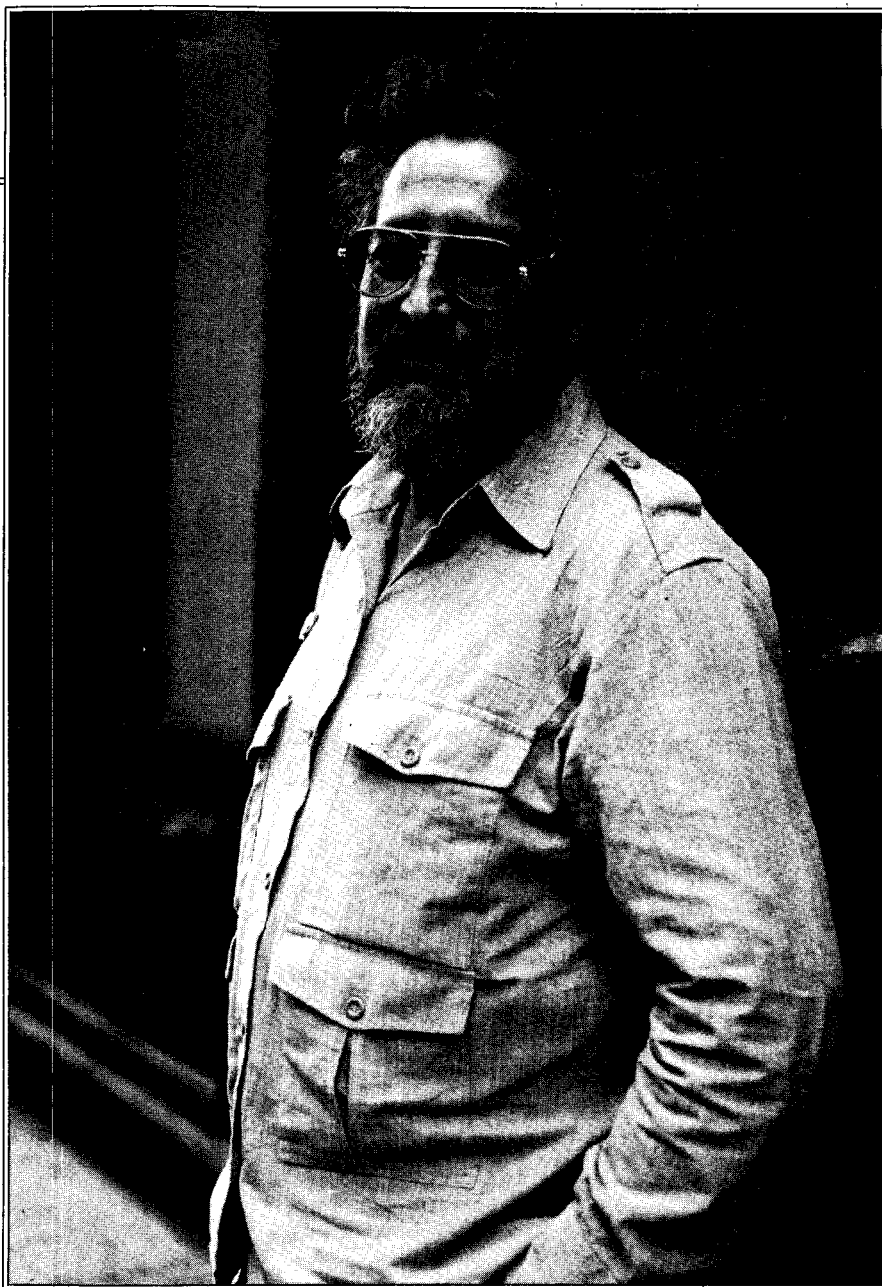


Karl Hess was present at the creation of the New Right: he was a founder of National Review, a Goldwater speech writer in the campaign of 1964, a well-placed employee of the Republican National Committee.

Now, having been purged from the party after the Goldwater deluge, and going through a career as a welder, lecturer, technologist, tax resister, and other useful pursuits, Karl finds himself rather comfortably, though not elegantly, ensconced with his partner and wife, Therese, on a small parcel of West Virginia real estate in a self-built home. From this base of operations he and Therese edit a newsletter, *Survival Tomorrow*, go to country auctions in search of antiques for resale to wealthy Washingtonians, and practice anarchist living.

