

# Theft At The Public Till

by

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'They called me mad, and I called them mad, and damn them they outvoted me. '

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# Part One

## The Rip-off

## The Rip-off

You are getting ripped off. I'm getting ripped off too. There isn't a whole lot we can do about it. "It' is built into "the system." And that is what this book is about.

The ripoff that I am going to describe is not in the form of a scandal, it does not involve "evil" people who spend their time plotting how to best steal from each and every one of us, and it is not the pulp which is so able to sell papers and keep TV programs going. Instead, this theft is far more perfidious. It is the work of all of us.

Take the headlines of Summer 2002. Worldcom, Anderson, Merrill Lynch, Enron, Martha Stewart .... The list goes on and on. American confidence in our largest corporations is at an all time low. Media pundits speak of the lack of ethics and the lack of standards. But, there is a source of ethics and standards common to all these cases – Business Schools, suppliers of the MBA. What kind of standards were Jeff Skilling and the Wall Street analysts taught while getting their MBA? What kind of ethics? That money was the measure of success. That it is standard to focus on maximizing shareholder wealth. That present value matters more than long-term anything including responsibility. That you “are a team of one” so focus on self (and maximize those stock options). That responsibility is the “market’s” not ours – and, anyhow, no one “like us” ever goes to jail.

Harvard claims it provides "a transforming experience that gave [its alumni] the tools and life lessons they needed to chart their own future" This was done through courses that, for example, teach "financial engineering used to support marketing and production programs, signal information, structure incentives, tap different investor clienteles, minimize bankruptcy costs, and address tax and accounting concerns." As of today nowhere in the published

content of such courses do we find discussions of how far is too far, what is the public's interest, where is the line and how to avoid grey areas etc. Will this now change? It is not enough to merely add "new" cases to the ethics course. The problematic mindset is created within such course as "corporate financial engineering." Will HBS and other business school faculty take any time from their vacations (or lucrative consulting assignments) this summer to revise their courses so as to take responsibility for the actions of their students?

Martha and Bernie may not have MBAs but they are surrounded by them. The people at Merrill, Anderson, Tyco and Enron are mostly MBA's themselves. If these were schoolchildren their teachers would be wondering what went wrong. Will MBA faculty have the same concerns? Or will they take cold comfort that "these are adults making their own decisions?" True professions take responsibility for their teachings. It is time for business school faculty to do the same.

Business schools in America have endowments in excess of \$2 billion. Gifts to business schools are considered charity. And how the needy have been served. Thousands thrown out of work, trust in leadership destroyed, and confidence -- the very engine of our economy -- shattered. Despite the events of 2002 our business schools will teach accounting, finance, and management principles as if none these scandals ever happened except as examples of excess and of getting caught. Our MBA programs provided the common mindset behind the current corporate crisis. Without reform of climate and curriculum the next generation of MBA's is doomed to repeat these scandals.

Ethics in business needs to be taught as a way of life not as a required course. The notion of community responsibility before self needs to be instilled before MBAs are entitled to be part of a "profession" known as management. The massive resources available to business schools need to be deployed with a focus on giving something to America rather than on gathering

assets for self. Harvard business school alone has resources enough to provide a free education to thousands annually (but charges \$30,500 per student).

The current corporate crisis cannot be “blamed” on the business schools. Selfish individuals acted in furtherance of greed. But the climate that both produced and tolerated such behavior starts with the business schools. If business school has some effect on its students then the climate and mindset dealt with at business schools needs to be re-examined in light of the current spate of corporate scandals. Professors cannot be sure that just doing what they have done before is right. Something is rotten in the state of MBA land and it is the schools’ responsibility -- at a minimum -- to ensure that they are not merely helping the ethically challenged acquire a sharper toolset with which to assault an unprepared public.

As with corporate America so too with government. The media may be focused on Wall Street and corporate executives but the scandalous mindset of rip-offs and abrogation of responsibility to the public does not lie with corporations alone. Government is responsible for more than its fair share of theft, waste, and negligence.

Let’s go back a decade.<sup>7</sup> The Boston Globe headlines a series of articles detailing how one of the most powerful financial minds in Massachusetts confused advising his public sector clients with his own interests. The chief of staff of the Governor of New Jersey is forced to resign in answer to allegations that his associates used his office to gain business financing public sector projects. A noted black investment banker is found dead in his hotel room of a drug overdose, and the next day the papers are filled with stories about financial scandals involving New York and the banker's firm.

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<sup>7</sup> Throughout this book the examples will be mostly drawn from the late 1980’s and early 1990’s. The choice of these earlier examples is deliberate. With contemporary examples the principal players involved often feel compelled to defend the specifics of the actions and incidents. What matters for our purposes is the mindset behind

A noted brokerage firm is questioned about giving a piano to the Governor of Kentucky. The SEC feels it necessary to abolish the connection between political contributions and the municipal bond business. The press notes that the new policy applies only to bankers and not to lawyers or consultants. Internal Revenue Service regulations regarding whether a state or local bond is exempt from Federal taxation have a lengthy section dealing with "fees" diverted to interested parties.

Voters in Broward County, Florida are asked to choose between paying debt service on a facility that opponents claim should be closed and shutting the facility down. Major New York financial institutions fund the resulting political campaigns. An entire industry springs into existence as each new Federal tax revision creates "arbitrage" opportunities for state and local governments or their friends.

Proponents of high speed rail systems fail to launch anything but pilot programs because needed tax-exempt bonding authority is denied by Congress. At the same time, Congress approves the use of tax-exempt bonds for building baseball stadiums and convention centers throughout the United States. Puerto Rico lobbies Congress to preserve a tax-exemption for its industry -- industry that would otherwise be located somewhere in the fifty states.

Minnesota lawmakers give a \$100 million plus bailout to a stricken airline. Seven states compete for the right to offer more than \$50 million of subsidies to a German car maker. Wealthy charitable institutions operate multi-million dollar businesses and hide from the IRS

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those examples – the way of thinking which their participants embodied. To keep the debate focused on mindset it is less controversial to make use of examples from years earlier than today.



under the guise of "non-profit." Their executives take home hundred thousand dollar plus salaries, housing allowances, and cars. The business profits go untaxed.

The Summer of 2002 sees government talking about subsidies for Amtrak (trains that serve few passengers at a cost greater than renting each of them a limo), the Postal Service, dairy farmers, and embattled trade union industries. The dates are a decade later and the names of the entities slightly different but the theft and waste remain.

What is going on here? How did all this skimming of the public interest begin to take place? Where will it lead? If you are thinking "expose and scandal," well, yes, but the perpetrators are us. This is not the story of greedy politicians and bureaucrats who are literally stealing from the public to line their pockets. This is a far more insidious tale.

It is a tale about public officials making decisions that cost you and me -- decisions we don't want them to make for us -- decisions we would not make for ourselves. The costs that we bear: money, missed opportunities, and more, as the result of these decisions are no different than if a robber had said "fork over your wallet." When the robber does it, we are aware. When the public officialdom does it, we are seldom aware.

The ripoff is not that public officials are stealing. I have no doubt that such acts occur, but they are not the subject of this exercise. The ripoff is more subtle but far more pervasive. Because our system is so focused on who gets what, on redistributing the pie, on creating speculation gains for winners and on creating a pot of spoils to be shared, we have lost focus on those needs in our society which more than a majority want to see taken care of, somehow, someway -- removing the homeless from our streets; providing a set of opportunities for our

children greater than those we face ourselves; knowing that we have the potential for security in old age; knowing we can find a job. Our public officials are hamstrung by an inappropriate set of incentives. Thus, to attempt to do the right thing is a common goal -- but our understanding, and theirs, of what is the "right" thing has been perverted.

