The Real Free Lunch: Markets and Private Property
by Milton Friedman

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

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

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

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

Free Lunches in the Budget

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

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

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

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

We stand at the midpoint of the Bush-Chinlon years—years that history will record as shaped by high interest rates, higher spending, more regulation, and a general failure to recognize the lessons of history and to join the market-liberal revolution that is sweeping the rest of the world. From Moscow to Buenos Aires, from Wellington to Lombardy, from Stockholm to Soweto, people are questioning the efficacy of government and moving toward human rights and free markets. Yet here in the United States, after four years during which the federal government grew dramatically without any ideological arguments being advanced for big government, a new administration elected by 22 percent of the American electorate is promoting bigger and more expansive government in every imaginable area. Just consider the proposals of Bill and Hillary's first 100 days: a massive tax increase, a high-tech subsidy program, a government-industry partnership to build better automobiles, a national commission to ensure a strong competitive airline industry, national youth service, a 20-year plan for defense industry conversion, managed trade with Japan, a new computer chip to allow the government access to all forms of electronic communication, and the piece de resistance, 500 bureaucrats organized into 15 committees and 34 working groups to recreate in 100 years one-seventh of the American economy. Or at least that seems to be the piece de resistance, until Hillary Clinton announced in May that her next project would be as human beings in the post-modern age. "That should make recreating an $800 billion industry seem like a piece of cake."

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

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

I frequently hear our friends say that we've won the intellectual battle and that only the mopping up remains. I can't agree. We have achieved something tremendous in the past 10 years. We have intellectually—and for the most part practically—defeated the most coherent, most comprehensive alternative to the free society that the world has seen.

—David Boaz
Cato Policy Report

Income Tax Repeal Activated

Cato Events

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

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

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

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


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

May 6: The grand opening of the new Cato Institute building was celebrated with several events. A Founders lunch for major contributors hosted by Sen. Hank Brown as guest speaker. An opening ceremony for Cato Sponsors, held in the F. A. Hayek Auditorium, featured remarks by finance committee members, Rep. Richard B. Whatley, R-Miss., and John R. Waterman of the Ethics and Public Policy Center, responded that the Founders saw liberty not as individual autonomy but as "the right of the community to be governed by laws of its own making."

May 7: Supreme Court Justice Antonin Scalia joined the policy staff for a Roundtable Luncheon. The spirited discussion covered regulation and the takings clause of the Fifth Amendment, the reasoning of the Ninth Amendment, judicial reference to unenumerated rights, and the Court's role in halting the expansion of federal power.

Cato Policy Report

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Recent Publications from the Cato Institute

Catalogue

Grassroots Tyranny: The Limits of Federalism by Clint Bolick. Examines the widespread abuse of government power at the state and local levels. "Bolick makes a compelling case for more vigorous, evidenced-based judgment at all constitutional levels."—Nadine Strossen, president, ACLU $27.95 cloth / $17.95 paper.

Apocalypse Not: Scarcity, Economics, and Environmentalism by Ben Bolch and Harold Lyons. Debunks a host of alleged environmental threats, including radon, asbestos, ozone depletion, and overpopulation. "This neat little book makes a valuable addition to the fund of knowledge about the big, scary, problems of modern environmentalism."—Gow Dey Ray $18.95 cloth / $10.95 paper.

Failure and Progress: The Bright Side of the Dissolution Science by Dwight R. Lee and Richard B. McKenzie. Argues that the money absorbed by bureaucracies in the name of helping the poor would be better spent in the wealth-creating sector producingjobs and economic growth. "Most reading for bleeding hearts of all political stripes."—Paul Craig Roberts $15.95 cloth / $9.95 paper.

EcoScam by Ron Bailey. A critical look at the numerous environmental events promoted by special interests. "Explores shibboleths of the environmental movement in an unsettling, though provocative manner that is certain to stir controversy."—Publishers Weekly $17.95 cloth.

Kindly Inquire: The New Blackmail on Free Thought by Jonathan Rauch. An impassioned defense of unfettered intellectual freedom and rebuff of those who would impose political correctness. "A powerful salvo in the war over political correctness—and a ringing reaffirmation of the principles of free thought as conceived by Locke, John Stuart Mill, and others."—Kirkus Reviews $17.95 cloth.

