulations dealing with the financing of the care, because the financing mechanisms have been unable to control costs or to provide universal coverage. I believe that the regulations ought to set standards so that everybody can get the health insurance they need. And then, having set those regulations, we ought to let the system respond, let the private sector basically police itself within those standards. . . . I'm aware of the nationwide concern about too much government, but I think that health has a unique place in the American society."

AEI president William J. Baroody, Jr. opened the conference on Thursday morning, October 4, with welcoming remarks. Professor Pauly chaired the initial session of the meetings, entitled "Initiating a NHI Program: Political and Economic Concerns." Papers were delivered by Jack A. Meyer and Rudolph G. Penner of the American Enterprise Institute on "Impact of NHI Proposals on the Budget" and by Professors Edgar Browning and William Johnson of the University of Virginia on "Excess Burden and Public Financing of National Health Insurance." Charles Phelps of the RAND Corporation spoke on "National Health Insurance and Mandated Employee Benefits." Discussing the three papers were Glenn R. Markus of the Congressional Research Service, Professor Robert Inman of the University of Pennsylvania, and Professor W. Kip Viscusi of Northwestern University.

The Thursday afternoon session was on "Solving the Problem of Underinsurance" and was chaired by Professor Philip J. Held of Northwestern University. Papers were given by Professor Bernard Friedman of Northwestern University on "Rationales for Government Initiative in Catastrophic Health Insurance" and by Thomas Grannemann of Mathe-

matica Inc. on "Reforming National Health Program for the Poor." Professors Gilbert R. Ghez of Roosevelt University and Michael Grossman of City University of New York and the National Bureau of Economic Research delivered a paper on "Preventive Care, Care for Children, and National Health Insurance." Commenting on these papers were Paul B. Ginsburg of the Congressional Budget Office, assistant secretary for public health Karen Davis and Dr. Edward F. X. Hughes of Northwestern University.

Director of AEI Health Policy Studies Robert B. Helms chaired the third session of meetings, which focused on "Solving the Problem of Overinsurance." Featured were papers by Professor Pauly on "Overinsurance: The Conceptual Issues" and by Ronald Vogel of HEW on "The Tax Treatment of Health Insurance Premiums As a Cause of Overinsurance." Professor H. E. Frech III of the University of California at Santa Barbara also presented a paper on "Blue Cross, Blue Shield and Health Care Costs: A Review of the Economic Evidence." Discussants included Dr. Jeffrey E. Harris of the Massachusetts Institute of Technology, Professor Robert Glen Beck of the University of Saskatchewan, and Louise B. Russell of the Brookings Institution.

The featured luncheon speaker for the meetings was Professor Aaron Wildavsky of the Survey Research Center at the University of California at Berkeley.

The fourth session of the conference dealt with "Cost Containment: Long and Short-Run Strategies." James C. Miller III, co-director of AEI's Center for the Study of Government Regulation, chaired this final session. Delivering papers were Professor Harold Luft of the University of California at San Francisco on "HMOs, Competition, Cost

National Health Insurance: Now, Later, Never? 32 pages, 2170-0, \$3.00.

Containment, and National Health Insurance," Professor Larry Seidman of Swarthmore College on "Income Related Consumer Cost Sharing: A Strategy for the Health Sector," and Professor Clark C. Havighurst of Duke University Law School on "Prospects for Competition Under Health Planning-cum-Regulation." Discussing these papers were Linda Burns of the American Hospital Association, Joseph Newhouse of the RAND Corporation, and John B. Reiss of HEW.

The American Enterprise Institute will publish the full proceedings of the national health insurance conference at a later date. The published transcript of the Public Policy Forum "National Health Insurance: Now, Later, Never?" is available from the Institute. Audio and video cassettes of this forum may be obtained from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

The American Enterprise Institute for Public Policy Research, established in 1943, is a publicly supported, non-partisan research and educational organization. Its purpose is to assist policy makers, scholars, businessmen, the press and the public by providing objective analysis of national and international issues. Views expressed in the institute's publications are those of the authors and do not necessarily reflect the views of the staff, officers or trustees of AEI. The institute is a tax exempt, educational organization under section 501 (c) (3) of the Internal Revenue Code and is classified as a publicly supported organization under the Tax Reform Act of 1969.

Progressivity Is Seen In U.S. Tax System

New data show that the U.S. tax system is far more progressive than is commonly believed, according to a study published in October by the American Enterprise Institute.

The wealthiest 15 percent of households pays approximately half of all taxes, while the top 10 percent alone contributes more than 40 percent of total tax receipts. In contrast, the poorer half of the population pays less than 15 percent of all taxes. These conclusions are presented in *The Distribution of the Tax Burden*, written by Edgar K. Browning and William R. Johnson. Browning is professor of economics at the University of Virginia and an AEI adjunct scholar; Johnson is associate professor of economics at the University of Virginia.

The overall tax system is highly progressive, with the wealthiest households taxed at rates three times as high as the rates which apply to the poorest households, according to Browning and Johnson. Their research shows that tax rates rise from 11.7 percent for the poorest 10 percent of households to 38.3 percent for the wealthiest 10 percent.

The authors' research is based on figures from 1976, when taxes paid by all households totaled \$459 billion or

The Distribution of the Tax Burden, by Edgar K. Browning and William R. Johnson. 84 pages, 3349-0, \$3.25.

about 29 percent of before-tax income. To determine how this tax burden was distributed, the authors divided the total households into 10 groups based on income. For each group they computed the average tax rate for each of the four basic categories of taxes in the U.S. system: sales and excise taxes, payroll taxes, income taxes, and property and corporation taxes.

The authors find that all major tax groups place a higher tax rate on the wealthy than on the poor. "Tax rates for the entire tax system rise sharply from the first to the fifth decile of households, then increase somewhat less steeply from the fifth to the ninth decile, and again rise sharply for the top tenth of the population," the authors write. "The upper one percent of households face a combined tax rate of nearly 50 percent."

The major reason tax rates are so low for poorer households is that a large fraction of their income is comprised of nontaxed government transfers. Over three-quarters of these transfers are indexed to prices and are, therefore, increased whenever prices are raised by sales taxes. Transfers account for 60 percent of total income for the poorest 10 percent of households, compared with four percent of the income of the wealthiest 10 percent.

The authors explain that their estimates show the tax system to be more progressive because of a change in the theoretical analysis of the burden of indirect business taxes. They believe that earlier studies have relied on a "questionable theoretical analysis that has led to a substantial underestimation of the degree of progressivity of the tax system."

The Browning and Johnson study shows that 80 percent of all households pay less than the overall average tax rate of 29.1 percent. "On a per household basis," they say, "the average family in the bottom 80 percent pays about \$750 less in taxes while the average family in the top tenth pays about \$6,000 more than it would with a proportional tax system."

The study also includes estimates of marginal tax rates—tax rates that apply to a change in income. As the authors explain, if a household pays \$40 in additional taxes when its earnings increase by \$100, its marginal tax rate is 40 percent. The level of marginal tax rates is important because of its effect on production incentives, the authors write.

Browning and Johnson find that marginal tax rates are substantially higher than average tax rates, with the bottom income class paying the highest marginal tax rate of all—62 percent. This rate is so high largely because transfer payments fall as earnings increase, the study says. Over the entire range of incomes, the average marginal tax rate is 45.5 percent, with about half of all households facing rates close to or exceeding 50 percent, the authors find.

The Distribution of the Tax Burden includes extensive tables that give a detailed picture of the way in which the tax burden is distributed.

ECONOMICS (Continued from page four)

Marvin Kusters, director of AEI's Center for the Study of Government Regulation, presents evidence supporting the view that major unions, through their collective bargaining, attempt to maintain wage differentials higher than wages in other, less organized, sectors. The alternative view that major union wage settlements establish a pattern to which wages in the rest of the economy tend to conform is not supported by this study.

AEI resident scholar Gottfried Haberler discusses four reasons for the recent economic malaise—persistent inflation, low productivity growth, inadequate rate of private investment, and troubles in the international monetary system. He emphasizes that presently there is no crisis of capitalism or of the market economy, but rather of government policies.

The volume ends with studies on the four special problems that are dealt with in Part Three.

University of Chicago economics professor and provost D. Gale Johnson describes recent developments in the world trade of agricultural products. He concludes that removal of the large number of trade restraints on agricultural products would result in an increase of the United States' present net export surplus. He also discusses the factors that have resulted in America's comparative advantage in agriculture. Foremost among these factors is that agriculture has become part of the high technology sector, even though conventionally not included in it.

Walter J. Mead, professor of economics at the University of California, Santa Barbara, analyzes complex pricing provisions of the Natural Gas Policy Act of 1978 that have created about thirty-three tiers of wellhead prices. The author concludes that the act will lead to more consumption of natural gas than under free market conditions. Also, he estimates the costs to taxpayers and consumers of administering the act to be approximately \$4 billion per year.

Barry R. Chiswick, research professor in the department of economics and Survey Research Laboratory at the University of Illinois at Chicago Circle, identifies (1) the transferability of skills and (2) self-selection on the basis of innate ability and motivation as two key determinants of the economic progress of immigrants. He demonstrates that a single, simple model can explain the immigrants' progress regardless of ethnic background. A productivity criterion for rationing immigrant visas is also examined.

Geoffrey H. Moore, director of the Center for International Business Cycle Research on the Newark campus of Rutgers University, assesses the performance of the leading business-cycle indicators and describes changes that have occurred in construction of the indicator system since 1950. Whereas these changes promise to enhance the system's usefulness, the author concludes that the 1950 version lived up to its promise.

Experts Assess Trends in Japanese Elections

The question of whether the Liberal Democratic Party, which has governed Japan without interruption since its formation in 1955, can continue its position of undisputed dominance is the subject of a new study published in October by the American Enterprise Institute. *A Season of Voting: The Japanese Elections of 1976 and 1977* is the latest in a series of AEI studies of elections in democratic societies. The volume is edited by Herbert Passin, a staff member of the East Asian Institute and professor of sociology at Columbia University.

The study analyzes Japan's last two elections, the 1976 House of Representatives election and the 1977 House of Councillors election, which were separated by only seven months' time. Both elections were dominated by two great national issues: the Lockheed scandal and the fate of the conservatives, who had held a majority in the lower house since 1955 but had recently been losing support. Although the scandal finally led to the downfall of the cabinet and the indictment of the prime minister, the election left the conservatives still in office—by a bare margin.

"Since the end of World War II, the Japanese political scene has been remarkably stable," Passin notes. "Except for the one-year socialist-conservative coalition in 1947-1948, Japan has been governed by conservatives." This dominance, according to Passin, "made possible a steady and predictable relation among the key elements of power—the Diet (dominated by the Liberal Democratic Party), the bureaucracy, and business. The LDP's comfortable position has so far allowed Japan to maintain a high degree of consensus among the major forces on national policy issues, to hold the oppo-

sition down to tolerable levels, and to be reasonably sure of carrying through important programs. Whether it will continue to do so is the subject of this book."

The study is divided into three main parts.

Part I deals with the 1976 House of Representatives election. Michael Blaker, director of the Project on Japan and the United States in Multinational Diplomacy at Columbia University's East Asian Institute, analyzes the conservative side, the governing Liberal Democratic Party, the recently defeated New Liberal Club, and the independent conservatives. Gerald Curtis, director of the East Asian Institute and professor of political science at Columbia University, discusses the opposition parties. Nishira Sigeki, director of training at the Institute of Statistical Mathematics in Tokyo, analyzes electoral trends through the historical statistics of lower house elections.