The problem is one of complexity. Our world is composed of too much information, too much drivel and too much data. We have lost our filters on what is important. In efforts to master the complex, what is truly important disappears, replaced by symbols and easy ways out." How do I define complexity? As the opposite of simple, predictable, and easy to understand. To quote Murray Gell-Mann, "There are no surprises in simple systems; simple systems give rise to behaviors that are easy to deduce if we know the inputs (decisions) acting upon the system and the environment. If we drop a stone, it falls; if we stretch a spring and let it go, it oscillates in a fixed pattern; if we put money into a fixed-interest bank account, it grows to a predictable sum in accordance with an easily understood and computable rule. Such predictable and intuitively well-understood behavior is one of the principal characteristics of simple systems. Complex processes, on the other hand, generate counterintuitive, seemingly accusal behavior that's full of surprises. Lower taxes and interest rates lead to higher unemployment, low-cost housing projects give rise to slums worse than those the 'better' housing replaced: the construction of new freeways results in unprecedented traffic jams and increased commuting times. For many people, such unpredictable, seemingly capricious, behavior is the defining feature of a complex system."

Today almost any observation or its opposite-can be taken as a pithy encapsulation of everyday, garden-variety common sense. Why for example do the seats seem to get smaller as the airplanes get larger? And why does voice mail seem to double the time it takes to

complete a telephone call? Perhaps the answer is what has been called the "revenge effect," the process by which an indifferent nature seems to get even with us lowly humans by twisting our cleverness back against us. While facing unintended consequences from our mucking about as we try to make things better is hardly a new phenomenon, technology has magnified the effect to the point where we now have to weigh the potential consequences of our actions more carefully than ever before. Common sense can lead us to conclusions that are at variance with the way we think the world should work--ways based on beliefs we create from a lifetime's worth of observations and experience. The problem is that there is often a Grand Canyon-sized chasm between what we think and what is real.

The text which follows begins by trying to highlight some of the interesting features in that chasm. The instances of theft are numerous. That they are everywhere in the public sector is the "gestalt" (or sense of the whole) I wish the reader to come away with. From this base I move on to propose another way of looking at the world -- an effort to reduce the complexity by means of an over-riding goal, a focus on improving the quality of life. Creating that focus will require new ways of thought and new tools. Our present method of dealing with that arcane arena known as public policy simply does not work.

Public school teachers and service personnel, for example, have persuaded legislatures everywhere that seniority rights, credential requirements, and restrictive work rules are more important than guaranteeing that our children are prepared for their futures. We can't even make them feel safe in the place where we expect their learning to occur. How often does a truant boy tell his mother he is afraid to go to school because "They have guns and knives at school?" In Boston, where four in ten graduates of public high schools can't read at ninth-grade level, students are stabbed and principals threatened. How many of our urban

children will go live with relatives in other neighborhoods or states, or even try to flunk eighth grade, to avoid the terror of the public high schools? The wealthy can flee dysfunctional and dangerous public schools, and have been doing so for years.

The poor are left behind to take their chances, all in the name of "saving the public schools" -- meaning, saving the jobs of the people who run them. The public-school interest groups -- teachers' unions, principals' associations, school boards' groups -- argue that their claim on taxpayers' money is in the national interest. But, like so many monopoly franchises, this one serves its holders better than its captives. It also resembles other monopolies in its black-hole-like ability to suck in money without noticeably improving performance. Over the entire period since World War II, spending per public-school student, after adjusting for inflation, has increased about 40 percent a decade, doubling every twenty years. Average class sizes have fallen; more teachers hold masters' degrees, but the quality of education has dropped. Almost half of the money that New York City spends in its public school system is consumed in costs other than direct instruction --guidance and attendance counselors, maintenance workers, security guards, and other personnel as well as transportation and security. Does anyone truly believe these administrative costs serve to enhance the quality of education? Or are they just an excuse to provide thousands of high-paying jobs?

If you were told that an ambitious politician wanted to create a project that would have a half billion-dollar cost overrun, fewer facilities than the project it was replacing, located further from the town it serves than an existing facility, and likely to be a drain on the community's resources for the next twenty years, would you be surprised? Would you vote for it? If your tax dollars were involved would you want the opportunity to vote for it? Or against it? Such

was the non-choice faced by Coloradoans in the early 1990's. Welcome to the Denver International Airport, a much heralded facility which was designed to make Denver the gateway to the Rockies. (I had always thought Denver was the gateway to the Rockies -- I guess I had foreshadowings of this airport thirty years before its time.) The airport opened more than one year behind schedule, was more than \$500 million more expensive than planned, and featured new technology that simply didn't work (you really did not want those checked bags back now did you?).

Of course, a decade later, the ultimate costs of this airport are still not known. The proposed building of the airport led to the proposed building of a highway. But, while the airport was to be financially supported by airline customers who would be given no choice (Denver International was to be the only airport in Denver), the new road was to have its financial burden covered by actual users who lived in the vicinity and who had a choice. Well the road finally does exist, but for years after the airport opened it was a road to nowhere. Without the road, how did you get to the new airport? With difficulty.

Once the airport opened, where were the hotels? Why back at the old airport. How many gates did the new airport have? Why fewer than at the old Stapleton. How many flights does the new airport have each day? Again fewer than Stapleton. How many connections? Why fewer than Stapleton. Don't people fly to Denver to ski? Well, the new airport adds at least a half-hour to the journey to the slopes. And cost? Well, the new airport featured some of the highest landing and user fees in the USA.

The worst part of all this is that you and I have had to pay for it. The cost of landing and providing service to Denver is so high that no airline can afford to isolate the costs only for

those passengers flying through. So we all pay. In the form of higher ticket prices, in pass-through costs that reflect higher cargo rates, and ultimately -- if a Federal bailout of this project is required -- in Federal tax dollars.

I use strong language. This project was and is a ripoff. What was gained? A great looking symbol for Denver. (Mountains were not enough.) Jobs in the local Denver economy. Funny, I forget having voted to give some of my money to create jobs in Denver. (I live in Florida, if I had voted on where my money should go to create jobs it would be in Florida, not Denver.) An airline with a strong local presence (Continental) was forced to cut way back due to costs. Such was their reward for being the first airline to strongly back the project. Most travellers using the airport gain additional commuting time and poorer though more modern facilities. But, the politics, well . . .

At least in Denver, much of what has happened was forecast by the project's opponents. There was a modicum of public debate. Some noted experts went down in flames saying the project was ahead of its time and could not work unless the airlines voluntarily said they wanted it. The political forces did not like that approach. The airport was to be built no matter what, and if the airlines wanted the "privilege" of flying to Denver, well they had better get on board. They did and we are all paying.

In fact we are paying for many such things. Each time we pay for some pedestrian good or service we are also paying for a host of government benefits for all sorts of people. Some of these benefits we might choose to pay for, some we might not. But, we are not given that choice to make. For example, a policy of amiable tolerance toward smoking, despite widespread reports of its harmfulness, was until quite recently the norm. Our laissez-faire

morality dictated the nonabrasive attitude that it was, after all, the smoker's life. Eventually, we came to understand that smokers not only jeopardize their own health, but also the health of everyone else. For many years we not only tolerated smoking, but we subsidized it. Even today, tobacco growers get money from every taxpayer. We subsidize a noxious and expensive habit. Smokers pollute indoor air, making it unpleasant and, I believe, hazardous for nonsmokers; smokers increase Medicare and Medicaid costs; smokers use scarce hospital beds when treated for smoking-related diseases; and smokers often die young, leaving dependents for the rest of us to support. In short, smokers shift their smoking-related costs to the rest of us whether we want them or not.