Policy Analysis Studies

194. How to Balance the Budget by Reducing Spending by William A. Niskanen and Stephen Moore (April 22, 1993) $4.00

195. The Economic Impact of Replacing Federal Income Taxes with a Sales Tax by Laurence J. Kotlikoff (April 15, 1993) $4.00

196. The Futility of Raising Tax Rates by Bruce Bartlett (April 8, 1993) $4.00

197. Present at the Recreation: The Need for a Rebirth of American Foreign Policy by Jonathan C. Carter (March 31, 1993) $4.00

198. National Service: Utopias Revisited by Doug Bandow (March 15, 1993) $4.00

199. Energy Conservation and Efficiency: The Case against Conservation by Jerry Taylor (March 5, 1993) $4.00

200. The Myth of America's Underfunded Cities by Stephen Moore and Dean Stansel (February 22, 1993) $4.00

201. Caveat Emptor: The Head Start Scandal by John Hood (December 18, 1992) $2.00

202. How Governors Think Congress Should Reform the Budget: Results of a Survey of U.S. Governors and Former Governors by Stephen Moore (December 9, 1992) $4.00

203. The CIA as Economic Spy: The Misuse of U.S. Intelligence after the Cold War by Stanley Koiher (December 5, 1992) $4.00

204. Health Care Reform: The Good, the Bad, and the Ugly by Michael Tanner (November 24, 1992) $4.00

205. Doing What We Can for Haiti by Ivan Vatapov (November 5, 1992) $4.00
The Btu Tax: An Economic and Conservation Disaster

Policy Forum

The Cato Institute regularly sponsors a Policy Forum at its Washington headquarters, where distinguished analysts present audience-drawn from government, the media, and the public policy community. A recent forum, held shortly before the House and Senate voted on President Clinton's proposed energy tax, dealt with the fiscal, economic, and environmental effects of the tax. The featured speaker was Norman T. Bure, president of the Institute for Research on the Economics of Taxation and an adjunct scholar of the Cato Institute.

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

The first and certainly the most obvious and perhaps the least salient effect of the tax is that uniform, energy tax will be to increase the operating costs of all households and all business. And the evidence is very clear: the stress that the tax will not increase costs uniformly. Obviously, it will increase costs more for companies and households that are, for one reason or another, more energy intensive in their operations. It's also worth noting that companies and households are interesting to take a quick peek at which companies those are. Manufacturing companies, for the most part, are going to take a heavy hit. I mention them first not necessarily because the burden on manufacturing will be greater than on other industries but because the president cited lack of job growth in the manufacturing sector as one of the reasons for his concern about the strength and effectiveness of the recovery. I should say that he proposed an increase in a tax that is certainly going to have an adverse effect on the manufacturing sector, and therefore an adverse effect on employment in manufacturing, at the time when we were being worried about the lack of job growth in that sector.

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

In response to higher costs, businesses will try to raise their prices. Since income will not be increased by the tax, and since there are no zero price elasticities, the obvious consequence is that businesses try to raise their prices, buyers of business products will attempt to reduce, and will succeed in reducing the volume of those purchases. As buyers cut back on purchases, businesses, unless they are willing to operate at a higher fixed cost, have no prospect of their sale, will reduce output. As output is reduced, so will the costs of the business, and therefore, the rates of compensation for those production inputs. There will be a whole range of ways in which the costs of those consequences are added together, we get a lower gross domestic product and a lower level of compensation. As the tax rate increases, I think we would have otherwise.

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

Another of the collateral effects is what the tax will do to productivity through

out the nation, a matter, among many others, to which this administration has not directed its attention. It should be obvious that the energy tax is one of the major elements that tends to enhance the productivity and the used of our resources, and it's only the cooperation of all sorts of examples in the operation of your own household. Eliminate certain appliances, consider appliance energy and visualize yourself and your spouse trying to perform the same sorts of household services without them. Just multiply that many fold for the ordinary business operation.

One important input becomes more expensive, and if, as a result, fewer energy inputs are used, the productivity of labor will necessarily be lower than it otherwise would have been. The productivity of labor and the marginal value-of-productivity curve for labor services are measures of demand for labor services, and decreased productivity will mean reduced demand for labor services. We all know what happens when the demand for a product or service decreases: the supply of that product or service must be decreased, and that is what we are doing.