Free-lance journalist A. Lin Neumann sat down with a tape recorder and Karl Hess recently to talk about the state of the nation, the state of the right, and what Karl thinks about the current crop in the White House. As they talked, Neumann reports, Karl demonstrated his latest project: learning to print the English alphabet. Just print. It's part of a seminar he attended held by *Volunteers in Literacy to America*. It seems that when you teach people to read and write, script won't do and a typewriter is downright impractical. So Karl has laboriously relearned one aspect of his ABCs.

"The simplicity of printing," says interviewer Neumann, "contrasted with the difficulty of learning how to print, seemed an appropriate metaphor for the Hess message: it is easy to be free but often hard to exercise that freedom."



REASON INTERVIEW

Karl Hess

REASON: Karl, how did it all begin for you? When did you start to get involved in politics?

HESS: I remember when Roosevelt was elected and my mother, who was a switchboard operator, had the good sense to realize he was a social fascist despite all the good things he said he wanted to do, specifically for people like my mother. She was poor but had once been married to a very rich man. I guess she had views of both worlds. But she understood that

he was going to do this sort of stuff at the point of a gun and generally speaking was going to make the middle class pay for it, all of which was true. She thought well; she didn't have access to much information, but she was a good thinker. So I was impressed. By the time I was nine years old I was living with a woman who was politically analytical. These were matters of great concern to her.

We talked about it a lot, and since she had the good sense to teach me to read and write, we read about it a lot. And she was a great admirer of H. L. Mencken, so I read Mencken when I was quite young. She was at the same time an admirer of George Bernard Shaw, so I read the English socialists and the American individualists at about the same time. For a young person, some of the idealism of socialism is very attractive; and if you're guarded by an attention to individualism, this idealism really can't hurt you. Then I read a lot of the then fairly popular anarchists, or libertarians—people like Frank Chodorov. My mother had always discussed with me the notion that the most important person on earth was yourself and this applied exactly to every other person too.

I really didn't like Roosevelt, that whole gang, my sense even as a kid was that he was an emperor of sorts, very elitist. I went to work when I was 15, and by that time I was an absolutely thoroughgoing Republican because the Republicans opposed Roosevelt. I knew that other people opposed him too, but it just wasn't convenient to be a Communist, mostly because I couldn't get to be one. I tried annually to be one, but they wouldn't let me play—too young, too suspicious, I suppose. Well, my mother was a working woman. Why should they trust anyone from a working-class family? And she hadn't graduated from high school, as I didn't.

I did get to be a socialist—a Norman Thomas Socialist. It was because I thought the ideals were just great, but when you go to a few socialist meetings and you discover that the ideals, which I thought had to do with the importance of the individual, are to be put into action by extinguishing the responsibility of the individual and replacing it with corporate power—corporate political power, in effect—then it's not so good. So I stopped being a socialist and just became a regular Republican but with very definite libertarian leanings. I thought they were shared by most Republicans, but they certainly weren't.

I went to work for the Republican National Committee—I forget how old I was then, but I was just a teenager. That was in the time of Dewey. It was mainly that anyone who opposed Roosevelt seemed pretty good. By the time I got to be an official grown-up, the Republican Party was pretty well divided into a tiny minority of old Taft-type conservatives and libertarians—people like Frank Chodorov and others—and the new big-business, Cold War faction of the party. By the time Eisenhower knocked off Taft, the idea of the Republican Party as pro-individual and pro-enterprise was pretty much over with. But by that time the Cold War was so popular that those seemed almost trivial matters.

I think you'll find in the progress of a magazine like *National Review*, which I helped found 25 years ago, that in the early issues there was a considerably stronger influence of libertarians. There was some room for individualism. But as the Cold War progressed, all of that ended. *National Review*, like

all of the conservative movement, became a collectivist enterprise. Specifically, the national interest superseded the interest of the individual, and the definition of efficiency overpowered the definition of enterprise.

REASON: What were the ideals behind the founding of *National Review* and what's now called the New Right?

HESS: It was wholly anticommunist, and it still is.

REASON: The basis of your participation was anticommunism as well?

HESS: Sure, anticommunist. Anybody who *doesn't* dislike the Soviet Union is sort of dippy. It's a really detestable place, and it's easy to crank up a lot of dislike for them. It just sweeps you away, and after awhile you don't talk about anything else.

REASON: Who were the prime movers? Who really bounced things along in the early days?

HESS: I would say two, and only two, of any great interest. William F. Buckley, Jr., and William F. Baroody, Sr., the founder of the American Enterprise Institute (AEI). Baroody was probably much more important. He was actually more thoughtful and had more of a vision beyond anticommunism. AEI, which was founded in the late '40s, early '50s, is the fountainhead of the New Right and the most important part of it. It is also very serious; it's very reputable; it does good work. In other words, if the New Right is to have an intellectual base beyond the simple theology of hating the Soviets, or hating communists, or hating Marxists, it will come out of AEI.