In Part II Passin analyzes the 1977 House of Councillors election.

Part III is an examination of several general issues in the elections. Katō Hirohisa, political journalist for the *Yomiuri Shinbun* in Tokyo, analyzes the problem of political funding, which has become as much of an issue in Japan as it has in the United States.

In the final chapter, Passin evaluates the significance of the recent round of elections, noting that "if the hold of present organizational boundaries could be loosened entirely, there might well be a drastic restructuring, with a very much reduced true conservative right, a center constituting a clear majority of the electorate, and a small left. In such a case, Japanese politics would become a new ball game."

The book makes no attempt to impose a uniform viewpoint. Rather, as Passin notes in the introduction, "it was felt that the reader would obtain a livelier feeling for Japanese politics" if the distinctive views of the various authors were retained.

A Season of Voting: The Japanese Elections of 1976 and 1977, edited by Herbert Passin. 199 pages, 3341-1, \$5.75.

Study Proposes Changes for Social Security "Drift"

Basic changes designed to prevent the social security system from becoming another welfare program are proposed in *Social Security Revisited*, a study published in September by the American Enterprise Institute.

"The flaws in the (social security) system stem primarily from having forced it to serve more purposes than it can properly handle," writes J. W. Van Gorkom, chairman of the board of Trans Union Corporation and a member of the Quadrennial Advisory Council on Social Security. "This has escalated the costs of the system to the point where the low paid worker can no longer carry his share of the tax burden. In attempting to lighten his load the system has gradually acquired many characteristics of a welfare program and has deviated from the fundamental concept on which it was based."

To correct the current drift in the social security system, Van Gorkom proposes four changes:

1. Remove Medicare from social security. Because Medicare benefits are unrelated to earnings, the program should be funded by general revenues, Van Gorkom writes.

2. Eliminate the \$122 minimum social security benefit. The development of other programs such as food stamps and the Supplemental Security Income Plan have made a minimum benefit unnecessary, according to Van Gorkom. Eliminating this benefit, he writes, would hurt only double-dippers and others who try to beat the system.

3. Change the spouse's benefit. Although the current spouse's benefit is costly and inequitable, it is not politically feasible to eliminate it, according to the author. He recom-

mends a compromise solution that would treat all married couples as an economic unit, thus viewing the benefit earned by either as a benefit earned by one-half of each.

4. Provide only a basic minimum income. Van Gorkom criticizes efforts to make social security the primary source of retirement income because of the resulting costs and the deterrent effect on capital formation. He recommends shift-

Social Security Revisited, by J. W. Van Gorkom. 37 pages, 3344-X, \$2.75.

ing the focus toward providing a basic minimum income that would require raising benefits gradually at the low end of the scale and reducing benefits at the upper end.

"It is . . . essential that (social security) be viewed as only one part of an overall income replacement system, which should encompass three parts: voluntary savings, involuntary savings, and supplemental systems," Van Gorkom writes. Social security can meet only part of society's obligation to those who are disabled or too old to work, he says. The balance of that obligation should be met by supplemental programs that are outside the social security system, according to the author.

Van Gorkom's study also includes a detailed explanation of how the social security system currently works. He places special emphasis on the financial structure of the system and its prospects for the future.

Kass Discusses Ethics Of Test-Tube Babies

A Conversation with Dr. Leon Kass: The Ethical Dimensions of in vitro Fertilization, the edited transcript of a discussion of the ethics and policy issues involving research on so-called test-tube babies held at AEI, was published in August. Kass is a leading authority on ethical issues in medical research and practice, and is the Henry R. Luce Professor of the Liberal Arts of Human Biology at the University of Chicago.

In his presentation and in the ensuing conversation with

A Conversation With Dr. Leon Kass: The Ethical Dimensions of in vitro Fertilization. 22 pages, 3345-8, \$1.75.

AEI scholars and guests, Kass suggests that *in vitro* fertilization raises two larger questions:

- What should the role of the federal government be in regard to morally questionable or socially problematic research?
- Should the federal government continue to encourage the highly technological approach to disease and dysfunction represented by such techniques as *in vitro* fertilization?

Multination Development Aid Urged by de Lattre

A Conversation with Anne de Lattre, the edited transcript of a meeting with the executive director of the Club de Sahel of the Organization for Economic Cooperation and Development (OECD) held at the American Enterprise Institute for Public Policy Research, was published in September by AEI.

In the discussion, de Lattre describes the evolution and operation of the Club de Sahel as an innovative experiment in multinational development aid programs. She stresses the advantages of such aid in dealing with the complex problems of such large areas as the drought-stricken Sahel deserts.

The discussion, which involved AEI scholars and fellows and invited guests, covers such issues as:

- the origins of the multinational program and its efforts at planning to cope with long-range Sahel problems;
- the bureaucratic mechanisms through which the collaboration of donor and recipient nations are effectuated;
- some of the major problems that confront development aid programs in the Sahel and some strategies for resolving these difficulties.

A Conversation With Anne de Lattre: Developing the Sahel. 19 pages, 3342-3, \$1.75.



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Logue Sees Legislation Undermining Private Pensions

Federal legislation aimed at improving retirement income has undermined private pension plans, according to a study published in July by AEI.

Both the Employment Retirement Income Security Act of 1974 (ERISA) and the expansion of the social security system have had a negative effect on the private pension system, according to Dennis E. Logue, associate professor of business administration at the Amos Tuck School of Business Administration, Dartmouth College. In *Legislative Influence on Corporate Pension Plans*, Logue writes: "The thrust, intended or not, of ERISA and the expansion of the social security system means that ultimately a greater portion of the retirement needs of older Americans will be financed from public sources."

Logue's study concludes that ERISA appears to be based on an erroneous view of the private pension system. "It has

Legislative Influence on Corporate Pension Plans, by Dennis E. Logue. 109 pages, 3337-7, \$3.75.

raised the cost of corporate pension programs and simultaneously reduced the benefits of these programs to firms," he writes. As evidence, he cites the fact that between the end of 1974 and July 1977 nearly 30 percent of all private pension plans were terminated. He notes that while most of these

plans were small, the percentage decline is still significant.

Logue finds that ERISA has weakened the private pension system by treating pensions simply as deferred wages without recognizing their value as incentives. The requirements contained in ERISA, including more standardized vesting and eligibility as well as new funding standards, have reduced the benefits to employers of offering pension plans to their employees, Logue writes.

The law also has reduced the tax-related benefits of pension plans by allowing employees who are not covered to save through their own individual retirement accounts. These provisions have reduced the demand for private pension plans, according to Logue.

"At the same time, recent sharp increases in social security benefits have made corporate pensions less valuable," Logue says. "To achieve the same measure of worker incentives from their pension programs as in the past, firms would have to increase their pensions proportionately more than wages. This appears unlikely."

These three factors—ERISA requirements, social security expansion, and tax changes—will probably cause a decline in growth of corporate pension coverage, he says.

In the study, Logue also discusses economic reasons for concern over the future of the private industrial pension system and analyzes reasons for rising costs. He discusses the integration of social security with private pensions and examines the resulting effect.

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Winter 1979—Number Thirty

British Historian Johnson Delivers Boyer Lecture

Noted British historian, journalist and broadcaster Paul Johnson presented the Francis Boyer Lecture on Public Policy at the third annual Public Policy Dinner sponsored by the American Enterprise Institute and held on December 13, 1979, as part of AEI's annual Public Policy Week.

Johnson is widely noted for both his writings and his intellectual odyssey. From 1965 to 1970, he was editor of *The New Statesman*, an influential British weekly of the left. His views began to change in the 1970's, however. In 1977 he wrote a political testament, *Enemies of Society*, that was a denunciation of "the fascist left." The book was a source of controversy in Britain and other nations.

Johnson has been a prolific writer during the 1970's, publishing several works that explored the relationship between religion and history. Among his books are *The Offshore Islanders* (1972); *Elizabeth I* (1974); and *A History of Christianity* (1976). A close intellectual friend of British prime minister Margaret Thatcher, Johnson presently is working on a history of the modern world.

In a recent assessment of America, he said, "I think America is now discovering that it cannot abdicate its role as a world leader, no more than it could in 1945.

"At the moment, the American people are going through a period of self-questioning. They're saying, we have gone into a period of decline; the world feels this; we feel it. Now what are we going to do about it? That, in itself, is a sign of continuing life and vitality in America and continuing recognition that America has a special role to play.

"I've no doubt at all that America has not only the physical resources, but equally important, the moral resources to reassert its leadership of the world and to pursue that leadership role vigorously.

"I think America has to make a tremendous act of will, and the sooner it makes it, the easier it's going to be."

The Francis Boyer Lecture is made possible through an endowment created by SmithKline Corporation in memory of Mr. Boyer, the corporation's late chairman of the board. Previous recipients have been the Honorable Gerald R. Ford (1977) and the Honorable Arthur F. Burns (1978).

More than 1000 members of the public policy community, the scholars, fellows and academic associates of the American Enterprise Institute, the media, and representatives of the public and private sectors attended the dinner and lecture, held at the Washington Hilton Hotel.

The Francis Boyer Lecture is delivered each year in Washington, D.C. by an eminent thinker who has developed

Continued on page five



AEI president William J. Baroody, Jr., center, with Mrs. F. K. Weyerhaeuser and George Weyerhaeuser at AEI's Public Policy Dinner.

Weyerhaeuser Chair Established at AEI

The American Enterprise Institute has announced the establishment of the F. K. Weyerhaeuser Chair in Public Policy Research, made possible by a grant of \$1 million from the Weyerhaeuser Company Foundation of Tacoma, Washington.

The grant honors the man who served as president of the Weyerhaeuser Company from 1956 to 1960 and as its chairman until 1966. It is in response to a recently launched \$60 million development drive by AEI to seek major grants from corporations, foundations, and individuals. The Weyerhaeuser endowment grant is in addition to the foundation's annual operating contribution to AEI. The Weyerhaeuser Company Foundation grant was made without restriction on the areas of policy research it may support. AEI will select and name the F. K. Weyerhaeuser scholar.

William J. Baroody, Jr., president of AEI, noted that the Weyerhaeuser grant will establish the second such chair at AEI. The first, in honor of George Frederick Jewett, was made possible by a grant last year of \$1 million from the Potlatch Corporation.

Continued on page four



Paul Johnson

Murray Weidenbaum

Johnson and Weidenbaum Appointed to AEI Chairs

Two distinguished scholars have been appointed to two named academic chairs at the American Enterprise Institute for Public Policy Research, AEI President William J. Baroody, Jr. has announced. They are: British historian Paul Johnson to the DeWitt Wallace Chair in Communications in a Free Society; and economist Murray Weidenbaum as the first J. E. Lundy Visiting Scholar in Regulatory Studies.

DeWitt Wallace, along with his wife Lila, was the co-founder of the *Reader's Digest*. J. E. Lundy is a member of the board of directors of the Ford Motor Company and upon his retirement earlier this year was executive vice president—finance.

Baroody noted that AEI is establishing name-designated chairs for scholars and fellows in various areas of public policy research as part of the Institute's development program. The Institute earlier announced the establishment of the George Frederick Jewitt and the F. K. Weyerhaeuser chairs.