The real wage rate in this case, is lower than it would have been otherwise. The same sort of thing will happen with respect to capital inputs. Business decisions about the production of various technologies on which they rely, and the question is, is there any conceivable way we can use this as a revenue-neutral tax that will lead to more efficient production? To answer in the affirmative would be to say that businesses do not respond to opportunities to lower their costs but choose instead to operate in a more efficient manner. If this is the case, we find entirely repugnant and entirely unrealistic. If businesses could reduce their production costs by shifting production technologies, surely they would be in the process of doing so.

Well, to be able to establish the notion that there is a social cost associated with the use of energy, we need demonstration that the price at which energy is bought and sold in the marketplace represent the real costs of producing and using energy supplies. I haven't any idea how any of you, let alone anyone else, in this very different environment, that that notion is true. Conservation really involves is trying to determine the optimum rates of production and use of whatever it is that is being considered. By artificially escalating the price of energy inputs, we are asking people to misread the real conditions that would determine those optimum. What we will get is another of the many effective excises of taxes of this character: it will induce us to do the wrong thing.

As for energy independence, it should be noted that energy supplies are not fixed. Various quantities of different types of energy inputs are obtainable at various prices. For example, we would have to cut off our supplies of any other product we import, the price of that product would have to be increased, that is, if we are to do it, it is not an incentive to produce more domestically. The same is true of oil. Yet we are told that this tax would reduce demand so that foreign competitors can't cut off our supplies and by raising the costs of energy, it will reduce the effect of reducing our GDP and our national income. To guard against that continued, I would impose a tax that raises the price of energy, causes us to use less, and thereby reduces our GDP and our national income. I sense an inherent contradiction in that argument.

Finally, the energy tax will be hidden from the consumer in the cost of energy produced products and services. For example, it will have a tremendously adverse effect on wholesale and distribution process. They will have to try to recoup, because their profit margins are minimus, the energy tax by raising prices to retailers who then will have to raise or try to raise prices on consumers. I think the consumers be able to distinguish the part of higher prices that represents the energy tax.

I can conceive of nothing better suited to inflating the size of the government the tax would do on our resources—than a hidden tax. In terms of fiscal policy, the energy tax is really as bad a tax as one could design.

Of course, the real reason we're talking about energy policy is not necessarily whatever we do with conservation or energy independence or social costs. It has to do with raising money to reduce the deficit. The way to assess the effects of the proposed tax is to determine what gains in deficit reduction would outweigh the enormous increase in the costs of all or us to society. I cannot do this, in the context of this paper, this context in part of the reason, I don't believe that anybody in the administration can.
At Last! Cato and Friends Celebrate the New Building

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


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

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

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

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

June and Milton Friedman talk with Charles Murray at the American Enterprise Institute after the dinner at the Washington Hilton to celebrate the Grand Opening of the new Cato building on May 4.

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

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

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

The view from the president's office.

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

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

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

Nadine Strossen, president of the ACLU and professor at New York Law School, discusses civil liberties at the Grand Opening.
"We're Being Governed by Dorm-Room Bull Session"

The Cato Institute has an unusual political cause—no political cause enhances—we are here to night to dedicate ourselves to that cause, to dedicate ourselves, in other words, to...nothing.

We have no ideology, no agenda, no catastrophe, no dialectic, no plan for humanity. We have no "vision thing," as our ex-president would say, or, as our current president: would say, we're a "no Hilbert's" kind of people. All we have is the belief that people should do what they want to do, unless it causes harm to other people. And that had better be clear and provable harm. No nonsense about second-hand smoke or hurtful, insensitively-pleased.

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

That is because we believe in need of all—what this country was established upon, what the Constitution was written to defend, what the Civil War was fought to protect.

Freedom is not empowerment. Empowerment is what the Serbs have in Bosnia. Anybody can grab a gun and be empowered. It's not empowerment. It's not freedom. The need of all is what people on welfare get, and how free are they? It's an endlessly expanding list of rights—the "right" to education, the "right" to housing, the "right" to food and housing. That's not freedom; that's dependence.