REASON: In 1964 it was essentially AEI and company that captured the Republican Party?

HESS: No, the party was captured by and large by a feeling that was very prevalent among grass-roots Republicans. They really hated the Rockefeller wing of the party. That's easy to understand—it was wishy-washy, suspicious, had nothing to recommend it, and yet it had great power. So there was a grass-roots rebellion, and AEI's people were able to ride on the surge of that rebellion. They gave good expression and academic reasoning for what was a deeply felt thing. They simply wanted the Republican Party to stand for something quite different from the Democrats. And mainly, again, this was Cold War—to stand up to the Soviets.

REASON: Did the movement change as the '64 campaign developed?

HESS: It's become more openly socialistic since then—socialistic in the sense of advocating national power. I think its last vestiges of individualism, or libertarianism, were dropping out of it by the end of the Goldwater campaign. The Goldwater campaign was really conducted against national power.

REASON: What did you have to do with that?

HESS: Everything.

REASON: They were your speeches, your ideas?

HESS: Well, they weren't my ideas. They were widely shared. They were AEI's ideas.

REASON: What was your relationship to AEI?

HESS: I was director of special projects there. And, yeah, sure, AEI staffed that campaign as it has staffed every Republican campaign since then. And I must say it was fairly broad-based. There were some libertarian notions. It was a flat-out anticommunist campaign, but there was still the anti-nationalist part of it. It didn't extend to the military establishment, except that Goldwater was against the draft—flat-out,

no compromise, no possibility. It was Goldwater's first campaign pledge, to end the draft. End. E-N-D. No more draft.

So change in the movement, I think, only started to manifest itself, so that no one could miss it, oh, three or four years ago. It was only at that time that the policy of reindustrialization first surfaced—which I think is the shared vision of the Republicans and the Democrats.

REASON: Let's leave reindustrialization for a moment. So you left the Republican Party in the post-'64 cleansing, and you continued to work for Goldwater. Politically, this is the time you moved toward explicit anarchism?

HESS: Yes, and I didn't even know what an anarchist was. The most influential person in that change was Murray Rothbard, a libertarian—the libertarian—economist. He wrote an article in *Ramparts* about the similarity between the New Left and the Old Right that just astonished me. And he wrote it at a time when I could see it reflected in reality, because I then knew a lot of people in the New Left. I called him up—he lived in New York—and I said, "You don't know me from Adam's off-ox, but I just think that's the best thing I've ever read." Well, it turned out he did know of me, so I went up to New York, and for the first time in my life I met some anarchists. And I was just bowled over, because these people represented exactly the things that had gotten me interested in politics as a teenager.

REASON: What were these ideas?

HESS: Emphasis on the individual. The notion of individual responsibility, of cooperation between individuals. You see, I thought I'd been opposed to the federal government. Ha. I didn't even know what opposition was till I met these folks. I mean, they weren't just sort of opposed to what it was doing in terms of the budget—they thought the *whole thing* should go. I always thought the presidency should be abolished, but it had never occurred to me that the whole apparatus was superfluous.

REASON: At that point you broke completely with Republican ideas of militarism and national interest being carried out in Vietnam, for example?

HESS: That was the slowest thing. The hardest thing was to come to grips with Vietnam. I'd been involved in a lot of work regarding it. I'd done congressional briefings on some special bombing operations, done a lot of work on it. I really felt it was quite a good thing.

REASON: Saving the world from communism?

HESS: Well, I really thought it was an invasion from the north. But then the Pentagon Papers, or the precursors to the Pentagon Papers, showed there was no evidence of an invasion. It was just shocking to me; it was shocking to a lot of people. And then I reviewed our foreign policy and discovered it was really an aggressive, not a defensive, foreign policy. From Greece in 1947 on, it had been an offensive foreign policy.

Well, to be involved in any way with a war, even just emotionally, is powerful. It is very hard to break away from it. War, being lunatic in nature, attracts in a lunatic way. It is very powerful.

REASON: Let's skip past some of the post-Vietnam years and talk about today. Can you discuss the origins and development of this Reagan neoconservatism?