Over the past decade we have been buying things like higher unemployment compensation benefits, greater health coverage, bigger workers' compensation awards, four-lane highways, better school buildings, and even bigger jury awards in product liability and automobile accident suits without anyone ever asking if we wanted them -never mind if we wanted to pay for them. Does it make sense for you and I to pay good money in higher gasoline and oil prices so that 34,000 Alaskans can benefit to the tune of \$150,000 each in punitive damages for the Exxon Valdez oil spill? Keep in mind this \$150,000 is extra money over and above full compensation for losses. And just think, a few law firms also got hundreds of millions. For what? And at our expense. Every oil company now adds to its costs the funding of a reserve in case this happens to them. So too with tobacco, asbestos, prescription drugs, hospitals.... The list goes on and on. At our expense.

These valuable goods and services are entirely unrelated to the suit of clothes, car, or steak that we are consciously purchasing. If we were given the choice, we might make different decisions. If faced with a choice between funding medical tragedies like auto accident

victims and funding behavior caused problems, such as a pregnant fourteen-year-old, in our world of limited resources might not there be a difference in which we choose to pay for and how much? And if the opposite choice is made for us, is this not a form of theft?

Many of our most costly government programs are designed to subsidize business, either through direct grants and services, as in agriculture, or indirectly through lucrative contracts, as in the defense industry. The private world profitability feeds from the public trough. In cities throughout the nation, working-class neighborhoods have been razed to make way for shopping malls, industrial parks, sports arenas, and convention centers, all built with public funds. While business benefits from such ventures, the public monies invested are seldom recovered, and the projects often become continual drains on municipal budgets. When the New York Yankees threatened to leave town unless their stadium was refurbished, the city expended \$28 million on the job and granted the Yankees a lease on very favorable terms. More than two decades later the city is still servicing a multi-million dollar debt and the Yankees were enjoying handsome profits. Since then nearly every city with a major league sports franchise has been exhorted to fund new stadiums. These kinds of arrangements are at the heart of both the urban fiscal crisis in America and the distrust of the political system by the average citizen.

Our transportation system provides another example of how private profit has been allowed to take precedence over public need. Earlier in this century the transporting of passengers and goods was done mostly by electric car and railroad. One mass-transit railway car can do the work of fifty automobiles, and railroads consume one-sixth the energy of trucks to transport goods. But these very efficiencies are what make railroads so undesirable to the oil and auto industries. For over a half-century the corporate response has been to undermine



the nation's rail and electric-bus systems. Consider the fate of Los Angeles. In 1935 a once beautiful Los Angeles was served by one of the largest interurban railway systems in the world, covering a 75-mile radius with 3,000 quiet, pollution-free electric trains that carried 80 million people a year. But General Motors and Standard Oil of California, using dummy corporations as fronts, purchased the system, scrapped its electric transit cars, tore down its power transmission lines, and placed GM diesel buses fueled by Standard Oil on Los Angeles's streets.

By 1955, 88 percent of the nation's electric-streetcar network had been eliminated by collaborators like GM, Standard Oil, Greyhound, and Firestone. In short time, they cut back city and suburban bus services, forcing people to rely increasingly on private cars. In 1949, General Motors was found guilty of conspiracy in these activities and fined the devastating sum of \$5,000. Given the absence of alternative modes of transportation, people become dependent on the automobile as a way of life so that their need for cars is often as real as their need for jobs. And Los Angeles was not alone. Almost all the places we have built -- the environments we have created within which to live our lives -- reflect the ubiquity of the automobile.

Today, we have a total separation of uses in our man-made landscape. Our houses are all in their respective income pods, our shopping places are miles away from the houses, and our schools are separate from both the shopping and the dwellings. Work takes place in the office park, the word "park" being a semantic gimmick to persuade zoning boards that a bunch of concrete and glass boxes set among parking lots amounts to a rewarding environment, and manufacturing takes place in the industrial park. This compartmentalization has some interesting, and rather grave, ramifications. The amount of

driving necessary to exist within this system is stupendous, and fantastically expensive. The time squandered by commuters is time that they cannot spend with their children, or going to the library, or playing the clarinet, or getting exercise, or doing anything else more spiritually nourishing than sifting alone in a steel compartment on Highway 101 with 40,000 other stalled commuters. Anyone who commutes an hour a day in each direction spends seven weeks of the year sitting in his car.

The social costs of the automobile are staggering. About 45,000 people are killed on the highways each year and hundreds of thousands are injured and maimed. More than 60 percent of the land of most U.S. cities is taken up by the movement, storage, and servicing of vehicles. Whole neighborhoods are razed to make way for highways. In most suburban communities at least 40 percent of police work is directly related to automobiles, as is a good portion of ambulance and hospital service. The costs of all this driving in terms of pollution, which includes everything from increased lung diseases all the way up to global warming, are beyond calculation. The cost to society in terms of money spent building and maintaining roads and paying for traffic police, courts, accidents, insurance, is also titanic. The least understood cost, although probably the most keenly felt, has been the sacrifice of a sense of place: the idea that people and things exist in some sort of continuity, that we belong to the world physically and chronologically, and that we know where we are.

The automobile requires communities to spread out, causing premature obsolescence of streetcar neighborhoods whose compactness cannot accommodate cars; higher food transportation costs as farms on the metropolitan fringe are displaced by suburban sprawl; higher costs for sewage construction, road maintenance, and other thinly spread services. At the same time mass transit, perhaps the most efficient, cleanest, and safest form of

transporting goods and people, falls into further decay. The government's role has been to subsidize the auto industry with multi -billion-dollar highway programs while slashing rail services. Highways and automobiles have become integral to our lives at the exclusion of alternatives. Today, when those alternatives beckon with a promise of a better tomorrow, established interests fight to preserve their exclusivity. And the quality of our lives suffers without discussion and without debate.

Our lack of choice reflects our lack of understanding. Back in the 1980's, because capital is perceived as perhaps the most complex of subjects, the good citizens of West Virginia were denied even the most feeble of discussions for one of their worst ripoffs. When the word "finance" is mentioned most citizens and even watchdogs roll their eyes and adopt a glazed look. That approach is dangerous. West Virginia municipalities trusted their cash balances (the money on hand between the time they collect taxes and when they spend the cash) to an investment pool run by the State. This seems reasonable — indeed, the theory was that the State would have greater efficiencies by pooling all of the localities' cash. The theory is a good one, but implementation was weak. Financial management techniques evolve for both the public and private sectors, yet with the public sector hemmed in by civil service laws and a reluctance to pay market wages for those professional skills which command large salaries, the pace of evolution has been barely a crawl. The State officials involved did not understand that the investments they were making -- which seemed to be producing returns significantly above the market -- involved interest rate risks. The market turned. The "above market" returns from prior months had been distributed as income. But in reality there were no "above market" returns. What had come in was the State's own cash -- cash that had already been distributed to municipalities for spending. Peter had been robbed to pay Paul. Paul had spent the money not knowing it was ill gotten gains.

"So what?", you say. Not a "so what" to the West Virginia taxpayers who had to make up the difference. Not a "so what" to the citizens of the towns which got extra cash. Not a "so what" to the patients of the hospital that didn't get built or the school that was not to be. The West Virginia story has since then been repeated in state after state and town after town. Remember Orange County California went from AAA rated to bankrupt in the blink of an eye.

Unintended redistribution.

This is no different from Denver. Who intended that you and I should be paying for that airport?

Unintended redistribution.

Money taken from you and given to some one else without your permission.

Opportunities taken from you and/or your children without your knowledge or consent.