In addition to the two appointments, Baroody indicated progress toward the creation of additional name-designated chairs, each of which requires a commitment of one million dollars. Also available for name-designation are centers of concentrated studies at the Institute, such as the Centers for the Study of Government Regulation, Tax Policy Studies, and Foreign and Defense Policy Studies. Ten such centers are available for name-designation at AEI.

Additionally, Baroody reported progress in attracting one-time development grants, ranging from \$250,000 to \$1,000,000 from corporations currently supporting the Institute on an annual basis. He noted that between 55 and 60 percent of AEI's current support is derived from private foundations and more than 35 percent from the corporate sector.

Paul Johnson is widely noted for both his writings and his intellectual odyssey. From 1965 to 1970, he was editor of *The New Statesman*, an influential British weekly of the left. His views began to change in the 1970s, however, and in 1977 he wrote *Enemies of Society*, a political testament that was a denunciation of "the fascist left." A close intellectual friend of British prime minister Margaret Thatcher, Johnson now lives in London and is preparing a history of the modern world.

Murray Weidenbaum is a resident scholar at AEI, on

leave from his position as Edward Mallinckrodt Distinguished University Professor at Washington University in St. Louis and director of the Center for the Study of American Business there. He formerly served as assistant secretary of the treasury for economic policy. He is also co-editor of *Regulation* magazine, a member of the advisory council of AEI's Center for the Study of Government Regulation, and a member of the technical advisory committee of AEI's Tax Policy Studies program.

Meyer Explores Causes For Disability Pay Hike

Social security payments to the disabled and their dependents have quadrupled from about \$3 billion in 1970 to nearly \$12 billion in 1978, far exceeding projections, according to a December AEI study. The number of benefit recipients has doubled since 1970 and tripled since 1965, writes Charles W. Meyer, professor of economics at Iowa State University, in *Social Security Disability Insurance: The Problems of Unexpected Growth*.

Several proposals are currently under consideration to cut program costs. Most focus on decreasing work disincentives either directly by cutting benefits or indirectly by making it more attractive for beneficiaries to return to work, according to Meyer. "A more radical proposal calls for the use of different benefit formulas to calculate retirement and disability benefits," Meyer writes. "Disability benefits would be strictly

Social Security Disability Insurance: The Problems of Unexpected Growth, by Charles W. Meyer. 66 pages, 3365-2, \$4.25.

proportional to indexed taxable earnings and dependent's benefits would be eliminated. The DI program would become a form of pure insurance." Under such a plan, says the author, recipients with inadequate income could receive supplemental welfare benefits. The current disability benefit formula "can lead to replacement ratios high enough virtually to eliminate any monetary benefits from working," according to Meyer. "This consideration may serve to justify the use of different benefit formulas for retirement and disability."

Meyer objects to suggestions that disability insurance be eliminated in favor of a means-test welfare program. Such a move would raise serious questions about the willingness of government to deliver on its commitments and would be interpreted by many as a violation of a public commitment, he writes.

After considering various possibilities, Meyer attributes the rapid expansion of disability insurance primarily to economic factors. The ratio of disability benefits to previous earnings has increased on the average more than 25 percent in the last decade, he writes. That increase, coupled with eligibility for medicare benefits, has generated greater numbers of applications, especially in periods of high unemployment, he writes. "The rapid growth in the number of DI beneficiaries that occurred during the early and mid 1970s pushed costs well above projected levels and forced Congress in 1977 to increase the flow of payroll tax revenues into the DI trust fund," Meyer says.

He notes that while the increased revenues will be adequate for the near term, the disability trust fund may once again fall short near the end of the century. "Under current law, the maximum projected tax payable into the disability fund alone in 1988 will be \$894.90," Meyer writes. "In contrast, as recently as 1972 the maximum tax for all three components of the social security program—old age and survivors, disability, and health—was \$828."

Panel Examines Method Of Presidential Selection

"Choosing Presidential Candidates: How Good Is the New Way?" was the subject of an October Public Policy Forum sponsored by the American Enterprise Institute and held at the Washington Hilton Hotel. Participating in the panel discussion were AEI visiting fellow Richard Scammon, *Washington Post* columnist David Broder, NBC correspondent Ken Bode, and AEI resident scholar Austin Ranney. Former ABC News executive John Charles Daly served as moderator. The televised program was presented as part of AEI's project "A Decade of Study of the Constitution," which is funded in part by a bicentennial challenge grant from the National Endowment for the Humanities and is directed by AEI resident scholar Robert A. Goldwin.

Bode, who served as research director of the Democratic Party's McGovern Reform Commission in 1969, outlined the rationale behind reform. "The guiding principle of the reformers was that [since] there are only two parties in this country for the last century who have had any capacity to elect presidents . . . it is very important that you have a valid opportunity to test the stewardship and leadership in the nominating process—even of an incumbent president in one of those parties, if there is a real will for that test to take place in the rank and file. There was such a will in 1968. The issue was Vietnam. . . . That issue was never brought to any kind of electoral test by the parties. What the reformers were trying to do was to eliminate the kinds of procedural abuses, the kinds of phony participation in some cases, that really prevented the rank and file Democrats in the party from registering an opinion, a valid, real chance, through those primaries."

Bode



Ranney, who has examined presidential nominating systems in two AEI publications, *Participation in American Presidential Nominations* and *The Federalization of Presidential Primaries*, and is a member of the Democratic National Committee's Commission on Presidential Nomination and Party Structure, questioned the effectiveness of the reforms. "The last unreformed, evil, old-fashioned election was in 1968. Voting turnout, 61 percent; in 1972, 55 percent; in 1976, 54 percent. Or [regard] turnout in contested presidential primaries, in a study that I personally have perpetrated: Between 1946 and 1968, the average turnout for both parties that had a contest was 39 percent. In 1972 and 1976, it was 28 percent. Thirdly: in various Gallup and Harris polls taken before 1968, people were asked, Do you think it makes a great deal of difference who wins the election? Prior to 1968, about 65 percent said yes; now, 33 percent says yes. People were asked, 'Do you agree with the statement that ordinary people don't really have any say in what goes on in our government now?' In the old, unreformed days, only 40 percent agreed with that; now, 75 percent would. So you can see what cleaning up the system and reform has done for popular confidence in the process. A few more reforms, and I would say that a real cataclysm could occur."



Ranney

Scammon, who is director of the Elections Research Center in Washington, stressed that access, rather than participation, is the proper measure of the success of the reforms. "Voter turnout is not the only criterion by which you judge the system. The system is judged by the access that the average citizen has to it. Now, he may very well decide that voting is a sort of stupid thing, that there are a lot more interesting things around the world. . . . I think that in the modern world, as we get a more and more literate population, people may really decide—as they have long ago decided in many city elections—that participation is not really the end and be all. Now, journalists will find this difficult, because it hits either business; academics, the same way; intellectuals, the same way."

Scammon



Broder, whose book *The Party's Over* contends that the traditional party role in U.S. politics is diminishing because of the new nominating process, questioned the desirability for popular participation in the early stages of the nominating process. "If it is true, as I think it clearly is, that politics is a relatively low-ranking interest of most sane people on a year-in, year-out basis, then why not premise your presidential selection system on that fact and focus public interest at the point in the cycle which is natural—namely, when the field has been narrowed to two candidates and we have a couple of months to examine those candidates under some tests of adversary debates and endurance. [Then] let the



Broder

people make their judgment. I think through our history we have the basis for saying with great confidence that the wisdom is in the people under those circumstances. But what we have done now, in this new presidential-primary-dominated selection system, is to ask the people to be involved over a much longer period of time; and not just the people, but the candidates as well."

The published transcript of "Choosing Presidential Candidates: How Good Is the New Way?" is available from AEI at a cost of \$3.75. Audio and video cassettes of the program can be obtained from BNA Communications Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).



Miami Mayor Maurice Ferre with William J. Baroody, Jr., AEI president.

Caribbean Growth Theme Of Miami Conference

A "Conference on Caribbean Trade, Investment and Development," jointly sponsored by the American Enterprise Institute and the Council of the Americas and hosted by the city of Miami, was held on November 28-30, 1979 in Miami, Florida. The conference, which was sponsored with the cooperation of the U.S. Department of State's Bureau of Inter-American Affairs, was produced as part of the work of AEI's newly established Center for the Definition of Hemispheric Priorities.

The conference began with a dinner program on November 28 that featured a special film message by President Jimmy Carter, whose plans to attend the session were cancelled by pressing demands occasioned by the occupation of the American embassy in Iran. Welcoming remarks at the dinner were delivered by Maurice Ferre, mayor of the city of Miami. AEI president William J. Baroody, Jr. presented remarks following the mayor's welcome. The keynote address of the evening was presented by Philip C. Habib, senior advisor to the secretary of state.

The first full day of conference activities opened on the morning of November 29 with two plenary sessions to explore "The Economic Dimension in U.S.-Caribbean Relations." Following welcoming remarks from William J. Baroody, Jr. and an address by Henry DeB. Forde, minister of external affairs of Barbados, the initial session focused on a discussion of "U.S. Perspectives on Caribbean Development." G. Arthur Brown, deputy administrator of the United Nations Development Program, moderated the distinguished panel of guests which included Brandon Grove, Jr., deputy assistant secretary of state for inter-American affairs; chairman of the Tesoro Petroleum Corporation Robert V. West, Jr.; and Florida Representative Dante B. Fascell.

A second morning session on "Caribbean Perspectives on U.S. Business Relationships" was moderated by George M. Williams, senior vice president of Chase Manhattan Bank. Participating in the panel were Danny Williams, Jamaican minister of commerce and industry, and deputy prime minister of Antigua Lester Bird.

A luncheon program, beginning with remarks by Representative Gus Yatron, chairman of the House Subcommittee on Inter-American Affairs, and prime minister of Dominica Oliver Seraphin preceded three afternoon sessions

on "Capital and Labor in the Caribbean Economic Equation."

"Capital-Commercial Financing" was discussed in an afternoon session moderated by William D. Rogers, former under secretary of state for economic affairs. Among the discussants were executive vice president of Bank of America William H. Bolin and Richard W. Richardson, director of the International Finance Corporation's development department. Later afternoon sessions focused on the topics of "Capital-Multilateral Development Financing" and "Labor-Human Resources and the Role of Trade Unions." A dinner program with Tesoro Petroleum's Robert West and Michael Manley, prime minister of Jamaica, as guest speakers concluded the day's activities.

The final day of plenary sessions addressed "Requirements and Sources of Energy for the Caribbean." Pedro A. Sanjuan, AEI resident fellow and director of the Institute's Hemispheric Center, moderated a meeting on "Caribbean Energy Dependence and Future Prospects for Oil and Nuclear Energy." Program participants included Hubert Jack, minister of natural resources and energy, Guyana; Hrant K. Baboyian, vice president of government relations for UOP, Inc.; and director of Petroles de Venezuela Antonio Casas Gonzalez.

A second session on November 30 examined "Energy Sources: Gasohol, Hydroelectric, Coal, Derivatives, and Solar Energy." Joining Pedro Sanjuan in this discussion were Joaquin A. Marquez, director of the Puerto Rico Federal Affairs Administration; secretary of state for public works and communications of the Dominican Republic Rafael Corominas Pepin; Alfred R. Globus, president of United International Research; and Ronald J. Bonfilio, president of the Solar Energy Institute of North America.