HESS: It's not Reagan's at all. I don't know who its authors are precisely, but the outlines are abundantly clear. One of the clearest statements of it so far has been by Felix Rohatyn writing in the *New York Review of Books*. Now you see, here's the confluence that is so important. Felix Rohatyn doesn't write in the *New York Review of Books* as some sort of happen-



"People now understand that the welfare programs are bullshit, but they have not had experience with a huge military operation for awhile."

stance; the *New York Review* has a particular point of view, and when they permit someone on their pages, they're doing it because what's appearing will agree with their general view. So Rohatyn writes about the reindustrialization policy in the *New York Review of Books*, which convinces me that it's a New Right/liberal confluence. No one disagrees with it. Every single presidential candidate in the last election except Ed Clark, the Libertarian, favored it.

REASON: So you wouldn't say the Reagan victory represents some kind of coup d'état by a new breed of conservative politicians?

HESS: Not at all. It's a development. It was happening anyway. Carter would have gotten to it just as surely as they're getting to it. The difference is in emphasis. The Reagan administration is increasing the debt and the national expenditure, not decreasing them, but they're doing it in a popular way. Carter couldn't have increased the budget anymore even if he wanted to—people were just sick and tired of everything he wanted done.

The thing is, people now understand that the welfare programs are bullshit. They've had experience with them. But they have not had experience with a huge military operation for awhile. And I believe there is a feeling generally that our humiliation in Iran and various other places was simply due to not spending enough money on the problem. You see, perfectly reasonable people who can tell you that you can never solve domestic problems by throwing money at them, like Reagan, are eager to tell you that you can solve international problems by throwing money at them. At any rate, what they're doing is expanding the power of the federal government, which I think is the whole idea anyway—to expand power because they want an orderly society.

The crux of the reindustrialization policy is to end the competition and contention between major American institutions. So it envisions a coalition of big business, big labor, and big government.

REASON: In the short term, Karl, will this program succeed?

HESS: Oh, absolutely—like gangbusters. Everybody's gonna love it.

REASON: In the short term the economy will be revitalized?

HESS: Yes, a little bit. It won't seem too bad. If people keep getting more money they really don't care much about infla-

tion, and I think there'll be more money around. The debt will go up, the federal government will be more powerful, and people will be more regimented. The only question is, How long are they going to put up with it? I don't think Americans are a bunch of Germans. I don't think you can do it forever.

REASON: Isn't reindustrialization just corporate fascism?

HESS: It's Italian fascism, which was corporate fascism, sure. It's a shame in this country that fascism has come to be thought of as something in the German mold, when of course that was something entirely different. Italian fascism was very attractive to a lot of American conservatives, including Herbert Hoover. And it's not just idle speculation that this has resurfaced. Felix Rohatyn writes that one of the essential elements of the reindustrialization policy will be to reinstitute the Reconstruction Finance Corporation, which was Hoover's great borrowing from the Italian fascists. And we have in Reagan the perfect person to do it because, you see, he may not even be conscious of this at all. Reagan is a perfectly decent middle-class American who believes the rhetoric. The rhetoric isn't bad—I like the rhetoric, too. But I don't think he studies the legislation very hard.

REASON: What is the role of the poor and the minorities in the Reagan years?

HESS: To be poor. That's what their job has always been, and until they understand that this is literally a job, I don't think they have any chance of reversing the situation. Poor people stop being poor when they lose habits, when they stop thinking poor and start creating wealth. This doesn't mean becoming rich; it just means producing wealth, working.

REASON: If being poor is an occupation, how will the administration, say the reindustrialization agenda, address the concerns of the poor?

HESS: Oh, it won't. The concerns of the poor have never been addressed by anyone. The liberals have simply *said* they were addressing them but kept people poor by putting them on welfare. The Republicans will say, "We're gonna keep you poor, and we won't keep you on welfare." At least that will be the implication. Unfortunately, it won't be the truth. If it were the truth, then we'd have a lot of poor people who would stop being poor.

For instance, the administration's most provocative rhetoric, at this point, is the concept of the urban enterprise zones, in which, apparently, free private enterprise would be unleashed in the poorest areas of the cities. But what it means to the Reagan administration is that there would be certain tax advantages given to entice outside employers to come in and operate. If the urban enterprise zone were a flat-out *laissez-faire* zone with no regulations whatsoever—not just taxes, but everything else—then the people who live there could make out fairly well. They would start building an economy. People would start pushcart businesses, storefront vending, who knows what? Maybe a casino. Such a total exemption would be very hopeful, it seems to me. But I'm sure that's not what Reagan envisions. It isn't what he would permit.

REASON: A lot of people are concerned that the environment may be, after four or eight years of Secretary [James] Watt [of the Interior Department] irreparably damaged. Do you agree? What can be done to stop it?