Others obtaining benefits that we pay for but never acquiesced to. Theft.

## Our Government No Longer Works

The mechanisms by which we have been governed and govern ourselves are losing their responsiveness to the problems of our time. Our new world is complex and overloaded with information. Excess information demands choices. In response to the overwhelming range of choice which is set before us, the response is paralysis and a growing decline in the quality of life. The American people, more or less aware of this loss, are grasping for a solution to what is clearly a larger, deeper problem -- a problem for which opinion molders cannot agree on a definition. The naive perceive nothing more than gridlock, an ineffectiveness that is merely superficial, in which the mechanisms and processes of government can be unlocked with the right lubrication and the right leadership. But it is difficult for politicians to develop the needed debate over what no longer works for a nation. There are no revealing historical pathways for clues to appropriate remedies, for our founding fathers deliberately designed a system in which change was difficult. Their concern was protecting "established" interests from the rabble. Our concerns are with not being trapped by what was "established" as we grow toward the future.

Our future is well beyond what could have ever been imagined by the designers of our political system. Their world was one of farms and a strong sense of place. People defined themselves by where they lived. By contrast, perhaps the most significant, enduring accomplishment thus far of the information age is to have fostered the creation of an ethereal reality, which exercises increasing influence over embodied, spatially bound varieties of social life. Here decisions are made and actions taken in ways that eliminate the need for physical presence in any particular place. Knowing where a person, building

neighborhood, town, or city is located no longer provides a reliable guide to understanding human relationships and institutions. For within the digital city, key organizational entities have been reconstituted to resemble motherships floating in electronic hyperspace. Occasionally they descend, landing long enough to invest capital, deposit a high-rise building, fund a university research project, close a factory, or launch a clever public-relations campaign. Then, just as quickly, they beam up, disappearing into the vapor. Confronted with this potent force, it is difficult for traditional land-based peoples, communities, and even nations to identify exactly where and how the crucial choices are being made. Because power is most effective when least seen, this may be the most insidious political capacity yet devised, one that threatens to turn all the world into a colony. But the colonized are not, as in earlier times, subjects of a particular country or regional economic empire.

What governs now has neither boundaries nor surfaces nor mass. It is a phenomenon about which standard social theories and familiar categories of everyday experience have little to say. Indeed, we may soon have to discard place-oriented theories and sensibilities altogether because they have become obsolete. In its dazzling complexity, the digital-electronic edifice is something Rube Goldberg could easily admire, a rapidly expanding structure generating new branches, chambers, and passageways in a never-ending process of self-elaboration. Outsiders who seek to penetrate its mysteries are greeted with a maze that is at once formidable and incorporeal, an architecture of countless baffling features -- dummy institutions, glossy advertising surfaces, mass media spectacles, channels of participation leading nowhere -- forms that mask the true order of things and prevent anyone from discovering the locus of control. While the structure also includes

concrete, material features, its central core exists only as a pattern of signals mirroring the ebb and flow of capital.

Alvin Toffler, in his Powershift phrased it, "The growing complexity and speed of change make it difficult to govern in the old way. It's like a computer blowing fuses. Our existing political decision making structures are now recognized to be obsolete." We have an eighteenth century government struggling with a twenty-first century reality.

One might think of ours as a dual political system. First, there is the symbolic political system centering around electoral and representative activities including campaign conflicts, voter turnout, political personalities, public pronouncements, official role-playing, and certain ambiguous presentations of some of the public issues that bestir presidents, governors, mayors, and their respective legislatures. Then there is the substantive political system, involving multi-billion-dollar contracts, tax writeoffs, protections, rebates, grants, loss compensations, subsidies, leases, giveaways, and the whole vast process of budgeting, legislating, advising, regulating, protecting, and servicing major producer interests, now bending or ignoring the law on behalf of the powerful, now applying it with full punitive vigor against heretics and "troublemakers."

The symbolic system is highly visible, taught in the schools, dissected by academicians, gossiped about by news commentators. The substantive political system is seldom heard of or accounted for. Interest-group politics is tiered according to the power of the contenders. Big interests, like the oil, banking, and defense industries, operate in the most important arena, extracting hundreds of billions of dollars from the labor of others and from the public treasure, affecting the well being of whole communities and regions, and exercising control

over the most important units of the government. In contrast, consumer groups and individuals move in a more limited space, registering their complaints against some of the worst, or more visible, symptoms of the interest group system and occasionally winning a new law or regulation. Finally, the weakest interests, like welfare mothers and slum dwellers, are shunted to the margins of political life, where they remind us of their existence with an occasional demonstration in front of city hall as they attempt to make a claim on the human-services budget.

The failings of the symbolic system are legion. Typical are quotes such as these taken from the New York Times. "I'm sick of the whole system," said Mr. Oliver Dinsmore, whose job involves dismantling machines in a shuttered General Motors plant in Framingham, Massachusetts. In the view of many voters the problems of governance seem to have become rooted in our institutions of governing -- from politicians whose convictions shift with the latest polls, to lobbyists, whose contributions are the lifeblood of campaigns and to the news media, which thrive on conflict. "I feel like my opinion doesn't count," said Bob Carrie, a machine shop supervisor in Franklin Park, Illinois, "The common person just doesn't have a voice."

Television news is the average person's main source of information and analysis about politics and public policy. The professional crowd increasingly is made up of policy specialists who develop expert information and policy analysis and of sophisticated users of their products. Much like television, data and statistics are now so commonplace that little thought is given to how the plethora of information is developed and analyzed or how it is verified for accuracy or for soundness of interpretation. And that is a crucial problem. The information explosion has outrun the nation's competence to make sense of the deluge of



data in forms ranging from the offerings of the mass media to the esoteric products of universities and think tanks.

On one hand, problems, opportunities, and the environments in which they appear are becoming more complex. On the other hand, to survive this explosion of complexity, people cultivate specialties. They want to be experts at something. Organizations increasingly hire and train experts to deal with the daily plethora of problems and opportunities. In society, academia, the sciences, and business, the age of complexity confronts the era of specialization. But specialists too often miss the forest for the trees. Our problems tend to be global or individual and not within the purview of one specialist alone. The new reality is that it will take the collaborative efforts of people with different skills to create innovative solutions and innovative products. Complex situations put a real premium on group processes, a division of labor, trust, and a reaffirmation of what we respect and what we question in each other. Organizations that attempt to substitute increased communication for increased collaboration will learn the hard way that there is a tremendous difference. Flooding someone with more information doesn't necessarily make him a better thinker.

"More information should presumably present more opportunities for broader vision and understanding. Yet the sheer volume of the data amassed makes almost inevitable the reduction of our focus to what is in the end a very narrow endeavor. . . . If we are to retain any kind of perspective on the role of humankind in the future, we must sometimes stand back and view the landscape, not merely a tree" wrote Erik Sandberg- Diment.

Information is power, a world currency upon which fortunes are made and lost. And we are in a frenzy to acquire it, firm in the belief that more information means more power. But just

the opposite is proving to be the case. The glut has begun to obscure the radical distinctions between data and information, between facts and knowledge. Our perception channels are short-circuiting. We have a limited capacity to transmit and process images, which means that our perception of the world is inevitably distorted in that it is selective; we cannot notice everything. And the more images with which we are confronted, the more distorted is our view of the world.