Continued on page ten

WEYERHAEUSER (Continued from page one)

In announcing the grant on behalf of the Weyerhaeuser Company Foundation, William D. Ruckelshaus, the Weyerhaeuser Foundation's president, noted that while the loss of F. K. Weyerhaeuser (in 1978, at the age of 83) is permanent, the foundation's trustees hope that this grant, by supporting research in public policy, will provide a living tribute to his leadership.

Frederick King Weyerhaeuser was born in 1895 in Rock Island, Illinois, the son of John Philip and Nellie Anderson Weyerhaeuser. He was the first grandson of Frederick Weyerhaeuser, then 61, the founder of the Weyerhaeuser Company and, at the time of his grandson's birth, one of the premier figures in the American wood products industry.

F. K. Weyerhaeuser began his business career with the Potlatch Lumber Company at Pullman, Washington, in 1920. The following year, he became a field representative for the Weyerhaeuser Sales Company of Spokane, Washington, a firm which marketed the production of a number of regional lumber-producing companies. He became manager of the company's Minneapolis office in 1924, and president of the Weyerhaeuser Sales Company in 1929. Following the untimely death of his brother, J. Philip Weyerhaeuser, Jr., F. K. Weyerhaeuser was elected president of the Weyerhaeuser Timber Company as well. During his tenure as president, he guided the merger of the two companies into the single Weyerhaeuser Company known around the world today. He became chairman of the board when he reached the age of 65, and served until 1966.

The Weyerhaeuser Company Foundation was founded in 1948 as the major source of philanthropy of the Weyerhaeuser Company. It is active in the field of social services in areas where the company has operations and employees. It also makes a number of educational grants, as well as supporting public policy research, especially in the area of forest land use.



Paul Johnson delivers Boyer Lecture.

BOYER LECTURE (Continued from page one)

notable insights on one or more aspects of the relationship between the nation's private and public sectors. Focusing clearly on the public interest, the lecture demonstrates how new conceptual insights may illuminate public policy issues and contribute significantly to the dialogue by which public interest is served. Lecturers may come from any walk of life—academia, the humanities, public service, science, finance, the mass media, business, or industry. The principal considerations determining the selection are the quality and appositeness of the lecturer's thought, and his ability to make a useful contribution to formation of innovative thought in the area of public policy.

The American Enterprise Institute convened its community of scholars together with concerned members of the public policy community during the week of December 10 for a special series of seminars/conferences around the theme "Public Policy for the 1980s: What Should Be Our Course?"

"The purpose of the seminars," according to AEI president William J. Baroody, Jr., was "to attempt to identify some key issues concerning our society and put them in a public policy context, and to identify, from our perceptions, significant questions that we think should be addressed by public policy in the 1980s.

"The end of the decade affords us an opportunity to assess some of the significant results of the public policy decisions of the 1970s and to reflect on some of the problems that will require the attention of the public policy community in the 1980s. Our attention is heightened by the fact that 1980 is an election year and competing policies will be subjected to the scrutiny of the voting public," Baroody said.

AEI's Public Policy Week activities began with a session on Monday, December 10, in which *Public Opinion* editors Seymour Martin Lipset, Ben Wattenberg, and Dave Gergen discussed the trends of the 1970s and the mood of the country going into the 1980s.

The initial seminar was held on Tuesday, December 11. Entitled "Approaches to Domestic Policy: Can We Be Both More Responsive to Human Needs and More Efficient in the 1980s?," it explored policies from the standpoint of responsiveness to human needs and economic efficiency with the idea of producing guidelines for domestic programs that are at once humane and cost-effective. Some of the questions addressed included: Have our domestic programs met the goals for which they were established? Have they had unintended consequences? Are there better ways of achieving society's goals? Panel chairman was Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration at the University of Michigan and chairman of AEI's Council of Academic Advisers.

Continued on page ten

Arrow and Kalt Support Decontrol of Oil Prices

Decontrolling domestic oil prices would result in efficiency gains large enough to permit the beneficiaries of decontrol to compensate fully the losers and still remain better off themselves, according to a November AEI publication. *Petroleum Price Regulation: Should We Decontrol?* contends that even policy makers who believe the income redistribution implied by decontrol is inequitable should support decontrol on the grounds that decontrol would produce greater overall equity-weighted gains than losses. However, these persons might reasonably insist that the equity-weighted gains from decontrol be increased by enactment of a windfall profits tax to offset decontrol's transfer of income from oil consumers and refiners to oil producers.

The authors are Kenneth J. Arrow, Joan Kenney Professor of Economics at Stanford University and recipient of the 1972 Nobel Memorial Award in Economic Science, and Joseph P. Kalt, instructor of economics at Harvard University and former staff member of the President's Council of Economic Advisers.

The present complex price control system, being phased out by President Carter, is due to expire on October 1, 1981. The authors note, however, that Congress has consistently

Petroleum Price Regulation, by Kenneth J. Arrow and Joseph P. Kalt. 47 pages, 3359-8, \$4.25.

resisted efforts to let oil prices float upward to the world market price dictated by the OPEC countries. Legislators from the northeastern states, which are major consumers of oil but have no production, have opposed such decontrol.

According to Arrow and Kalt, price controls on oil are costing Americans over \$3 billion a year because the controls foster excessive oil demand, discourage adequate domestic oil production, impose compliance burdens on producers, and involve the government in expensive administrative activities.

"On the demand side, every barrel of crude oil now imported produces goods and services that are worth less to the American public than the cost of acquiring the oil from foreign sellers," they state. They estimate this "annual waste" at around \$500 million.

"On the supply side, petroleum price regulations discourage domestic production and encourage the importation of foreign oil," the authors say. "Every extra barrel of oil that is imported could be replaced by output that uses national resources worth less than the payment made to the sellers of foreign oil." This loss, they say, can be "conservatively estimated" at \$2 billion a year.

Arrow and Kalt estimate that the producers spend an additional \$500 million carrying out administrative obligations created by current regulations. They figure the federal administrative burden of regulation on taxpayers to be another \$200 million annually. These economic losses would disappear if crude oil prices were decontrolled, the authors write. They estimate that decontrol would transfer approximately \$7.4 billion from oil consumers to oil company stockholders, who are typically wealthier than the public at large.

Arrow and Kalt argue that the real cost of decontrol in terms of overall equity is probably closer to \$1.4 billion. They estimate the net equity value of the efficiency gains from decontrol at approximately \$1.9 to \$2.6 billion, a significantly positive figure which they say indicates decontrol would definitely result in a net gain to the nation even after allowance for distributional or equity effects.

Congressional Budget Act Is AEI Conference Theme

"The Congressional Budget Act After Five Years" was the topic of an October conference sponsored by the American Enterprise Institute as part of its Tax Policy Studies program. AEI resident scholar Rudolph G. Penner, director of the program, served as coordinator of the meetings. Academicians, members of the administrative and legislative branches, and businessmen from private industry met to discuss such questions as: Has the Congressional Budget Act improved economic policy? Are constitutional budget limits necessary to complement the act? What has the act done to the power of the presidency? And can the act be changed to make it more effective?

William J. Baroody, Jr., president of the American Enterprise Institute, welcomed the participants with opening remarks. Rudolph Penner chaired the initial session of meetings. Papers were delivered by Allen Schick of the Congressional Research Service on "Five Years of Congressional Budgeting" and by Preston Miller and Arthur Rolnick of the Federal Reserve Bank of Minneapolis, who spoke on "CBO's Policy Analysis: An Unquestionable Misuse of Questionable Theory." Discussants were Robert Hartman of the Brookings Institution and William Beeman of the Congressional Budget Office.

Session two was chaired by AEI resident fellow Michael J. Malbin. Papers were featured by Professor Aaron Wildavsky of the University of California, Berkeley, on "Constitutional Expenditure Limitation and Budget Reform" and by Professor Donald Ogilvie of Yale University on "Constitutional Limits on the Federal Budget." Commenting on these papers were John McEvoy of the Senate Budget Committee, John Ellwood of the Congressional Budget Office, and Professor Kenneth Dam of the University of Chicago.

Featured luncheon speaker for the meetings was Congressman Timothy E. Wirth (D-Colorado), a member of the House Budget Committee.

The final session was chaired by AEI visiting fellow Thomas Mann. Speakers were Louis Fisher of the Congressional Research Service on "The Effect of the Budget Act of 1974 on Agency Operations" and Joel Havemann of the *National Journal* on "The Congressional Budget Process and Tax Policy." Commentaries on the two papers were presented by William Lilley of the American Express Company and by Bruce Davie of the House Ways and Means Committee.

The proceedings of the congressional budget conference will be published by the Institute at a later date.

Fein Reviews Work Of 1977 Court Term

Significant Decisions of the Supreme Court, 1977-1978 Term, the ninth in the continuing series of annual reviews of the work of the Supreme Court published by the American Enterprise Institute, includes summaries of all the important opinions of the October 1977 term. The volume was written by Bruce E. Fein, an attorney with the U.S. Department of Justice.

In an overview, Fein examines four specific areas of court cases, including the future of affirmative action, solicitation of clients by attorneys, corporate free speech and political expenditures, and warrants to search newsrooms. Some of his comments:

—on affirmative action: "There is a substantial basis . . . for concluding that the voting alignment in *Bakke* and the affirmative action principles espoused in the opinions of Brennan and Powell foreshadow broad constitutional endorsement of racial preference, including quotas, in areas where minorities are chronically and substantially underrepresented. . . . Of course, the fact that affirmative action programs can pass constitutional muster does not mean that they can marshal the political and public support necessary for their adoption."

—on solicitation by attorneys: "In a decade, it may be commonplace to find attorney soliciting individual clients and offering laymen advice as to their legal rights in a variety of settings."

Fein also analyzes the voting alignments of the members of the Court, and finds that they are "on the whole predictable in cases concerning the administration of criminal justice and a broad spectrum of issues having to do with civil rights and civil liberties. Generally speaking, the votes of Rehnquist

Significant Decisions of the Supreme Court, 1977-1978 Term, by Bruce E. Fein. 162 pages, 3360-1, \$6.25.

and Burger are cast in favor of the government and against claims of civil rights or civil liberties. The votes of Marshall and Brennan, ordinarily cast in support of claims advanced by the accused and by the proponents of civil liberties, offset the Rehnquist-Burger alignment. "The middle ground between the Rehnquist-Burger and Marshall-Brennan teams is occupied by Blackmun, Powell, White, Stewart, and Stevens. The votes of Blackmun and Powell reveal a discernible tilt toward the Rehnquist-Burger bloc, whereas those cast by Stevens disclose an affinity for the Marshall-Brennan bloc. Stewart and White seem to stand in mid field."

U.S. Foreign Policy Is Topic for Debate

Debating the Direction of U.S. Foreign Policy is the current volume in AEI's series of annual publications analyzing the national high school debate topic. The debate analysis, published in August, is designed to serve as a guide to further research on the national debate topics. A selected bibliography is presented in each of the publication's three main parts.

Part One examines the topic "Resolved: That the United States should significantly change its foreign trade policies." Chapters provide an historical review of U.S. trade policy, an assessment of current trade policy, an overview of issues, and views on trade and consumers, trade and labor, and the multinational corporation and labor.