HESS: I don't agree with the "irreparable" part. I think it will be very seriously affected, but happily the planet is tough and resilient. Now, the interesting thing is, I don't think you can clean up the environment the liberal way, either, through regulation. The only way, it seems to me to clean it up is to get back to the concept of individual responsibility, so that people

are responsible for their actions; so that when you damage the environment, the people affected by it hold you responsible.

If a factory is dumping corrosive chemicals from its stacks on a community and there was no intervening protection for the corporation, the community would have two choices: it could demand redress from the corporation, boycott it, storm it if its life were in danger, I suppose; or it could choose to let itself be killed for a certain amount of money, which is what a lot of communities would choose to do. And it seems to me that, as awful as a lot of that may sound, there's a better chance for a decent environment that way than under federal intervention. Because with federal intervention what you've had under the so-called environmentalists is the federal government establishing allowable limits of pollution. And those allowable limits keep creeping up, you'll notice, even under Jimmy Carter, and people who are affected by it have very little recourse, if any. Under the Republicans it will simply be another version of that. That is to say, the allowable pollution will just go up, that's all. But it was going up anyway. And yeah, people feel that unless you can go to the federal government you have no way of getting at the guilty party. People are out of the habit of direct action. They've even forgotten the notion of directly suing a corporation. I'm not the greatest fan of the court system, but it occurs to me that a lively suit against a corporation is probably a good deal better than a government regulation anyway.

REASON: You mention direct action—how else would you characterize opposition to such policies?

HESS: I think there's a secessionary movement well under way.

REASON: Who's seceding?

HESS: Oh, lots of people. A lot of good engineers are leaving big corporations and starting little bitty companies that are hard to control. Computer programmers are sort of seceding even while they work. Computer programmers generally are becoming very powerful in this country, and my feeling is they don't have any interest in corporate fascism.

REASON: What about organized opposition?

HESS: Oh, I doubt it.

REASON: The traditional left, or the traditional New Left, is not functioning, and you don't see any prospect for it?

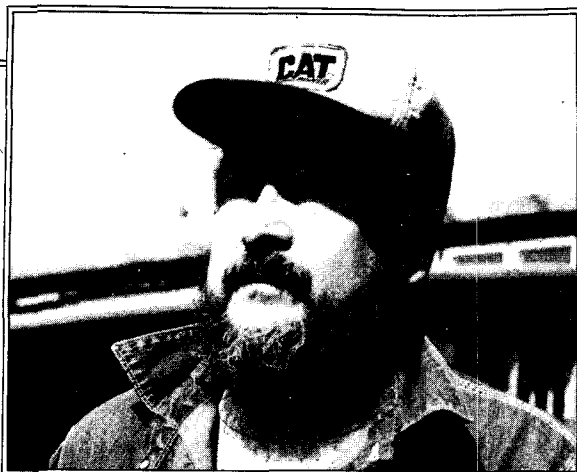
HESS: I don't see what they really have to do. For instance, in the public sense the best they could do is proclaim rights. But even if they did, I don't see that it would make any real change.

REASON: So the genuine opposition that could be of any consequence is developing largely unpublicized, unnoticed in the mass media, and even, you're suggesting, unnoticed by the government?

HESS: The government may notice it, but I think they understand there is not much they can do about it. And the mass media, with very few exceptions, are so far behind the times on any significant social change that you can just—they really don't know anything is happening until it happens to regimes or something like that. What could they find attractive about the fact that there are hundreds of thousands, if not millions, of Americans who are drifting out of the system? First of all, who are these people? They're not important. They're just malcontents. They're not rich.

REASON: If you could get together today with some of your friends from *National Review*, what would you say to them?

HESS: Well, I'd say very little except to make the plaintive point that they're casting their lot with authoritarianism and that, although I can understand that *they* intend to be the



"If Americans had to pay annually the amount of taxes exacted from them by subtle theft, they would refuse to do it. Say no and not do it."

authoritarians this time, I suggest that they would be happier if they cast their lot on the side of freedom. That's all. It seems to me that in the long run the greatest thing you can say about freedom is that you feel better when you're free. It's a more enjoyable state of life than to be either a slave or a master. Now there may be a lot of other high-falutin' reasons, but it's the only one I could talk to people at NR about.

REASON: And if you were going to make policy tomorrow, what would you do?

HESS: Say if I could effect legislative changes? I would pick two and only two: I would repeal the withholding tax, and I would enact Mark Hatfield's Neighborhood Powers Act. The Neighborhood Powers Act would enable people to withhold up to 70 percent of their federal tax liability if they gave the money to a community corporation instead. That would be the end of the federal government. On the other hand, if you repeal the federal withholding tax, that would also mean the end of it. If Americans had to pay annually the amount of taxes exacted from them by subtle theft, they would refuse to do it. Simply that, they would refuse. Say no and not do it. And the federal government would collapse. Or collapse back to a very small size. Either of those things would, I believe, start a momentum toward a free society.