Those aren't rights; those are rationals of slavery—have a home for human cattle.

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

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

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

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

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

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

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

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

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

You know, if government were a product, selling it would be illegal. Government is a health hazard. Governments have killed many more people than cigarettes or unincorporated seatbelts ever have.

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

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

And the most glaring issue at the federal budget is enough to convict government of perjury, extortion, and fraud.

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

P. J. O'Rourke is the Mencken Research Fellow of the Cato Institute and the author of numerous books, including Parlia

ment of Whores. He delivered these remarks at the Cato Institute's Grand Opening banquet on May 6, 1993.

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Cato Policy Report Balance the Budget without New Taxes

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

The United States has the opportunity, and the responsibility, to radically overhaul its security commitments and save as much as $50 billion a year on defense. (See Jona
tha G. Clark, a retired British Foreign Service officer, in "The Need for a New International Policy of America's Regime?" Policy Analysis no. 191.) Clark states that most countries in the world will be local in nature and very few of them will affect U.S. security.

Yet, he writes, key members of the Clinton administration seem to be clinging to the Cold War mindset and its assumptions, in particular the belief that America is not in a quiescent era. Clark reinforces the strategic, economic, and moral arguments for that course and shows that continuation of the status quo would require the United States to be the world's policeman. The tab would run nearly $3 trillion over the next five years, an additional $50 billion for intelligence collection alone.

The United States continues, "Pursue NATO to the tune of more than 150 percent of the total defense budget of other Western Europe. Meanwhile, the combined defense expenditures of those members are shrinking by 2 percent. By eliminating obsolete commitments overseas and transferring responsibilities to regional actors, the United States can guard its core security, remain actively engaged in foreign affairs, and retain the capability to project power globally, should that be necessary. Those objectives can be achieved with a defense budget of about half the size of the one currently projected.

Clark identifies "aggressive unilateralist" on trade issues as the true threat to global stability and advances adoption of a regional policy, "a move against unipolarity and open markets.

Balanced Budget Requirements: No Tax Elev

The federal budget can and should be balanced by 1998, without raising taxes, according to chairman William Niskanen and fiscal policy director Steve

phen Moore. "In How to Balance the Budget" (Policy Analysis no. 194), they present a plan to balance the budget based on a judg

ment that government has grown too large and that most people do not get their money's worth from the current budget.

Rut, Illinois is now spending about $20,000 per household.

They would reduce the Department of Defense budget to $375 billion by fiscal year 1998, about $78 billion below the level proposed by President Clinton; make reforms to stabilize the So

cial Security system without reducing the real benefits of current retirees; and reform medical care programs to reduce the increase in the relative prices of and expenditures for medical care.

They further call for sequencing, reducing 4 percent of the outlays for all domestic programs except Social Security in the second half of FY93 and freezing total real outlays for those programs from FY94 through FY98. Niskanen and Moore would also terminate or reduce spending on 50 federal programs and thereby save more than $12 billion by FY96.

No Military Solution to North Korean Bomb

North Korea's abrupt withdrawal from the Nuclear Nonproliferation Treaty (NPT) underscores the need for the United States, but proposals by some U.S. policy experts to launch preemptive military strikes are overzealous.

Consider the new study from the Cato Institute. In "North Korea and the Risks of Coerce

The primary author, Cato fellow Doug Bandow, writes that a military response could easily trigger a major war on the Korean peninsula, engulfing the 36,000 U.S. troops stationed there and causing the deaths of tens of thousands of Co

korea.

Bandow urges that Washington, instead of resorting to high-risk military options, work with Beijing, To

kyo, and Seoul to draw North Korea into the web of international diplomatic and economic relations and persuade Pyongyang to honor its commitments to the NPT.

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

Massive Aid to Russia Won't Help

President Clinton's proposed $45 billion aid package to Russia is only a fraction of what President Clinton last April in

Vancouver would not benefit the Rus

sian population, says Karen LaFontle in "Soft Assistance for Hard Russian Reform" (Foreign Policy Briefing no. 25). LaFontle, a research associate with the Institute for Political Economy, stresses that private property is the heart of a market economy and that privatization of state-run Russian enterprises is the one reform on which the success of other reforms depends.