The topic of Part Two is "Resolved: That the United States should significantly reduce public and private distribution of weapons to foreign countries." Historical reviews of U.S. arms policy and unilateral restraint are followed by examinations of the Carter policy, the distribution programs, and multilateral dimension of international arms distribution.

Part Three addresses the topic "Resolved: That the United States should significantly reduce its foreign assistance

Debating the Direction of U.S. Foreign Policy. 69 pages, 1830-0, \$4.25.

programs to totalitarian governments." Chapter topics include an historical introduction, current policy, human rights, U.S. interests and the question of "moral imperialism," followed by case studies examining U.S. foreign assistance to the Republic of Korea (South Korea) and the Philippines.



From left, Bookbinder, Hamilton, Daly, Jackson and Rossides.

Panelists Assess Role of Ethnic in Foreign Policy

"What Should Be the Role of Ethnic Groups in U.S. Foreign Policy?" was the topic of an October Public Policy Forum sponsored by the American Enterprise Institute. Participants were Hyman Bookbinder of the American Jewish Committee, U.S. Representative Lee H. Hamilton (D-Indiana), Jesse Jackson of Operation PUSH, and Eugene T. Rossides of the American Hellenic Institute. Former ABC News executive John Charles Daly moderated the televised panel discussion.

Rossides is chairman and special counsel to the Public Affairs Committee of the American Hellenic Institute, which has been involved in the Greek-Turkish dispute over Cyprus. He contended that ethnic communities have a special contribution to make to the conduct of U.S. foreign policy: "It is a function of citizenship. In the past, they have been kept out. When they were involved in such an issue, the question was, 'Gee, maybe they are thinking about this other country more than their own country.' This is a very serious matter. We have had an elitist foreign policy establishment. The policy of this country is made by the people through the Congress, and the development of foreign policy is a partnership with the Congress." According to Rossides, ethnic groups must "correct the overbalance that the vast bureaucracy has grabbed by its monopoly on the facts and the headlines on foreign policy issues. The community can play a very important role in helping the Congress in this area."

Congressman Hamilton, chairman of the Europe and Middle East Subcommittee of the House Committee on Foreign Affairs, elaborated upon the role of the Congress in foreign policymaking: "We [the U.S. Congress] are probably as active as we ever have been. And that means that groups approach us. One of our merits is that we are open and accessible to the people. . . . [But] the issues that are before us are extraordinarily complex, much more complex than they were in another day. The consensus building process in the pluralistic community or the nation has been extraordinarily difficult." Hamilton went on to explain why some ethnic groups have difficulty making an impact on this complex foreign policy process. According to Hamilton, the groups that

successfully influence policymaking "have to be able to activate their own members. They have to have very good internal communications within the group. They have to have access to the decision makers, to know who the decision makers are, and to have that access at the right time. . . . They have to have good sources of information within both the executive and legislative branches. They've got to be able to enlist the help of sympathetic groups. . . . And in this day and age, they've certainly got to be able to have access to the media." He pointed out that "there are comparatively few people who have the degree of sophistication to use [the policy making process] to their own advantage."

Reverend Jackson, national president of People United to Save Humanity, advocated an active role for ethnic groups, but cautioned that their participation must not be confined to parochial concerns because "we all have common interests—in war and peace, in a viable economy, in protecting our political system. . . . We should not limit ourselves to areas that directly are traceable to our inheritance, because it weakens our moral authority and takes away the credibility. It becomes not just self-interest, but your own selfish interest." Jackson asserted that it is becoming increasingly difficult to determine the national interest as a governing factor in foreign policy, citing "a kind of re-ethnicizing of America, particularly in the last twelve or fifteen years. We saw a tremendous swelling of pride, for example, in Polish Americans and among other Catholic Americans when the Pope visited." He noted that "division when kept in perspective is sound" but that "the guiding light—the guiding law—has to be our national interests and our national security."

Bookbinder, Washington representative for the American Jewish Committee, discussed the recent rift between the Jewish and black communities over U.S. policy in the Middle East. "If anybody suggests that the blacks don't have a right to participate in thinking through the Middle East problem, they are dead wrong. . . . Two things ought to be acknowl-

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Conferees Weigh Effects Of Minimum Wage Law

"Legal Minimum Wages" was the topic of a conference sponsored by the American Enterprise Institute and held on November 1 and 2, 1979. The sessions examined the economic effects of minimum wage legislation on employment, youth, personal income, and poverty, as well as on specific industries such as agriculture, retail stores and service industries. Thomas Johnson, director of AEI's economic studies program, was conference coordinator.

Welcoming remarks by William J. Baroody, Jr., president of the American Enterprise Institute, opened the first conference session, which was chaired by Johnson. Papers were delivered by Professors Nabeel Al-Salam, Aline Quester and Finis Welch of the University of California, Los Angeles on "Minimum Wage and Cohort Size Effects on Youth Employment"; by Professor James Cunningham of the University of Houston on "The Impact of Minimum Wages on Youth Employment, Hours of Work, and School Attendance: Cross-Sectional Evidence from the 1960 and 1970 Censuses"; Professor Robert F. Cotterman of the University of California, Los Angeles on "The Effects of Federal Minimum Wages on the Industrial Distribution of Teenage Employment"; Professor J. Peter Mattila of Iowa State University on "The Impact of Minimum Wages on Teenage Schooling and on the Part-Time/Full-Time Employment of Youths"; Professor James F. Ragan of Kansas State University on "The Effect of a Legal Minimum Wage on the Pay and Employment of Teenage Students and Nonstudents"; and by Professors Jacob Mincer of Columbia University and Linda S. Leighton of Fordham University on "Effects of Minimum Wages on Human Capital Formation." Discussing the six papers were Professors Walter E. Williams of Temple University and Sherwin Rosen of the University of Chicago.

The second conference session was chaired by Professor Yale Brozen of the University of Chicago. Papers were presented by Professor Bruce L. Gardner of Texas A&M University on "What Have Minimum Wages Done in Agriculture?"; Professors John M. Trapani and J. R. Moroney of Tulane University on "The Impact of Federal Minimum Wage Laws on Employment of Seasonal Cotton Farm Workers"; Professor Kenneth Gordon of Smith College on "The Impact of Minimum Wages on Private Household Workers"; Professor Marshall R. Colberg of Florida State University on "A Study of the Hypothesis That Minimum Wages Are Intended to Affect the Distribution of Economic Activity"; and by Professors James C. Cox and Ronald L. Oaxaca of the University of Arizona on "The Determinants of Minimum Wage Levels and Coverage in State Minimum Wage Laws." Discussants at the session were AEI resident scholar William Fellner and Professor Barry R. Chiswick of the University of Illinois at Chicago Circle.

Chairman of the third session was AEI resident scholar Marvin H. Koters. Three papers were presented: "The Impact of Legal Minimum Wages on Industrial Employment in Chile," by Professor Vittorio Corbo of Concordia University (Montreal) and the University of Chile; "Legal Minimum Wages As an Instrument of Social Policy in Less Developed Countries," by Professor Peter Gregory of the University of New Mexico; and "Differential Legal Minimum Wages," by Dr. Philip G. Cotterill of the American Medical Association. Discussing the papers were Professor Isaac Ehrlich of the State University of New York at Buffalo, Professor Keith B. Leffler of the University of Washington, and Professor Sandra Schickele of Sonoma State College.

The final conference session was chaired by Professor H. Gregg Lewis of Duke University. Papers were delivered on

"The Overtime Pay Provisions of the Fair Labor Standards Act," by Professors Ronald G. Ehrenberg and Paul Schumann of Cornell University; "Some Aspects of the Social Pathological Behavioral Effects of Unemployment Among Young People," by Professor Llad Phillips of the University of California, Santa Barbara; "Minimum Wages and Personal Income," by Professor Carolyn Shaw Bell of Wellesley College; and "Some Estimates of the Foregone Earnings of Teenagers Resulting from Federal Minimum Wage Increases Since 1955," by Professor Douglas K. Adie of Ohio University. Discussing the papers were Professor Robert S. Goldfarb of George Washington University and Professor Solomon Polachek of the University of North Carolina.

AEI will publish the edited proceedings of the minimum wage conference at a later date.

Authors Oppose Taxing Of Municipal Bonds

Taxation of municipal bonds would hamper the financial dealings of American cities and might even complicate international financial relations, according to *The Taxation of Municipal Bonds: An Economic Appraisal*, written by Michael L. Mussa and Roger C. Kormendi. The AEI study is a thorough investigation of the issues surrounding the tax treatment of state and local government bonds. Mussa is an associate professor of economics and Kormendi is an assistant professor of economics at the Graduate School of Business of the University of Chicago.

Interest paid on municipal bonds has been exempt from federal income tax since 1913, the authors write, but all attempts at reform have failed. "For this reason, interest has grown in proposals that modify the exemption while preserving or expanding the benefits presently enjoyed by municipal governments. The most prominent such proposal is the taxable bond option. Under such a scheme, state and local governments could choose to issue either tax-exempt bonds, as at present, or taxable bonds with a direct subsidy paid by the U.S. Treasury."

The book is organized around the four major issues that have characterized the debate over the exemption and the taxable bond option: fiscal efficiency, tax equity, effectiveness, and stability. It contains a review of the position of the proponents of the option on each of these issues, and then critically examines the arguments on both sides, comparing the current exemption and the proposed taxable bond option.

After careful theoretical and empirical analysis of the issues, Mussa and Kormendi conclude that the tax exemption

The Taxation of Municipal Bonds: An Economic Appraisal, by Michael L. Mussa and Roger C. Kormendi. 229 pages. 3331-8, \$7.25.

does not generate as much tax inequity or fiscal inefficiency as its opponents have argued. "Our conclusions stand in sharp contrast to the conclusions of earlier studies," the authors note. "Taking account of the effects of inflation, a factor ignored in previous studies, we find that there is no serious tax inequity resulting from the present exemption and no potential gain in tax equity from the option. We find that the potential fiscal benefit of the option is of limited importance and of dubious magnitude. We find that the effectiveness of the subsidy implicit in the exemption has increased in recent years and is likely to remain high in the future. We find no substantial reason to believe that the taxable bond option would improve the overall stability of the municipal bond market or enhance the stability of the economic system."

Four Theologians Assess Denigration of Capitalism

The depth and character of the conventional denigration of capitalism by religious leaders is debated by four American theologians in *The Denigration of Capitalism*. The AEI publication is a response to a lecture of the same title presented by Dr. Edward Norman, a British historian and ordained priest of the Church of England.

Norman discusses "the contemporary assault on capitalism," which he says is not confined to Marxism but comes from much more conventional and respectable "establishment" sources, including Christian churches and teachers in schools and universities. Among the hostile assumptions about capitalism Norman includes "the growing insistence, in the historical interpretations now commonplace in the schools and universities, that capitalist society has been characterized by class oppression, social injustice, and almost callous indifference by the ruling groups to the conditions of life among the masses."

"For historical reasons," he writes, "a version of capitalism has been the form in which individual freedoms were preserved in our society: we need to be more aware than we are that freedom has no built-in preservatives of its own. Capitalism has a good case to argue," Norman says. "It is the case of freedom."