REASON: Karl, it's obvious from your work and your words that you have a deep affection for this country. Why?

HESS: Oh, my God, can you imagine anyplace else in the world that would put up with either one of us except here? Just looking around the world, there's no place like it. Comparatively, it's the most free country on the face of the earth. I don't think there's any doubt about it. And I think that applies to blacks living in the ghetto and to people living in Beverly Hills, and it applies to people living in Hamtramck, Michigan. There would be no advantage to being a poor person anyplace else in the world compared to here. I don't think there is any particular advantage to being poor, most of all because of the state of mind involved, but where else? Other places you could conveniently and probably would starve to death.

REASON: It sounds, despite all the problems in the country, that you are essentially optimistic in the long term?

HESS: I think the fascists are idiots, and I don't think the idiots can sustain things very long.

REASON: Karl, thanks a lot.

HESS: Any time.

Panic

(Continued from p. 39)

reserves judgment until other researchers have produced the same results.

In all of the cases detailed above, peer review and replication were side-stepped. Major government decisions were made on the basis of single, unreviewed, unvalidated studies.

After the release of the EPA's Love Canal cytogenetics study, a representative of the New York State Health Department said, "I for one will never believe anything the EPA says or releases again unless it has been peer reviewed." Incidents such as these invariably damage the government's scientific credibility, but that is not their only consequence.

A government announcement of an adverse health effect can never be fully retracted; the public gives more credence to bad news than to good. With regard to the cytogenetics study, Governor Carey's panel stated: "The damage done... is perhaps beyond mending; many of the Love Canal residents have by now become so distrustful of governmental agencies and their scientific reliability that they are unwilling to believe anything except the worst of news about themselves."

Unfortunately, the four incidents described above are not the only examples of premature government actions based on preliminary scientific information. The American public will have to live with the consequences of other mistakes for a long time. For instance, the findings of the original animal study that led to the banning of cyclamate have not been confirmed by later investigators, yet cyclamate remains banned. If the ban were lifted, many consumers would regard this sweetener with understandable suspicion.

The Canadian epidemiology study that related the use of saccharin to an increased risk of bladder cancer in men has been decisively contradicted by later work. Yet saccharin remains controversial.

Another unfortunate side-effect of the publicity surrounding ill-founded preliminary conclusions was reported recently in *Science*. In the summer of 1979, residents of a Memphis, Tennessee, neighborhood were complaining of various health problems. A former local health official made mention of a chemical waste dump in the area, and soon there followed picketing, highly charged meetings, and even calls for a Love Canal-style evacuation. A congressional hearing was convened. The EPA and the Centers for Disease Control moved in to study the problem.

But it turns out that there was no problem—nothing more than background levels of pesticides, no historical or aerial evidence of a source of chemicals, and no data that would support toxic illness or severe health effects. There can be little doubt that this case of a "phantom dump," as *Science* called it, is at least partly a result of the inadequate but well-publicized studies of the Love Canal situation.

The increasing incidence of scientific shortcuts on the part of government agencies is appalling. Peer review, statistical integrity, and replication of important findings are essential to science. When government agencies take shortcuts and needlessly spread panic among the public, science itself loses credibility. It is likely that people will be less and less willing to accept any scientific results. The disturbing prospect is a citizenry functioning in an increasingly complex world on the basis of ever more ill-informed choices. □

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Dollars & Sense

(Continued from p. 43)

such huge and mysterious conduits as Fannie Mae and the Federal Financing Bank. Much of the federally supported or guaranteed debt could charitably be described as unsound, such as advances to bankrupt developers from the now-terminated New Communities Administration, many housing and student loans, the guarantee of New York City securities, and backing of US bank loans to Eastern European governments. Uncle Sam's own record as a lender should not give anyone confidence in the government's capacity to recognize safe and sound banking practices.

The many federal agencies that supposedly provide funds to the mortgage market have no lasting net effect. People simply buy agency securities instead of depositing their money in mortgage-lending institutions; insurance companies and commercial banks likewise hold more agency debt and fewer mortgages.

The government's efforts to divert credit flows to low-income urban housing and minority-owned small business have been very expensive, plagued by scandals and defaults, and remarkably unsuccessful. With taxpayers understandably upset by such uses of their money, in recent years we've seen an attempt to do good deeds with other people's money—namely, with the money that stockholders and depositors have entrusted to banks and thrifts. Regulatory threats and harassment seem ideally suited to such political redistributions of wealth, and they avoid the cumbersome process of subjecting the wealth transfers to close public scrutiny and voter approval.