Take the news as an example. Every day the media seek to deliver us larger amounts of news at a faster rate. We are besieged with accounts of the world in amounts that are impossible to process. And as we scramble to keep up with the news, we are more likely to make errors of perception. Anyone who has ever played the children's game where you are given a few seconds to look at a tray of objects and then must recount all of the items on the tray knows that the less time you have and the more objects on the tray, the more likely you are to see objects that weren't there and forget ones that were. The amount of news we are expected to ingest every day hampers our ability to perceive in much the same way. Not only are we more likely to make errors of perception, but the more time we spend with reports of separate events, the less time we have to understand the "whys and wherefores" behind them, to see the patterns and relationships between them, and to understand the present in the context of history. Instead, we are lulled by a stream of surface facts, made numb, passive, and unreceptive by a surfeit of data that we lack the time and the resources needed to turn it into valuable information.

Since the arrival of the industrial age, we have had a terrific word: "more." It really worked for everything. When our roads became crowded, we built more roads. When our cities became unsafe, we hired more police officers, ordered more police cars, and built more prisons. We

built more schools for our children when we found they couldn't read. We solved our problems by producing endless products in greater numbers. Now, however, the word that worked so well for a hundred years is creating the problems it once solved. More police officers don't necessarily mean less crime. More hospitals don't mean better health care. More schools don't mean a higher quality of education. More data does not mean better decisions. In fact, the opposite has become the case. In our desire to educate, we've penalized imagination and rewarded conformity. In our desire for revenues, we've encouraged deterioration by taxing owners for building improvements instead of penalizing them for letting buildings dilapidate. In our desire for mobility, we've scarred the landscape with highways that are always too narrow for the increase in traffic they generate. In our search for simplicity, we've created overly complex and expensive products that few can operate, let alone fix. We have attempted to solve all problems with "more" solutions. We have asked ourselves only questions that produce "more" answers.

"More" is not an answer in today's world. If anything, more is part of our problem. More just doesn't cut it as we go through perhaps the most amazing transformation the world has ever seen: from a production based way of life to an information based one. This transformation has created an American economy vastly more complex than it used to be. Our information age economy is more like an evolving ecosystem than a predictable "economic engine." Like an ecosystem, an information age economy is far too complex to be designed. It must evolve spontaneously. Who planned the rainforest? Who planned the personal computer industry? In both market economies and natural ecosystems, "unmanaged" competition and continuous adaptation yield bewilderingly complex, yet enormously productive, living systems.

Faced with complexity, the traditional instinct of the practical manager has been to try to reduce it through rules of thumb, standard operating procedures, etc. If this did not always succeed in eliminating uncertainty, it helped to reduce anxiety allowing life to go on at a lower level of neurosis than otherwise. Yet reducing complexity is only an option if some measure of insight and understanding is present, and if, through the myriad stimuli that rain upon him at each instant, the manager can discern some minimum structure that can help him make sense of his situation. Failing this, complexity can only be absorbed and endured. And while most people vary in their willingness and ability to deal with complexity few of them other than mystics or simpletons can live with it for long when it operates at very high levels.

Complexity is primarily a challenge to our individual data processing powers. Where complexity cannot be reduced, or where we as individuals are unwilling or unable to absorb it, these data processing powers must somehow be expanded. This is one purpose of organization: to harness the data processing potential of a group of individuals where task complexity proves too much for any one of them. Yet as a way of dealing with complexity, organizations confront us with a paradox. For individual data processors can only be said to be organized when they are in some kind of communicative relationship with each other and such a relationship already presupposes a measure of complexity reduction for messages to be intelligible. There seems to be a limit to the complexity of what can be collectively shared through oral or written transmission. In such circumstances it can only be the collective experiencing of complexity that will produce a common understanding. Having a common understanding is the key to survival in our complex age. And it is in the failure to develop that common understanding the problems of our governance lie.

The United States is the information society. Washington, more than any other capital in the world, has incredible numbers of people developing, procuring, selling, trading, analyzing, and often hiding information. Increasingly, the most valuable information in the government is the "expert policy analysis." This is a variety of information that requires specialized knowledge to develop and analyze. The thick computer printout or the slick report from a think tank are apt images. Experts use their specialized knowledge and techniques to aid generalist policymakers in the decisionmaking process. These policy experts -- the economist is the typical example -- do not just produce the numbers, they analyze and interpret data in support of policymaking. Expert policy information fuels vast government organizations. But the quantity of information produced just leads to overload. And often what the experts insist is best conflicts with common sense.

The difficulties in developing and analyzing expert policy information have produced a crisis of trust. When the conclusions drawn from expert information conflict with beliefs based on ordinary information and an individual's experience, especially if the experts' conclusions are counterintuitive, the nonexpert may opt for disbelief. If the problem were merely an information gap between policy experts and the bulk of the population, then more communication might help. Yet instead of garnering support for policy choices, more communication tends to produce an "everything causes cancer" syndrome among ordinary citizens. More experts make more sophisticated claims and counterclaims to the point that the nonspecialist becomes inclined to concede everything and believe nothing that he hears. This rising public distrust of policy experts and their analyses provides fertile ground for a retreat into ideology, where the interpretation of ambiguity bears little connection to reality.

As more information and analysis become available, the overload demands careful synthesis and translation. Even more important than simple overload, however, is that information is amenable to quite different interpretations. Our government manifests another syndrome of obsolescence due to the overspecialization and fragmentation of the policy planning and implementation process. We act as if finance can be separated from trade, defense from development, and social justice from the degradation of the environment. We have departments or agencies attempting to cope with each domain separately, often in direct competition with one another.

A more dangerous response to growing policy complexity and the accompanying failure of experts to agree or to predict correctly is for policymakers to throw out conflicting evidence and opt for the simplistic solution that "fits" with political or ideological predilections. As Alice Rivlin observes: "Never mind that this last cure-all is counter-intuitive, that it conflicts with common sense as well as with the accumulated evidence of how our system works."

When Nobel laureates in economics can look at the same data and come up with diametrically opposite interpretations and policy recommendations, we can join Henry Aaron in asking: "What is an ordinary member of the tribe to do when the witch doctors disagree?"

In my view what to do is to assert that there is a primary value through which the surfeit of information, the cries for "more," the demands of our complex society all must be viewed. That primary value is to increase the quality of life. Using this value as a filter, each of us -- and the decision makers who claim to act for us -- has a base from which to view the world. The setting of priorities is critical. The word "triage" comes to mind -- a word referring originally to life and death choices and meaning selection or choice according to quality. Yet,

if that quality cannot be perceived, how, in a world of limited resources, is the triage supposed to occur? To perceive quality is to see patterns that underlay manifest events and happenings. It means perceiving the forest through the trees. Well-developed individuals have a penchant for seeing connections between things, for relating things and events one to another. Humanistic psychologist Abraham Maslow said that the healthy mind sees things whole; overspecialization and fragmentation are signs of psychic malfunction. The ability to see unifying patterns is the sign of a healthy well-developed personality. Quality of life and its improvement must be the unifying pattern connecting the actions of those to whom we have entrusted the decisions of governing.

During the past decade other authors have proffered their version of this same belief. Jonathan Rauch in his *Demosclerosis* suggests that the problem is the proliferation of special interests and the professionalization of the lobbying forces who articulate their cause. His book is an eloquent plea for change -- for a redirection of the system. Jim Wallis in his *The Soul of Politics* argues that it is our inability to assert a common good that has caused our government's paralysis. In his view if each of us took responsibility for living in the community of others we could begin the needed transformation. In his *Arrogant Capital* Kevin Phillips identifies the problem as the other worldliness of a Washington caught up in its own milieu unable to relate to the true needs of the rest of us. In their own way each of these authors has echoed Jimmy Carter's farewell address in 1981 where he urged each of us to invest in the common good, in a sense of community if we wished to continue to prosper and live in peace.