Church historian Martin E. Marty of the University of Chicago calls Norman's essay "an attempt simply to divide all ranks, an effort at providing two boxes of labels. Life is lived not with the black and white of two stark alternatives but in the shades of gray of day-to-day choice and in the hope that a whole range of other alternatives might emerge," he writes. "If Christianity to date has lived with six or eight economic systems, why can it not live with ten or twelve?"

Marty says Norman writes as if few are on the side of capitalism. But in America, he says, Norman's complaint has little grounding. "Some sort of 'mixed' pattern that draws on features of capitalism and socialism has begun to emerge and is likely to prevail," writes Marty. "It is important to help such an order become humane and liberating."

Political philosopher James V. Schall, S.J., of Georgetown University welcomes Norman's work and calls the issue of religion and the economy which Norman raises "the most important spiritual crisis facing Christianity today." Schall charges that the religious opposition to capitalism may contribute to extinguishing productivity as well as freedom and religion. Marxists have co-opted wide segments of Catholic social thought and of the institutions designed to promote it, he writes. "Nothing marks the anticapitalist religious argument of recent times more than its naive confidence that the existing socialisms of our times have virtues not revealed by any cold analysis," according to Schall. "The argument for 'capitalism,' on the other hand, it is intended to suggest that the performance of such a system is always best or wise. It can make serious mistakes and still be the best system available if rationally ordered. The theory of capitalism allows for its errors and mistakes." Schall suggests that the denial of capitalism has its roots in the meaning of religion, especially in the kind of ultimate happiness it proposes to man.

Theologian Bernard Cooke of Calgary College in Calgary, Canada, poses six challenges that Christianity must raise in regard to any economic system: How does it contribute to the acquisition of freedom and equality by all persons? What is the role of profit? The role of greed? Is its pricing fair? Do its marketing practices exploit people? What is the role of work?

"Frankly, I do not believe that Christianity is meant to be wedded to any particular political, economic, or social theory or pattern; I believe that no given system is the best possible for humans, the one most compatible with Christianity's vision and hopes," Cooke writes. He suggests that the capitalism versus socialism debate may be obsolete. "There are new systemic possibilities for good and evil that are not proper to either capitalism or socialism," he writes. "Radical changes in procedures and structures are in progress, and these need to be analyzed and evaluated in themselves without being categorized as capitalist or socialist."

David B. Burrell, a systematic theologian at the University of Notre Dame, takes exception to many of Norman's arguments. "Without questioning that 'capitalism has a good case to argue,' I shall question whether it can be described

The Denigration of Capitalism, edited by Michael Novak. 64 pages. 3364-4, \$4.25.

as 'the case of freedom,' " Burrell writes. "The issue lies one step behind freedom—in agency and accountability—traditionally regarded as conditions of freedom. I shall propose that capitalism's case would be a good deal stronger than it is were its proponents to delineate how capitalism's very growth has severely altered these features, and how its success depends on creating within the new conditions a way of protecting the humanity and freedom of its agents."

Burrell argues that the corporation, in the course of accumulating power, has failed to cultivate the features of responsibility which distinguish free enterprise. He says that corporations must be structured and perceived so that they can assume responsibility for their actions if capitalism is to justify itself.

The publication is the fourth in a series of publications on religion and public policy published by the American Enterprise Institute. Editor for the project is Michael Novak, AEI resident scholar and former Ledden-Watson Professor of Religious Studies at Syracuse University. Novak addresses the question of religion and the economy in both an introduction and final comment.

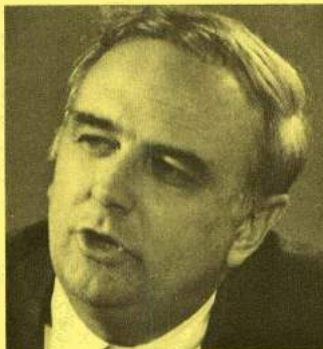
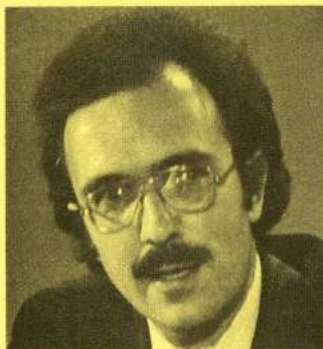
ETHNICS (Continued from page seven)

edged by all of us: number one, when blacks—or anybody else—criticize an Israeli policy, that does not make that person anti-Semitic. Secondly, when Jews or other supporters of Israel come back and hit, on the substance of suggestions, that doesn't make that white person a racist." Bookbinder called for "an honest dialogue on the issue" and pointed out that "with all the difficulties, we at least now have more people thinking hard about the problems." He added that although there are no easy solutions to the difficulties and sensitivities involved in the Mideast situation, "the basic Middle East policies of our government are based on the simple premise that strong support for the security of Israel is in the interest of the United States, . . . and only as long as we can keep the American people believing that will the so-called Jewish lobby seem to have its way."

The published transcript of "What Should Be the Role of Ethnic Groups in U.S. Foreign Policy?" is available from AEI at a cost of \$3.75. Audio and video cassettes of the Public Policy Forum may be obtained from BNA Communications, Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301/948-0540).

The second Tuesday seminar, on "The U.S. in a Troubled World: Can We Prevail in the 1980s?" was chaired by Robert J. Pranger, director of foreign and defense policy studies at AEI. The session dealt with basic factors in a foreign policy and national security strategy for the 1980s, national energy policy, and international economic policy. Some of the questions included: Does the U.S. have the national will to prevail in the 1980s? What will be the shape of future U.S.-Soviet relations? How will the U.S. figure in relations with the third world?

A televised Public Policy Forum held on Tuesday evening explored the topic "Foreign Intelligence: Legal and Democratic Controls." Panel members were Yale law professor and former U.S. Solicitor General Robert Bork, former C.I.A. director William Colby, Representative Les Aspin (D-WI) and American Civil Liberties Union Washington director John Shattuck. Peter Hackes served as moderator of the discussion. Bork is chairman of AEI's legal policy studies advisory council; Colby and Aspin serve as members of AEI's foreign policy project and defense project, respectively.



Colby and Bork, top, Shattuck and Aspin.

The third seminar, held on Wednesday, December 12, was entitled "The State of Economics: Can the Policies of the Past Handle the Problems of the Future?" Arthur F. Burns, AEI's distinguished scholar in residence, served as chairman. The session examined the present state of economic policy, failures of the past, and the question of how policy should be restructured for the future.

The fourth seminar examined "The State of America's Institutions: Will We Still Be Capable of Self-Government in the 1980s?" It was chaired by AEI resident scholar Jeane J. Kirkpatrick. The session examined the ability of our governing institutions to formulate, adopt, and implement solutions for the nation's problems. It focused on the presidency, Congress, the judiciary, the communications media, and American public opinion.

Concluding Wednesday's events was a televised Public Policy Forum on "Future Directions for Public Policy." Drawing on two days of seminar discussions, panelists Peter



Berger, Kristol, Daly, MacAvoy, and Novak.

Berger, Irving Kristol, Paul MacAvoy and Michael Novak assessed the results of public policy decisions of the 1970s and reflected on some of the problems that will require the attention of the public policy community in the 1980s. Berger is co-director of AEI's Mediating Structures Project, Kristol is an AEI senior fellow, MacAvoy serves as chairman of AEI's government regulation technical advisory group, and Novak is a resident scholar at the Institute. Former ABC News executive John Charles Daly moderated the panel discussion.

The transcripts of "Foreign Intelligence: Legal and Democratic Controls" and "Future Directions for Public Policy" will be published by the American Enterprise Institute. Audio and video cassettes of the two programs are available from BNA Communications, Inc., 9401 Decoverly Hall Road, Rockville, Maryland 20850 (301-948-0540).

CARIBBEAN (Continued from page four)

Concurrent sessions were held on the agribusiness, manufacturing, and tourism aspects of "Business Potential in Key Caribbean Industrial Sectors." Guest speakers for these sessions included Robert Montano, chairman of Imperial Stores, on the subject of "Food Sector Needs and Potential in the Caribbean"; president of Grace-Kennedy, Ltd. Carlton Alexander on "Manufacturing Needs and Potential in the Caribbean"; and St. Lucia deputy prime minister George Odum on "Tourism Problems and Potential in the Caribbean."

The three-day conference program closed with a luncheon featuring Henry R. Geyelin, president of the Council of the Americas, and vice president of the Dominican Republic Jacob Majluta as guest speakers.

The proceedings of the Miami Conference on the Caribbean will be published by the American Enterprise Institute for Public Policy Research at a later date.

The American Enterprise Institute for Public Policy Research, established in 1943, is a publicly supported, non-partisan research and educational organization. Its purpose is to assist policy makers, scholars, businessmen, the press and the public by providing objective analysis of national and international issues. Views expressed in the institute's publications are those of the authors and do not necessarily reflect the views of the staff, officers or trustees of AEI. The institute is a tax exempt, educational organization under section 501 (c) (3) of the Internal Revenue Code and is classified as a publicly supported organization under the Tax Reform Act of 1969.

Conferees Explore Topic Of Drugs and Health

"Drugs and Health: Economic Issues and Policy Objectives" was the subject of a conference sponsored by AEI's Center for Health Policy Research on November 15 and 16 in the AEI board room. Robert B. Helms, director of the center, served as conference coordinator.

The opening session of meetings dealt with "The R&D Process: The Impact of Economic Factors" and was chaired by Helms. Delivering papers were Professors Henry G. Grabowski and John Vernon of Duke University on "The Determinants of R&D Expenditures in the Pharmaceutical Industry," and Professor J. Fred Weston of the University of California Graduate School of Management and John R. Virts of Eli Lilly and Company on "Expectations and the Allocation of R&D Resources." Discussants were Professor F. M. Scherer of Northwestern University and Harry R. Woltman of the Food and Drug Administration.

AEI resident scholar Murray L. Weidenbaum chaired the second session, on "The R&D Process: Decision Making in a Regulated Industry." Featured were papers by Professor Steven N. Wiggins of Texas A&M University, entitled "The Pharmaceutical Research and Development Decision Process," and by Professors Kenneth W. Clarkson and William MacLeod of the University of Miami, on "Reducing the Drug Lag: Entrepreneurship in Pharmaceutical Clinical Testing." Barry M. Bloom of Pfizer Central Research and J. Richard Crout of the FDA Bureau of Drugs commented on these papers.

The afternoon session, on "Competition Among Drugs: The Role of Prices and Patents," was chaired by Gerald D. Rosenthal of the National Center for Health Services Research. Conference participants heard from Professor W. Duncan Reekie of the University of Edinburgh on "Price and Quality Competition in Drug Markets: Evidence from the U.S. and the Netherlands," and from Professor Meir Statman of Rutgers University on "The Effect of Patent Expiration on the Market Position of Drugs." Discussants included Mark C. Hornbrook of the National Center for Health Services Research and Professor Leonard Schiffrin of the College of William and Mary.

The second day of the conference opened with a session on "The Economics of Drug Choice" which was chaired by Irvine H. Page, editor emeritus of *Modern Medicine* and former director of research at the Cleveland Clinic. Papers were presented by Professor Peter Temin of the Massachusetts Institute of Technology on "Physician Prescribing Behavior: Is There Learning by Doing?" and by Professor Lester G. Telser of the University of Chicago on "The Market for Research and Development: Physician Demand and Drug Company Supply." Commentaries on the two papers were given by Dr. Michael Haberstam, editor of *Modern Medicine*, and by David F. Lean of the FTC's Bureau of Economics.