The Community Reinvestment Act leans toward special favoritism for dwellings and whole neighborhoods, rather than simply requiring the absence of unfair treatment based on irrelevant individual characteristics. The initial benefits from the supposed added provision of mortgage credit would flow to those who could thereby sell their houses at a higher price, quite possibly producing white flight at the expense of those buying the houses and at the expense of poorer people facing a smaller stock of what might otherwise be rental housing. There is, in short, a redistribution of wealth involved that may be quite different from what some would like us to believe.

To put it bluntly, the Community Reinvestment Act can only be viewed as an effort to push financial institutions into foisting more dubious loans on those who

can least afford them. One might suppose that banks and thrifts already have enough bad loans and that consumers have more than enough debt. But the Wisconsin school of populism personified by Sen. William Proxmire loves credit and deplores debt, which is one way of ignoring the problem. When runaway expansion of money and credit produces inflation, some members of Congress just figure that people must need a lot more money and credit to pay those soaring prices.



REGULATED FINANCIAL institutions form an island in an expanding sea of unregulated alternatives. Bankers who fight for the status quo are standing still, which just lets the others move ahead that much faster. Regulatory barriers are being repealed by reality—but it is a slow and distorting process.

A minimal reform is to greatly accelerate the faltering abolition of Regulation Q ceilings on interest rates and to repeal the Douglas Amendment to the 1956 Bank Holding Company Act, facilitating the merger of banks and S&Ls across state lines, at least in four or five broad regions. Reciprocal banking agreements between states would help, too.

The new financial technology will require significant long-term commitments of capital. Such investments will simply not be forthcoming in adequate amounts if a large element of regulatory risk is added to the already formidable uncertainties of monetary policy.

Distinctions between depository institutions will disappear, and distinctions between other financial institutions will be further blurred. Finance will become more efficient and competitive, with explicit full-cost pricing of services.

Whether regulatory reform plays a lagging or a leading role, competitive and technological forces will initiate the change.

Back in the 1830s, Congress seriously contemplated shutting down the US Patent Office on the grounds that everything had already been invented. We now have the hindsight to say they lacked foresight. But technology always develops differently from the way we suppose it will. Today, we don't even know what will be considered valuable natural resources in the future, any more than our grandparents knew what we would do with uranium. One thing we do know is that man's ingenuity is awesome and that scientific progress is accelerating at a rapid pace as one invention leads to many uses that are, in turn, multiplied many times again.

We also know, from history and experience, that attempts to delay the sometimes frightening onrush of technology only succeed in diverting new techniques to other areas, leaving obsolescence as the price of obstruction. We must never forget that we operate in a highly competitive global marketplace and that capital, labor, and money can and do move to places that are most conducive to doing business. If some states or nations promote more-efficient methods of providing financial services, then their financial sectors, and the activities they finance, will come out ahead in the competition for capital.

The power of the marketplace can and will undermine financial regulations. The process would be far more orderly and efficient if the regulations were simply discarded.

Contributing Editor Alan Reynolds is vice-president of Polyconomics, Inc.

COMING ATTRACTIONS

Aqueous Excesses: Why is California wasting its water? And who's getting soaked in the process? Award-winning journalist William Tucker wades through the swampland of California water politics.

Mayday, Mayday! Midair collisions—the horror of every air traveler. So why did the FAA shelve a collision-avoidance system that was available six years ago in favor of its own multi-billion-dollar system—which won't be in full operation for another 10 years?

Special Issue: What are the investment experts saying about real estate, stocks, IRAs, and other money matters? Doug Casey, George Gilder, Franz Pick, Mark Skousen, and other notables point out some profitable possibilities for the 1980s in REASON's annual financial issue.

Plus Murray Rothbard's Viewpoint, Steve Beckner's Money, Durk Pearson and Sandy Shaw on food preservatives, and all the rest of REASON's regular features and departments.

Cooperation and Coercion

BY TOM BETHELL

Within the next few months we'll be hearing a good deal about various Democratic alternatives to "Reaganomics." Since Reagan's main idea is to return more economic decisionmaking to the people, it is easy to see that an "alternative" to Reaganomics is likely to be antimarket, embodying quasi-socialist proposals—not so labeled, but rather camouflaged in the friendly rhetoric of "cooperation."