Massive aid, as recommended by Western advisors, especially the World Bank and the International Monetary Fund, would merely provide handliners with a new source of patronage and power. The United States should invest in Russian institutions and slowing the transition to a market economy.

The Cato Institute's grand new market economy in Russia, LaFontle recommends that the West encourage the establishment of a Russian economy. If needed, the United States can help Russia overcome trade policies that would attract foreign investment; work to remove remaining trade barriers; help privatize Russian industries; reduce disincentives, such as the Foreign Corrupt Practices Act, that prevent commercial relations; and support the creation of small businesses.

Mark Your Calendar!

Cato Benefactor Summit

Grand Cayman Island

February 17-20, 1994
President Clinton has said that we need widespread sacrifice and concentrated benefits. The fact is that we need exactly the opposite: widespread benefits and concentrated sacrifice.

We Americans are far wealthier today than we were 60 years ago. But we are less free. And we are less secure. When I graduated from high school in 1929, the rate of federal spending at all levels in the United States was a little over 10 percent of the national income. Two world wars, the Korean War, and the Vietnam War raised the federal spending to a little under 30 percent of the national income. And, like everything else about our lives, federal spending is largely beyond our control. Where the president and Congress set the federal spending a few years ago, that is what we get. The same is true of the local and state governments. The political system is basically the same. It is run by a few people, and most of us have no way of changing it. The system is designed to work against democracy and to work for the rich. It is a system that is run by people who are interested in their own interests, not in ours.

The Washington Post

In a Glaze of Glory: The Cato Building

By Benjamin Forgey

When Pierre L. du Pont, son of the great-great-grandson of the founder of E. I. du Pont de Nemours & Co., laid the groundwork for his new building on Pennsylvania Avenue, he was building not just a trophy building, but a symbol of a new era in architecture and design. The Cato Institute was founded in 1977 with the goal of promoting a new era in public policy, one that is based on the principles of individual freedom, the rule of law, and the protection of property rights.

The Cato Institute's new headquarters at 3000 Massachusetts Avenue, NW, is not only a testament to the enduring spirit of American enterprise and innovation, but it is also a symbol of the Cato Institute's commitment to providing a voice for those who believe in the principles of individual freedom, the rule of law, and the protection of property rights. The Cato Institute is an independent, nonpartisan research organization that provides a voice for those who believe in the principles of individual freedom, the rule of law, and the protection of property rights.

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

(Cont. on p. 14)
poverty line. We both went to government schools, and we both thought we got a good education. Today the children of our generation, responding to what we had then have a much harder time getting a decent education. We are forced to walk to school; in fact, we could walk in the streets without fear almost everywhere. In the grips of the Depression, when the number of truly disadvantaged people in great trouble was far larger than it is today, there was nothing like the current concern over personal safety, and there were few panic-stricken children. Little girls and little boys that you had on the street were trying to sell apples. There was a sense of self-reliance that, if it hasn't disappeared, is much less prevalent.

In 1938 you could even find an apartment to rent in New York City. After we got married and moved to New York, we looked in the apartments-available column in the newspaper, chose half a dozen we wanted to look at, did so, and rented one. People used to give you a tour of the house. The spring, go away for the summer, and come back in the autumn to find new apartments. This was the rental season. In New York today, the best way to find an apartment is probably to keep track of the classifieds. What's produced that difference? Why is New York housing a disaster today? I justify does evidence exist that the people who want to go to government operate. If you want people to act differently, you have to treat them in your own self-interest to do so. As Armin Alchian always says, there's one thing you can count on everybody in the government to do. The first step is also a step to make sure the government is in the local interest above yours. I have no magic formula for changing the self-interest of bureaucrats and members of Congress. Constitutional amendments to limit taxes and spending, to rule out deficits as far as possible, to put the national interest would be fine, but we're not going to get them. The only viable thing on the national horizon is the term-limits movement.

A six-year term limit for representatives of the House makes real sense. On the other hand, if you start exactly the same enterprise in the government sector, but with exactly the same prospects for failure, and it begins to fail, you have a much better alternative. You can say that the same thing for any job, that genuinely and really have been undertaken on a bigger scale; and you don't have to dig deeper pocket into which to dig, that of the taxpayer. In perfectly good conscience, one can buy at the place where it typically succeed in persuading, not the taxpayer, but the congressmen, that everybody will share in the benefit and that all it needs is a little more money. And so, to coin another aphorism, if a private venture fails, it's closed down. If a government venture fails, it's expanded.