My belief in the need for a unifying pattern underlying the actions of our government is not only based on a moral desire for "community" -- indeed enough others have written about

such a desire -- but on the pragmatic observation that the only way we can deal with our complex world is to simplify it. Simplification can occur in two totally separate directions. We could be like the scientist, asserting that the whole is made up of parts and as the world gets more complex, the key is to study each part in greater depth so that collectively we will have greater understanding. The alternative is to assert that a grand synthesis can inform our individual path finding through the complexity. Our system of government has followed the first course with ever decreasing efficacy. We stand at the crossroads of a grand transition into a world of information and thought and away a world of things and places. It is time to recognize that the scientific approach no longer works -- we simply will drown in a sea of unprocessed unconnected data. We require the synthesis approach if we are to prevent the drowning.

Given its dangers and its opportunities, life in a grand transition entails responsibility. If we maintain obsolete values and beliefs, we also maintain outdated behaviors. If such failed behaviors are widespread, they can block the entire transition toward creating a better world for our children. Our own persistence in outdated modes of thinking and acting contributes to such an unfortunate outcome. There is both a moral and a practical obligation for each of us to look beyond the surface of events, beyond the plots and polemics of practical policies, the sensationalist headlines of the mass media, and the fads and fashions of changing lifestyles and styles of work. The call is to feel the ground swell underneath the events and perceive the direction they are taking: to perceive the evolutionary trend as it drives social change in our world. As we each bear some piece of this responsibility, our governing institutions bear it more. The call is for a new and urgently needed form of thinking -- for a new model of governing organized and defining itself around the central goal of improving the quality of life.



Charles Taylor phrased it best, "a society can be organized around a definition of the good life, without this being seen as a depreciation of those who do not personally share this definition. Where the nature of the good requires that it be sought in common, this is the reason for it being a matter of public policy. According to this conception, a liberal society singles itself out as such by the way in which it treats minorities, including those who do not share public definitions of the good, and above all by the rights it accords to all of its members. But now the rights in question are conceived to be the fundamental and crucial ones recognized as such from the very beginning of the liberal tradition: rights to life, liberty, due process, free speech, free practice of religion, and so on."

"One has to distinguish the fundamental liberties, those that should never be infringed and therefore ought to be unassailably entrenched, on one hand, from privileges and immunities that are important, but that can be revoked or restricted for reasons of public policy -- although one would need a strong reason to do this -- on the other. A society with strong collective goals can be liberal, on this view, provided it is also capable of respecting diversity, especially when dealing with those who do not share its common goals; and provided it can offer adequate safeguards for fundamental rights. There will undoubtedly be tensions and difficulties in pursuing these objectives together, but such a pursuit is not impossible, and the problems are not in principle greater than those encountered by any liberal society that has to combine, for example, liberty and equality, or prosperity and justice."

Picking up from Taylor, what is essential is that our society has a goal or set of goals to espouse and that it conducts its public life accordingly. To me the goal -- the overriding goal -- is for a continual improvement in our quality of life. Not a gain by an individual at the

expense of the collective we, but incremental gains for all of us. Perhaps one person at a time. Perhaps to the rich. Perhaps to the poor. But each time making the pot bigger -- not by stealing someone else's piece so that one can be happier for a moment or two. I believe that is why we have a government in the first place. And with an overriding goal, the problems of what do in our complex world have what the scientists call an attractor -- a base to return to over and over again.

This book attempts to recognize the linkages between various components of the whole political system. We will not look at any part of that system in great depth, for the problems of any part -- be it the media, lobbying, taxes, poverty or the environment -- reflect the nature of the whole. Issues and problems are not isolated and unrelated, even though they are treated that way by various academics and news commentators. In truth, they are interrelated in direct and indirect ways. Political life is replete with deceit, corruption, and plunder. Small wonder that many people seek to remove themselves from it. But whether we like it or not, politics and government play a crucial role in determining the conditions of our lives.

And what lives? If quality of life is the goal, then our governing institutions need to be prepared with the world to come as well as the complex world we are in. In short the information age will herald an era where the individual is king. The masses will mean little -- whether in terms of mass production or mass consumption. Each of us will have the opportunity to be dealt with as an individual. But, for this to happen, we need a government that can deal with it, which can treat us as individuals not abstract members of ill-defined groups. A government that can judge its actions against commonly accepted not goals not ill-thought-out rules, regulations and procedures. A government which matches the times in which we live. This is not our present

government. My hope is that with the questions raised by works such as this it may be the government of our future.

If the picture that emerges in the pages ahead is not pretty, this should not be taken as an attack on the American people but upon our system. The many brief vignettes which follow serve to illustrate the extent of our problems and to allow the reader to discern their common root -- a lack of a clear goal for our government and a lack of goal oriented thinking in dealing with the complexities of our modern life. To expose abuses is not to denigrate the people who are victims of them -- indeed if I had no hope that change might occur there would be no point in even discussing the problems. But make no mistake, this problem involves each and every one of us. It is the collective we that allow "the system" to function in the manner it does. "They" didn't dream up a scheme to screw "us." Readers might go "do their own thing," pretending that they have removed themselves from the world of politics and power. You can leave political life alone, but it will not leave you alone. You can escape its noise and its pretensions but not some of its worst effects. One ignores the doings of the government only at one's own risk.

## Unintended Redistribution Is An Abuse Of Trust

You and I are paying hard earned money to service those who don't need it -- to incent those who need no incenting -- to encourage those whose efforts we would benefit from blocking. Yes, there are the "parasites" that Jonathan Rauch wrote about, those who make a good part of their living by taking from the system. But the bulk of the theft is the very result of the system itself.

In our form of government many decisions are made that amount to redistribution of wealth, income, and opportunities. Indeed given the complexities of the world in which we live, it would be impossible for each of us to have a direct say in the myriad decisions which must be made. But, we never were asked if we agreed to allow those in the position to make these decisions.

Programs and projects which involve redistribution are prime candidates for having a little bit skimmed off the top. When the recipient of a program is not the same persons who pay for it, the oversight responsibility (don't waste my money) is diminished. By definition it is delegated to third parties. The payers are only concerned with paying the least. The receivers want to get the most. And those charged with doing the task, well they may have different motives altogether.

Most nefarious are those who proclaim loudly that what they are doing is helping "the public good" -- when what they are really doing is lining their own pockets. In the meantime, true

needs go unanswered. My favorite example are owners of professional sports franchises who over the years have somehow managed to convince the political decision makers that the taxpayers are happy to provide them with dirt cheap real estate from which to make a profit. The move of the Dodgers to Los Angeles ushered in a new era, an era of "have pro team, will travel." Teams that were making money relocated if they saw an opportunity to make more elsewhere. Or if they didn't relocate, they threatened to do so, extorting a host of concessions from their home city in return for staying. Concessions included tax abatements, land and money for the construction of new stadiums, and commitments by the city to upgrade the streets and highways that led to the stadium. All told, such concessions frequently cost the cities many millions of dollars. The cities, though probably strapped for money already, felt they had no choice but to give in to the demands of the teams. The teams were so central to the social and cultural life of the cities that watching them leave was too painful, and most likely, too unpopular with the voters to contemplate. Even with concessions, teams might still move, abandoning stadiums and arenas with a rich history of their own in the central city for new antiseptic facilities in the suburbs. As the old and unique playing arenas were replaced by new arenas stamped from a common mold, a bit of each team's particular history disappeared with them. And the lesson in all this from owners to players and fans was, "follow the money; business is business."

Why each of us has been supporting the ever escalating economics of sports teams is the subject of many another book, but it is worth noting that in effect we all provide a multi-billion dollar subsidy to a group of approximately 50 multi-millionaires (or several thousand if you include the athletes as well as the owners). I don't remember voting for this. And for your tax dollars you can stand in line to buy a \$50 seat you have already paid for many times over. Well, thanks.