Professor Louis M. Lasagna of the University of Rochester, a member of the advisory committee of AEI's Center for Health Policy Research, chaired the next session of meetings, which dealt with "The Social Returns to Pharmaceutical R&D." Professors Burton A. Weisbrod and John F. Geweke of the University of Wisconsin presented their paper on "Does Technological Advance in Medicine Reduce Health Care Expenditures: The Case of a New Drug," and Professor S. Y. Wu of the University of Iowa spoke on "Pharmaceutical Innovation and Imitation: Private and Social Rates of Return." Michael A. Riddiough of the Office of Technology Assessment and Professor Ronald W. Hansen of the University of Rochester Graduate School of Management were discussants.

The final session of meetings featured a panel discussion on "Drugs and Health: What Research Agenda for Public Policy?" Participants included AEI adjunct scholar Yale Brozen of the University of Chicago Graduate School of Business, William S. Comanor of the FTC Bureau of Economics, George Eads from the Council of Economic Advisers, and Professor Lasagna of the University of Rochester. Robert Helms of AEI moderated the discussion.

The American Enterprise Institute will publish the proceedings of the health conference at a later date.

Six Perspectives Offered On Soviet Policy Aims

The current Senate debate over the SALT II treaty illustrates the difficulty Americans at all levels have in understanding the complexities of Soviet global intentions, according to "Six U.S. Perspectives on Soviet Intentions," volume one, number five of the *AEI Foreign Policy and Defense Review*, published in October by the American Enterprise Institute.

The underlying problem is that Soviet intentions do not fit neatly into categories, writes Robert J. Pranger, director of AEI's foreign and defense policy studies and a former deputy assistant secretary of defense for international security affairs. "No easy distinctions are possible between hawks and doves, left and right, liberal and conservative. Though

Six U.S. Perspectives on Soviet Foreign Policy Intentions, by Robert J. Pranger (*AEI Foreign Policy and Defense Review*, vol. 1, no. 5). 25 pages, 0163-9927, \$2.50.

they are armed with a prodigious scholarship in Russian history and contemporary Soviet politics, American analysts still face an impenetrability in the Soviet system equivalent to unlocking secrets of the atom."

In place of the traditional, rigid views of Soviet policies, Pranger offers this spectrum of perceptions, ranging from the most liberal to the most conservative:

1. *Revisionism*. The revisionist perspective holds that a good measure of our troubles with the Soviet Union in the post-World War II period have resulted from our aggressive, sometimes imperialistic desire to dominate world affairs.

2. *Polycentrism and interdependence*. Some argue that Soviet power declined by the 1960s because of increasing polycentrism in the communist world and a generally more complicated, interdependent environment undermining bipolar domination of international affairs (an evolution that limited American power as well).

3. *Ambiguity and detente*. Another group believes that Soviet foreign policy since Stalin has been more ambiguous, vacillating between retrenchment and expansion, so that accommodation between the two superpowers seems more propitious than it did at the height of the cold war.

4. *Ambiguity and conflict*. Others feel that this same ambiguity in Soviet intentions and behavior should make us prepare for the worst rather than think of cooperation as a central part of our relations with Moscow.

5. *Mutual suspicion*. A rather conservative view, with somewhat startling similarities to the liberal first perspective, holds that the Soviet Union is quite conservative itself and so suspicious that overly aggressive American policies might cause it to be-

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Latin American Officials Hit U.S. Nuclear Policy

Secretary General of the Organization of American States Alejandro Orfila, Argentinian ambassador Jorge Antonio Aja Espil, OAS adviser Francis X. Gannon, and Mexico's National Institute for Nuclear Research director Dalmau Costa present their views on "U.S. Nuclear Export Policy: Views from Latin America," in volume one, issue six of AEI's *Foreign Policy and Defense Review*.

The current policy of the United States is to oppose nuclear weapons proliferation, notes guest editor Pedro A. Sanjuan. However, he contends, that policy has "helped to weaken our ability to influence developments in nuclear energy trade, an ability essential to making that policy effective." Sanjuan is an AEI resident fellow and director of AEI's new Hemispheric Center.

Sanjuan says that "the United States should not be surprised or offended if traditional terms of friendship give way to pragmatism in the face of impending energy shortages." That possibility is advanced by Ambassador Aja Espil in his article on Argentina's nuclear policy. "The U.S. position on the transfer of nuclear technology does in fact represent a continuing source of irritation between the United States and all

U.S. Nuclear Export Policy: Views from Latin America, edited by Pedro Sanjuan (AEI *Foreign Policy and Defense Review*, vol. 1, no. 6). 26 pages, \$2.50.

recipients of such technology. Many developing countries believe that the U.S. position is arbitrary and gives the impression that the country does not want to share its technology. The true mission of nonproliferation is to ban the spread of nuclear weapons, not to stop the dissemination of nuclear technology for the benefit of mankind," the Argentine ambassador says. "Given adequate controls, access to the technology for the peaceful uses of nuclear energy by any country (whether or not it possesses nuclear weapons) should not be subjected to discriminatory restrictions."

Aja Espil concludes, "As the Brazilian and Argentinian cases have demonstrated, the countries that wish to produce their own nuclear fuels have other objectives beyond the weapons' potential. They do not wish to depend on other nations or on still imaginary agencies for their energy supplies, and they see energy independence as a vital symbol of modernization."

Mexican nuclear research director Costa takes a similar stand in his article, writing that "the imposition of unilateral measures of supervision and control . . . is an unnecessary pressure on recipient countries. The pressure becomes particularly irritating in the case of Mexico, a country that has clearly and beyond any shadow of doubt renounced all military uses of nuclear energy." He warns that countries like Mexico "will have to go their own way to ensure access to nuclear elements to develop their national programs."

"It remains obvious that if a country has the will to 'go nuclear' in the military sense, there is no way in which the states possessing nuclear weapons can prevent it." Therefore, Costa concludes, "the efforts of states possessing nuclear weapons should be addressed to the elimination of the threat posed by nuclear weapons, not to the prevention of the spread of the proven benefits of nuclear energy in its peaceful uses."

OAS advisor Gannon, looking at reshaping U.S. regional policy, also finds that "nuclear power is simply a *sine qua non* for mankind's future, notably so in the Western Hemisphere," and that the United States' nonproliferation policy is pricing it out of the market for both breeder and light water reactors.

He outlines a policy for regional energy development, in which the United States would commit itself with "the same determination and capacity it demonstrates in its policies for achieving nuclear nonproliferation." Such a policy would include:

- encouraging greater regional security, reducing the need for nuclear weapons;
- adopting policies for coping with energy emergencies;
- facing the challenge of small nations with no alternatives to oil;
- cooperation with Venezuela, using U.S. technology to develop Venezuelan oil reserves;
- expanding scientific and technical human resources in Latin America and the Caribbean to avoid their technological dependence;

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Bukovsky



Bukovsky Cites Reasons For Soviet Dissent

A Conversation with Vladimir Bukovsky is the edited transcript of a discussion held at the American Enterprise Institute for Public Policy Research in which the Soviet dissident discusses his life as a protestor of the Soviet system and the reasons for his dissent.

Bukovsky, one of the most highly publicized of the dissidents from the Soviet Union, is the author of *To Build a Castle: My Life as a Dissenter* (Viking Press, 1978). In the discussion, which involved AEI scholars and invited guests, he explains his theory of the role of a citizen, describes how Soviet-Western relations have hindered the development of economic and social freedoms in the Soviet Union, and offers insights into the attitudes and experience of Soviet citizens, particularly of workers.

Some of his comments include:

—"By reading the law of our country carefully, we (dissidents) discovered that, for propagandistic purposes, our authorities and our ideologists created legislation that seemed to be very democratic. . . . Strictly speaking, we are on the legal side, and our authorities are violating the law."

—"The symbol of this Olympics is, very shrewdly, a bear, a Russian bear with the Olympic sign. The implication is that the Soviets, a little bit awkward and sometimes rude, are still very good-humored, and that we can get along with them. . . . In 1980, when visitors buy these souvenirs . . . they may be sure they are buying a product of slave labor."

—"In your country, as in any free country, you are brought up with the idea that compromise is a good thing. . . . In the Soviet psychology, it is quite a different thing. We are brought up with the idea that compromise is just a manifestation of weakness . . . that we must press as far as the other side is ready to retreat."

A Conversation with Vladimir Bukovsky. 22 pages, 3353-9, \$2.25.

Government Restraint Said Key to Floating Rates

Flexible foreign exchange rates will work only if governments keep their interventions in the foreign exchange markets brief, according to an AEI study entitled *The International Monetary System: Beyond the First Stage of Reform*.

"Five years of experience with managed floating exchange rates and ratification of the comprehensive second amendment to the charter of the International Monetary Fund provide an appropriate opportunity for stock-taking in international affairs," writes J. Carter Murphy in the preface to his study. Murphy is professor of economics at Southern Methodist University. In 1971 and 1972 he was senior staff economist on the President's Council of Economic Advisers.

"I have attempted to gain perspective on the experience with floating rates and on the meaning of the International Monetary Fund's amendments so as to identify problems and policy options that lie ahead of us," Murphy writes. He argues that flexible exchange rates can be made to work only if governments keep their interventions in the foreign exchange markets small, if they employ monetary and fiscal policies judiciously, and if they co-ordinate internal policies so as to minimize their effects on domestic real interest rates. "This is not to say that governments ought never to intervene to provide depth and tone to the markets for foreign exchange or that all countries should treat their exchange rates in the same way," he says. "In general, however, governments' exchange market interventions should be brief."

Murphy says that there should be no further expansion of the resources of the International Monetary Fund because excessive official balance of payments financing shifts the burden of inflation away from the country responsible for it, misallocates world resources, and prolongs international payments imbalances such as those related to petroleum. "While flexible exchange rates can provide each government some leeway to follow internal financial policies of its choice, the choice is not unconstrained," he writes. "Economists agree

The International Monetary System: Beyond the First Stage of Reform, by J. Carter Murphy. 276 pages. 3362-8, \$7.25.

that the present high international mobility of capital limits the form that a nation's demand management can take if the management is to succeed while creating minimal disturbances abroad. Indeed, I conclude on this matter that monetary and fiscal policies must meet domestic needs without affecting real interest rates if the exchange rates are to vary without improperly disrupting other countries' competitive trading positions. Policy makers have yet to face up to this constraint on their choices, and they have yet to be realistic about what demand inflation can achieve. Their misapprehensions about the nature of the system have resulted in policy choices in the 1970s that have seriously impaired world economic performance."

Murphy finds the Eurocurrency markets reasonably dependable, but he is skeptical of the adequacy of central bank arrangements to deal with an international financial crisis. In addition, he feels that the dollar-centered international monetary system deserves to be cultivated. Its replacement by an SDR (Social Drawing Rights)-centered system would require significant new government undertakings without yielding advantages. Nonetheless, Murphy predicts international usage of the dollar will shrink, with dangerous consequences for the United States, if the United States does not manage its money supply with greater restraint. It is crucial to the world's market-oriented economies in the 1980s for the United States to build a political consensus that will permit improvement in this country's macroeconomic policies, Murphy says.

SOVIET POLICY (Continued from page eleven)

have dangerously. In any event, the Soviets will always keep open their options for conflict.