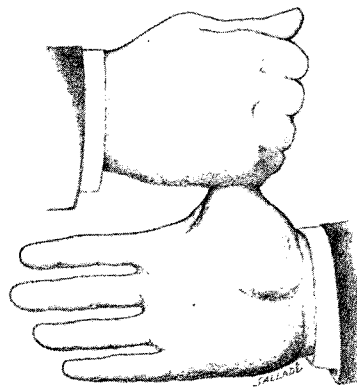
Some of this material has already begun to seep out of the various outposts of latter-day liberalism: a cover-story in *Esquire*, for example, regaling us with the thoughts of Sens. Bill Bradley and Gary Hart—"cooperative regionalism" being a sample. Sen. Paul Tsongas's book, *The Road from Here*, gives us further clues. In addition, Felix Rohatyn, the chairman of New York's Municipal Assistance Corporation, has published endless articles in the *New York Review of Books*. They are worth a glance, if only because it is rumored that Rohatyn would like to be secretary of the Treasury in a Democratic administration.

Rohatyn is here to tell us that we must adopt "an industrial policy committed to restructuring basic U.S. industries." He has in mind steel, autos, rubber, glass, and such. Such restructuring, of course, is already taking place as a result of market forces. His use of the word "policy" tells us that he would replace market forces with political force. (Remember how we didn't have an "energy policy" until the Department of Energy was in place?)

Rohatyn reassures us that he is not in favor of "lemon socialism." Nevertheless, he believes that the Chrysler bailout was wrong in detail, not in principle. What we really need, apparently, is a new Reconstruction Finance Corporation (RFC), which will "provide capital for industries that have a sound case for it." Taxpayers' money would be invested "where the RFC deems this in the public interest."

Which supplicant firms would be favored? "The RFC staff would have to analyze [a firm's] chances to survive on a realistic basis." Equity capital would be provided, and "in exchange" unions "would be asked" to make concessions,

and some management decisionmaking would be transferred to the RFC. Rohatyn does not explain how RFC staffers will achieve such far-sightedness, nor does he explain why lenders in the marketplace are incapable of similar wisdom. His is really a proposal to transfer power and decisionmaking to an intelligentsia. (One is reminded that socialist President



François Mitterrand of France said in a recent interview: "The nation must entrust its future to the most intelligent in order for society to succeed." Remember when socialism was legitimized by "the proletariat"?)

This RFC should be run "outside of politics," Rohatyn adds ominously. That is, the people should be prevented from influencing its decisions. Freedom, admittedly, "would be abridged," and "a temporary austerity will have to be accepted." In fact, a great many things will "have to be" in the-world-according-to-Rohatyn. Jobs "will have to be" brought to the people. Some employment "will have to be" subsidized. A new tax "has to be" imposed, and a "tough incomes policy" is promised, too. Protest is likely to be inaudible "outside of politics," of course. The Kremlin is also run outside of politics.

Similar themes of alleged "cooperation" between business and government have been sounded by other Democrats. "We must make certain that business, labor and government cooperate and agree on specific goals," said Walter Mondale in a *New York Times Magazine* article. Who is "we" here, and who decides the "goals" exactly? "Government and industry must be in harness," Tsongas wrote in his book. Yes, but who

cracks the whip?

The new Democratic motif of "cooperation" seems intended to disguise the reality that business will in fact be ruled by government. Governments, after all, have coercive powers. Businesses must use persuasion to sell their products.

Of course, many businesses are happy to surrender to the will of government, Chrysler being an example. And government is only too willing to bow to some private-sector interests in order to enlarge its constituencies. For these reasons the "cooperation" of business and government will inevitably degenerate into an extension of the welfare state into the corporate world. Nothing could be more destructive of entrepreneurship and dynamism.

Furthermore, grandiose partnerships-in-enterprise never work out, because by the time the information needed to draft and implement the plan is accumulated by the planners, the people across the land want something else and are probably already making it. The world moves on and won't await the cogitations of corporate and government leaders.

The great delusion of leadership elites is that it is possible to accumulate all useful information about an economy into one great shining nugget of data and then pass it around a boardroom table, refining it and polishing it up in the process. It can't be done. Rohatyn himself has admitted that he learned as MAC chairman that "when we know all the facts, it is often too late to act."

"Industrial policy" really amounts to central planning in disguise. And central planning doesn't work because the central plan must inevitably run afoul of all the myriad small plans of individuals. So if the central plan is to be implemented, individuals "have to be" prevented from carrying out their plans—whether they like it or not. That is why, planned economies always turn into police states. Beware, then, when you hear the word *cooperation* out of the mouths of politicians. What they mean is *coercion*.

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