There was the time that more than a few citizens of New Jersey traded a real improvement in life style for the mythical possibility of having a baseball team say that New Jersey was its home. The quality of life in the Route 1 corridor in and about Princeton New Jersey is dramatically affected by traffic congestion. While many suggestions for how to fix the problem have been made during the past twenty years, each has led only to yet another study or a suggestion for some form of mass transit. What the good citizens of Princeton need however is less congestion and now, not in ten years.

In 1985 the New Jersey Turnpike Authority raised \$2 billion for extensions and improvements to its road, which is the spine of the Northeast Corridor. When it became obvious that environmental concerns would block the expenditure of most of this money for the original road work as planned, did the leaders of New Jersey examine using funds on hand for the Route 1 corridor? No. Instead, they spent months on a plan to use the funds to build a baseball stadium. It is not that I am against baseball, but I do believe that baseball owners can pay for their own stadium. That the public and our children would derive more benefit from a publicly built stadium to house a privately owned team, than from having reasonable traffic levels in perhaps the most vibrant part of New Jersey -- this is the calculus I do not believe in. Why? There was no political benefit in taking on a project that would tie up local roads for the two years or so it would be under construction, if the only immediate beneficiaries would be those people who lived there. Bad politics in that. No, the good citizens were instead promised a baseball team. Just think of the civic pride!

The net result was that the money went back from whence it had come -- and the only real beneficiaries were the toll payers on the Turnpike -- they avoided a toll increase for five

years while the money that could have gone for construction earned interest in the bank. For the citizens of Princeton this was an immediate theft; but in terms of long-term impact it was a missed opportunity that will effect all of the citizens of New Jersey. There could have been a higher quality of life in the Princeton corridor. That in turn would have attracted more and better jobs along with a more vibrant economy. This was sacrificed for the sake of avoiding toll hikes and the mythical possibility of a baseball team.

There is nothing to check the growth of aggregate demand for government programs. Thus individual interest groups or lobbies keep yelling "more, more, more," and "me, me, me," and the people in power promise anything to stay in power. Superfluous military bases should be closed, but not the one in my congressional district. Extravagant defense contracts should be eliminated, but not the one that keeps the local company in business and employs a thousand voters. Social programs should be cut. Which ones? Not support for the elderly, says the senator from Florida. Not support for minorities, says the senator from New York. Not support for farmers, says the senator from Iowa.

Once, these various demands could be kept in check by the mechanisms of party politics. The leadership of each party could influence party members to toe the line and submerge their own local interests for the good of the party, if not the country. Then political debate and horse trading had only two voices, Democrat and Republican. Now, individual legislators are much less party loyalists and much more free agents. Congressional debate involves five hundred voices, all screaming at once, often for incompatible things. Little gets done, and the country simply can't afford to satisfy everyone's demands.

In the political market, demand now vastly exceeds supply. The result is what has variously been called an "overload of democracy," a "crisis of democracy," or, nowadays, "gridlock." America can no longer afford all the democracy it has. We can't keep buying everyone's votes. Excess demand must somehow be checked.

But how can it be checked? If a member of the office-holding elite says no to enough demands, he will not be elected to carry out his policies. People will elect a "yes-man" instead. And if the yes-man then goes back on his promise, he won't be reelected. It seems that so long as people are selling their votes for programs, there is nothing to check the impulse not to sell cheap. The current U.S. fiscal crisis offers an excellent example of this process in action.

The magnitude of the ripoff is in fact, quite startling. In addition our safeguards -(conservative political institutions with a bias for the status quo) do not adequately address the notion of missed opportunities or of the need to redirect resources to more pressing problems. And so we miss out on opportunity, we waste money on unneeded programs, we invest away from the very items that might give us great benefits in the future. The bill for missed opportunities at the state and local level alone might be \$5 billion per year. Add in unneeded expenses and the skimming of the public till by parasites, and you are talking about another \$10 billion per year. For each of us this may amount to only \$60 annually, but it is an amount that could be applied to solving homelessness, raising literacy rates, improving public health, ensuring a better future for our children.

Americans want many things from their government, and efficiency and hard work are by no means the most important. Because we wish to prevent excessive concentrations of power,



we have a system of divided government and checks and balances that subjects the bureaucracy to several masters who often issue contradictory commands. Because we want to avoid errors and abuses, we tolerate a complicated process of oversight, review, publicity and investigation. Because we desire a responsive government, we open the bureaucracy to a wide variety of pressures -- from citizen organizations, individual legislators, public hearings, inquiring reporters, even private lawsuits -- that force public agencies to attend to the concerns of interested groups. These conflicting demands do much to bring about the characteristic behaviors we have come to associate with bureaucracy -- the timidity, lack of venturesomeness and imagination, rigid controls, cumbersome procedures, and reluctance to make exceptions even when circumstance require them. We often blame public officials for acting in this fashion even though our system of government and the demands we place upon it bear most of the responsibility.

Our public sector system is so concerned with not making mistakes and with "who" will get the benefits of spoils, that the interests of the majority in improving the quality of life are but an afterthought. Much of our vaunted infrastructure is a giant real estate game played at public expense. Why are our airports located where they are, why do our cities lack public transportation that appeals to users, why is there debate about subsidizing "the rich" with "entitlements?" Why? Why?

Government programs rapidly become entrenched bureaucracies whose main goal is self-preservation. Government could instead be in the role of the "big consumer," purchasing public goods with the funds it creates. However, we must not let the government actually do any of the work itself. The job of the citizenry is to debate what we want to buy for our common good through government spending. The government should serve to

create the standards for the goods and services we decide on, and then fairly choose the private enterprises which will contract to do the real work. The model would be road building and defense contracts, not the post office and public schools. We let Social Security recipients spend their checks however they wish, responsibly or irresponsibly. The natural flaw of government spending is to create a bureaucracy to tell people exactly how they ought to spend their money. Welfare and public housing are the wrong way. Social Security is the right way. Just send the checks and get out of the way.

Government's job is also to write regulations. Good regulations are often extremely difficult to write. They involve a trade-off between safety and effectiveness, as with new drugs, or fairness and red tape, as with procurement contracts. But difficult does not mean impossible. Good regulations make a level playing field, allowing honest businessmen to compete for customers; bad regulations let nepotism or graft guide the awarding of contracts. The absence of effective laws against crime, as in Russia, allows their Mafia to drive out honest businessmen and entire areas of enterprise. When regulations work to improve our quality of life, we perceive that government works. When regulations fail, we perceive the reverse. Some examples:

Good: Drug regulations that assure us our drugs are reasonably safe, or at least warn us what specific dangers they pose. Good regulations prevent snake-oil salesmen from making untrue, laudatory claims for dubious products. Bad: Drug regulations so foolishly stringent that they ban a drug that would save ten thousand lives, because the side effects of the drug would kill one hundred. Bad regulations go beyond informing us of the side effects of -the drug, to forbidding us from making our own judgment of the risks involved. Bad regulations would keep

aspirin off the market, if it had been discovered today, and delay others so long that research into new drugs is effectively discouraged.

Good: Building codes that mean your house and home won't crumble as an apartment building in Thailand recently did. Bad: A sea of regulations that differ in every state, preventing builders from competing nationally or offering economies of scale on building components. A general danger of many regulations is that they sound like they are trying to safeguard the consumer, but they are actually designed to prevent any competition with the bureaucrat's brother-in-law.