6. *Containment of expansion.* There has been a persistent theme among some American students of Soviet foreign policy that the Soviet Union has never forsaken opportunistic and expansionist strategies—for reasons of Soviet national interest and of communist ideology—whatever the shifts in its rhetoric.

Viewed in this light, Pranger sees the conflict within the Senate over SALT II as mirroring the conflict between the policies of the Carter administration and those of previous Republican administrations, particularly as formulated by former Secretary of State Henry Kissinger. "The debate on Soviet intentions in the Carter administration centers somewhere between perspectives two and four—between polycentrism and interdependence on the one hand and ambiguity and conflict on the other (the latter group tending to place more emphasis on human rights and on balancing Soviet power with recourse to China and to Third World interventions). For a Republican administration the focus of debate would probably take place between perspectives three and four, with strong representation for position six as well, though Kissinger did establish marriages of convenience with the revisionism and academic schools of interdependence to fortify his policy of detente.

"It is also possible that on SALT, senators may waver between perspectives, on the left mirroring the Carter administration's own difficulties in developing a consistent policy toward the Soviet Union, on the right reflecting some division among conservatives about the extent of their distrust of the Soviets."

Looking beyond the immediate issue of the SALT II treaty, Pranger recommends that "the path to wise assessment of Soviet policies is to adopt not one, two or even three, but six perspectives of such policies, and then decide on a case-by-case basis which fits any given area of Soviet-American relations." He calls this approach living with multiple realities.

"Americans will not accept easy answers to difficult questions, but we do believe that answers will eventually be found," Pranger states. "This creates a problem in our analysis of Soviet intentions in that there may be no single 'right' answer no matter how hard we search."

"Perhaps in the long run it is true . . . that the really crucial question in our relations with the Soviet Union will not be our analysis of the Soviets, but their analysis of us," he continues. "Yet on the latter issue the verdict is still out on whether the Soviets perceive us as weak or strong."

Competition of ideas is fundamental to a free society. A free society, if it is to remain free, cannot permit itself to be dominated by one strain of thought. Public policy derives from the ideas, speculation, and theories of thoughtful men and women. Policy makers themselves rarely originate the concepts underlying the laws by which we are governed. They choose among practical options to formulate legislation, governmental directives, regulations, and programs. If there is no testing of ideas by competition, public policy decisions may undermine rather than bolster the foundations of a free society.

The American Enterprise Institute for Public Policy Research fosters innovative research, identifies and presents varying points of view on issues, formulates practical options, and analyzes objectively public policy proposals.

Assuring effective competition in the arena of idea formation is the principal objective of AEI.

D.C. Mayor Marion Barry Discusses Urban Topics

A Conversation with Mayor Marion Barry, the edited transcript of an April 10 discussion between the mayor of Washington, D.C. and AEI scholars, fellows and invited guests held at the American Enterprise Institute, was published in September by the Institute. Topics covered include the D.C. voting rights amendments, the effect of the presence of the federal government upon the city, and youth employment.

Some points raised by Mayor Barry include:

On the federal government: "The federal government owns more than 50 percent of the land. There is supposed to be a federal payment to the city in lieu of taxes, but that comes to only 19 percent of our total budget. We believe that it ought to be at least 50 percent of our locally raised revenues."

On unemployment: "We are almost a company town in the sense that the federal bureaucracy dominates what happens here, and it is very difficult to create semi-skilled and unskilled jobs. . . . Jobs are a very serious problem, not only locally but nationally. It has to be tackled by the national government. . . . Only at the national level can we get the kind of help we need. I believe the government is an employer of last resort."

On CETA: "By and large, the majority of the participants in the CETA program have wanted to learn and want to work, and the prime sponsors have run a fairly good program under the circumstances. It has been abused in some places, but I do not think we ought to use the abuses as excuses for not funding, at a good level, public service employment."

A Conversation with Mayor Marion Barry. 18 pages, 3347-4, \$2.25.

Church-State Ties Are Examined by Authors

The proceedings of a two-day conference on the "new shape" of church-state relations was published in November by the American Enterprise Institute. The conference was held in New York City in May 1978 as part of AEI's continuing study of the role of "mediating structures" in public policy. Mediating structures are defined as those institutions in contemporary society which stand between the individual's private life and the large institutions of the public sphere. Notable among them are the family, organized religion, voluntary associations, neighborhood, and ethnic and racial subcultures.

The publication, *Church, State, and Public Policy*, explores the tension between the institutions of religion and those of government. This tension, the report says, "is both very old and very necessary. . . . In a democratic society where no one institution monopolizes legitimate authority, this tension will always be assuming a new shape in response to new circumstances."

"Recent events make clear that the church-state issue is far from settled: the continuing debate over the role of religion in restricting abortions; congressional investigation into 'cults' following the mass suicide-murders in Jonestown, Guyana; the legal controversy surrounding groups such as Mr. Moon's Unification Church; the efforts of the Internal Revenue Service to narrow the definition of tax-exempt

religious activities and to regulate church-related schools in order to enforce laws against racial discrimination; the Labor Department's proposal to bring parochial schools under its supervision of employment practices."

The conferees do not attempt to resolve any of those specific points of tension, but rather to examine the guiding

Church, State and Public Policy, edited by Jay Mechling. 119 pages. 2159-x cloth \$10.25, 2160-3 paper \$5.25.

assumptions by which those and many other controversies should be resolved, always recognizing that such resolutions are provisional.

Conference papers reprinted in the book include:

—"Confronting the Danger of the Moment" by Dean M. Kelley, executive director for religion and civil liberties of the National Council of Churches. Kelley examines "the possibilities and perils of the churches' role as 'mediating structures' in light of current thinking about the church-state relationship."

—"A Theological Link Between Religious Liberty and Mediating Structures" by John A. Coleman, S.J., of Woodstock Theological Seminary in Washington, D.C. Coleman draws on the works of Catholic intellectuals and theologians to "rehearse briefly the dominant theological-ethical-judicial case for religious liberty, separation of church and state, and subsidiarity."

—"Mediating Structures and Constitutional Liberty: Some Current Situations" by attorney William Bentley Ball, who argues that mediating structures are on the defensive because "government in America has become an industry—greater, more dynamic, wealthier, and more expansionist than the capitalism of the Harrimans and Rockefellers ever was in its nineteenth-century heyday."

—"The School As a Mediating Structure: Some Concerns About Subversion and Co-optation" by Donald A. Erickson of the Center for Research on Public Education at the University of San Francisco. Erickson, focusing on the school, describes "how a mediating structure (one type, at least) functions, some conditions that enable it to flourish, and how it may be subverted or co-opted—even transformed into a megastructure—by the government in a too eager embrace."

Jay Mechling, professor of American studies at the University of California at Davis and editor of the volume, concludes with a summary of the conference discussions.

LATIN AMERICA (Continued from page twelve)

—placing the relationship between Mexico and the United States on sounder footing;

—developing regional energy funds.

OAS Secretary General Orfila writes that "perhaps for the first time in their history, Latin America and the United States are confronting each other as equals," due to newly discovered energy resources in Latin America and its growing economic strength. He states "a policy of nonproliferation is no substitute for formulating a common regional policy for energy production and development, a policy currently conspicuous by its absence."

Orfila recommends regional cooperation and integration, similar to that developed in post-war Europe. "What we now require are both practical policies, starting as in Europe with energy cooperation, and practical statesmen to allow the American countries to strike a 'new bargain' leading to cooperation for development and continental integration. This cooperation must become an open and a two-way street with Latin American and the United States equally giving to, and receiving from, each other."

U.S. Policies Toward Mexico Are Explored

U.S. policies toward Mexico are examined in a December AEI publication. *U.S. Policies Toward Mexico: Perceptions and Perspectives* contains the edited proceedings of a conference on current issues, such as oil and immigration, that underlie U.S.-Mexican relations. Co-editors of the volume are Richard D. Erb, an AEI resident fellow, and Stanley R. Ross, co-ordinator of the Mexico-United States Border Research Program at the University of Texas at Austin, where he is also a professor of history. The February 1979 conference was part of an American Enterprise Institute project on "The Future Conduct of American Foreign Policy." The project focuses on the changing nature of U.S. relations with other nations.

In a foreword to the book, Ambassador George Bush, then-director of the project, notes that the issues in U.S.-Mexican relations "are complex, and there are many different perceptions and perspectives on how best to deal with them. Unless these perspectives and perceptions are taken into account when formulating U.S. policies, however, the national interest will not be well served."

The book is divided into three parts. In Part One, Ross presents an historical view of U.S.-Mexican relations, while Erb outlines present and future problems.

In Part Two, Victor L. Urquidi, president of El Colegio de Mexico in Mexico City, provides a Mexican perspective on U.S. policy choices and decisions; Peter T. Flawn, president of the University of Texas at Austin, addresses regional issues concerning the flow of water, labor and trade across

U.S. Policies Toward Mexico: Perceptions and Perspectives, edited by Richard D. Erb and Stanley R. Ross. 56 pages, 2166-2, \$4.25.

the border; and the Honorable Gale W. McGee, ambassador and permanent representative of the United States to the Organization of American States, examines relations between the two countries from a policy making perspective.

In Part Three, conference participants engage in a question and answer session with members of an invited audience.

The conference was co-sponsored by AEI and six Houston-based organizations: the Houston Chamber of Commerce, Houston Committee on Foreign Relations, Houston Hispanic Chamber of Commerce, Houston World Trade Association, Institute of International Education, and Port of Houston Authority.



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Experts Assess Threats to World Economic Order

Potential problems facing the present system of international economic cooperation and proposals for changing the structure and operation of the system are discussed in *Challenges to a Liberal International Economic Order*, the published proceedings of a conference sponsored by the American Enterprise Institute for Public Policy Research in December 1977. The volume is co-edited by Ryan C. Amacher, chairman of the department of economics at Arizona State University; Gottfried Haberler, AEI resident scholar; and Thomas D. Willett, professor of economics at Claremont Men's College.

The volume is divided into six parts that contain the papers presented at the conference, the prepared discussion papers and a summary of open discussion.

Part I offers an overview and historical perspective to the challenges the liberal order faces, by Thomas D. Willett and Gottfried Haberler. Parts II, III, and IV present discussion of specific challenges to the liberal order: commodity problems, restrictive trade practices, and the multinational corporation. Part V discusses the dilemma of restrictive policies to counter foreign monopoly power. Part VI concludes the volume with a discussion of strategies for achieving a more liberal *and* more equitable international economic order.

Contributing to the volume are:

Bela Balassa, the Johns Hopkins University and the World Bank

Robert E. Baldwin, University of Wisconsin

Jacob S. Dreyer, Department of the Treasury

Richard D. Erb, American Enterprise Institute

J. Michael Finger, Department of the Treasury

Malcolm Gillis, Harvard University

Gottfried Haberler, American Enterprise Institute

Robert G. Hawkins, New York University

I. M. D. Little, the World Bank

Gordon W. Smith, Rice University

Jam Tumlir, General Agreement on Tariffs and Trade, Geneva

Ingo Walter, New York University

Thomas D. Willett, Claremont Men's College

Challenges to a Liberal International Economic Order, edited by Ryan C. Amacher, Gottfried Haberler, and Thomas D. Willett. 488 pages. 2151-4 cloth \$16.26, 2152-2 paper \$9.25.

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