**Instructional Changes**

We sometimes think the solution to our problems is to elect the right people to Congress. I believe that's false, that if a random sample of the people in this room were to replace the 435 people in the House and the 100 people in the Senate, the results would be much the same. With few exceptions, the 435 people in the House are an obvious evil to the welfare of the people who want to do good. They're not deliberately engaging in activities that they know to be bad; they're simply immersed in an environment in which all the pressures are in one direction. Recent studies demonstrate that most of the pressure for more spending comes from the Congress itself, and for a reason: generating monstrosity in my opinion, the only way we can change it is by increasing the cost of being in the government. If you want people to act differently, you have to treat them in their own self-interest to do so. As Armin Alchian always says, there's one thing you can count on everybody in the government to do. The first step is also a step to make sure the government is in the local interest above yours. I have no magic formula for changing the self-interest of bureaucrats and members of Congress. Constitutional amendments to limit taxes and spending, to rule out deficits as far as possible, to put the national interest would be fine, but we're not going to get them. The only viable thing on the national horizon is the term-limits movement.

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"To be governed..."

What must the radicals be like?
Chris Hani, leader of South Africa's Communist Party [and] former head of the African National Congress's armed wing... was assassinated today....
"I fear for our country," said a shaken Anglican Archbishop Desmond Tutu. "Chris Hani, more than anyone else, had the credibility among the young to rein in the radicals."
—*Washington Post*, Apr. 11, 1993

Civil liberties are too precious to be handed out indiscriminately
A decision by the Internal Revenue Service to fine Jerry Falwell's Old Time Gospel Hour $50,000 and revoke its tax-exempt status for two years may be the beginning of a crackdown on involvement of religious groups in politics.
That is the assessment of Arthur Kropp, president of People for the American Way, a civil-liberties watchdog group, who views it as a positive step.
—*Washington Post*, Apr. 10, 1993

Everything belongs to the government until they give it back to us
"Tax expenditures" are a particularly wasteful and unhelpful way to allocate the government's limited resources.
—Robert S. McIntyre, letter to the *New Republic*, May 3, 1993

Hope springs eternal
District [of Columbia] and federal officers nabbed nearly 30 suspected drug dealers... yesterday in an effort to wipe out four splintered drug organizations in Northeast [Washington]... touted as the largest bust in city history....
Police said the arrests could slash the drug trade in the area by as much as 75 percent and that they hope to see a drop in homicides and other violent attacks.
—*Washington Times*, Apr. 16, 1993

The chairman of the special committee on air pollution is holding his breath till he turns blue
It's been 11 days since Tony Hall last had a meal....
Hall used to be the chairman of the House Select Committee on Hunger. On March 31 Congress abolished his committee and three other advisory "select" committees in a modest effort to scale back its spending. Five days later... Hall stopped eating.... What he wants is the hunger committee back.
—*Washington Post*, Apr. 16, 1993

And someday, maybe, the American republic
Russian [Regional] Republic Has a Capitalist President —headline in the *Washington Post*, May 17, 1993

Maybe we wouldn't rather be governed by the first 1000 names in the Boston phone book than by the Harvard faculty
[Twenty-four] percent of the medical dollar in 1987 went to administration costs, i.e., paperwork... Reducing administrative costs with simple restrictive legislation requiring no more than 10 percent administrative costs would undoubtedly double the savings.
—Yale Berry of Boston, letter to the *New Republic*, May 3, 1993

Four years without a scandal ain't bad
The agency created four years ago to clean up graft in New York City school construction contracts faced its first corruption scandal yesterday. Two of its own managers were arrested in connection with a bid-rigging scheme—one of whom, it turns out, was hired despite a burglary conviction in 1989.
—*New York Times*, Apr. 21, 1993

Like us, for instance
Reflecting on the larger debate over whether government regulation or market competition will successfully drive down the cost of health care, [White House aide Ira Magaziner] said, "In this town, most people don't believe in competition, that's my observation."
—*Washington Post*, May 13, 1993

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