Good: Some safeguards against smuggling. Bad: Paperwork as an end in itself, as it was under communism. Such persnickety over-inspection is not only a morally taxing invasion of privacy, and a tremendous waste of time, but it inhibits the flow of production and trade. Because of the new European Community free trade laws, an inspection post on the Spanish border closed. Truck drivers used to wait three days at that post to clear customs. Spain employed ten people there to do no more than collect reams of forms they filed and forgot, meanwhile keeping real wealth out of the country, and raising the prices of those goods allowed in.

Good: Loose oversight by an agency committed to helping provide safe, high-quality service for American consumers, like the Civil Aviation Commission after deregulation. Bad: Federal regulatory agencies committed to micro-managing prices and processes instead of encouraging honest competition, like the Civil Aviation Commission before deregulation. The history of price- and service- setting regulation shows they hurt consumers and protect big, lazy businesses which have to do nothing except follow arcane but exact government

regulations, no matter how stupid they might be. Consumers lose, unless the mere sight of business in chains is worth the higher prices they pay and worse service they receive.

Good: Enforcement of fair competition in the awarding of government contracts. Bad: Allowing so many appeals for contracts awarded that, for example, choosing a new computer system for the air traffic controllers has dragged on for five years beyond the first award.

Good: Environmental laws that discourage the burning of fossil fuels that release carbon dioxide, when responsible scientists show that "the greenhouse effect" from these gases is causing dangerous global warming. Bad: Environmental extremism that would ban cars entirely, using spurious "global warming" and "green-house effect" propaganda long after even more responsible scientists have demonstrated that global warming is a myth, and we are more likely to be heading slowly towards another ice age, if anything.

Good: Laws that prevent crime while safeguarding the rights of the accused. Bad: Laws that encourage crime by safeguarding the income of a legal industry dedicated to "due process" overkill and endless expensive appeals. Use of the racketeering laws specifically designed to get the Mafia, to chase everyone from politicians to abortion protesters. The renegade "drug warriors" and the Bureau of Alcohol, Tobacco, and Firearms maniacs who break into innocent people's houses and kill them, based on entrapment or bad tips from unreliable informants. The "zero tolerance" laws that allow the government to confiscate your one-airplane business without a hearing if one of your passengers has drugs in his suitcase.

Good: Financial reporting laws that help us collect fair taxes from foreign corporations, so they don't gain a special advantage over U.S. corporations in our own country. Bad: Such poorly designed, catchall reporting forms that the IRS estimates that a firm doing a minuscule business overseas will have to waste eighty hours filling out IRS forms on the matter. This is more time than the firm spent conducting the business. The lesson? Don't try to compete overseas.

Regulations shape the daily framework of many of our activities. Their nature describes our methods of governing and our goals. When the mixture of regulations between good and bad is as convoluted as ours the lesson is that we have no goal, no purpose -- and are lost in a confusing web of process.

Two more examples. Metropolitan Dade County, Florida is open about its redistributive policies. The election of a new county commission on district lines where there had been at large members before changed the makeup of power in the county. The new county commissioners made it clear that they wanted to see a redistribution of the spoils. But at what price. The county has specific minority set aside rules which purport to ensure that the work the county gives to outsiders is given in due proportion to qualified minority firms. What the policy actually accomplishes is to ensure that revenues from county projects are distributed to minority groups in due proportion regardless of the level of work they actually do or their qualifications. Most work the county awards by contract is now awarded to "joint ventures" who include the requisite minority makeup. If Dade County were getting value from these vendors, the policy would be a great success. But, more frequently the minority co-venturers are little more than shells who skim a percentage of the revenue away from the co-venturer actually performing the work. Bids for work are all increased to account for the

required diversion of funds. There is little to no quality control or after contract oversight other than to ensure that the revenue division is as had been previously agreed.

What does the average county citizen get from this? There is some psychological benefit that could be argued exists when the citizens know that the amount to which they are being fleeced is being redirected to members of approved groups. But which members, and why? These are questions which are not answered. When they get asked, which is frequently at county commission meetings, the reply is often "wait until we have a mayor -- someone to articulate the needs of all the citizens and not the particular groups or communities that each of us here today represents." At least the Dade County Commissioners are open about it, and they know the cure -- place someone above them who might have a broader interest.

An example from a totally different arena may help with this point. If you have been in New York City during any work day and attempted to drive around Manhattan below 96th street you are likely to have observed significant congestion. The bulk of that congestion can be alternatively blamed on trucks, double parking, and/or private cars. Indeed Ed Koch once proposed that there be a special levy placed on all private cars seeking to use this part of the City. The Environmental Protection Agency has for years sought to have the City do something about both the number of vehicles on the streets and the amount of time those vehicles are stuck in traffic emitting noxious fumes and not contributing to the movement of either their passengers or cargo. The dialogue as it has existed to present day has focused on private vehicles -- as a result it leads to outrage either in the form of "who are you to ban me from using my car?" or "but the poor cannot afford to pay for these special levies you propose" and with these arguments the issue seems to die. Of course the congestion

remains and detracts from every New Yorker's quality of life. So why not ask about double parking and about trucks?

Well as it turns out those two questions are actually the same. The majority of double parked vehicles that cannot seem to be towed out of the way fast enough are trucks making deliveries or pickups. So why are trucks allowed in this part of the City during the day? Many European cities ban trucks above a certain size from using the central city during the day -- they operate on theory that pickups and deliveries can occur either at more quiet hours or through the use of vans which take up less space. On the surface it would seem that this idea should have merit -- traffic congestion would decrease, resulting pollution concerns would be addressed, and even more jobs would be created. (There would be a whole new industry involved with the transfer of goods from trucks and rail to vans and vice versa along with the pickups and deliveries associated therewith.) A variety of worthy public goals could be addressed. Ah, but the calculus of the public interest takes over.

In a similar light, riders on the crowded Lexington Avenue subway line (the east side), see congestion in a different perspective from office building owners on the west side. What may be intolerable to a commuter, may, from the perspective of certain real estate developers, signal not the need for more transit on the east side, but more development on the west. Commuters cry out for the completion of the Second Avenue Subway - delayed now for seventy years, while the developers ask, Why make the east side more accessible? If you promote transit improvements on the east side, it will only encourage developers to build more space east instead of west. Why at any rate, would you want to pay taxes to promote well-being of your competitors? Funny, the City seems to side with the developers.

So too with trucks and congestion. To any one citizen, the benefits from such a no trucks during the work day policy would be visible but nearly impossible to quantify. By contrast, to any business that is used to having deliveries by truck during the work day, the increased costs of either van service or staying open added hours to accommodate when truck traffic is allowed, the costs are easily quantified. An identifiable group with quantifiable costs has an easy time shifting debate when the beneficiaries are the amorphous "all of us" and the benefits are not quantifiable.

I might argue that the benefits from such a shift would be so great in terms of quality of life and psychology of living in the City that they outweigh the aggregate of the potential costs to businesses, but my argument would be dismissed as naked assertion of an unknown pitted against easily measured numbers. If I replied that the policy of allowing truck traffic made sense when Manhattan was a manufacturing center, and that both commerce and tourism (now the City's two biggest industries) would benefit, again my arguments would be dismissed as mere conjecture.

The fact that the trucks have always been allowed. The fact that efforts to increase vigilance in towing policies are perceived as "anti-business" when directed against truck traffic. The fact that not only are the business interests organized but so are the truck drivers, while the beneficiaries of a "no trucks between 8 a.m. and 7 p.m." proposal are not organized. . these facts mean the proposal has no chance -- despite the "fact" that the public, indeed the voters, would be better off if the proposal were to become law. This calculus is what allows us to get ripped off. In this example it is the citizens of New York City whose quality of life suffers, but there are many other examples and one of them probably involves you.



In this confusing web, who takes the time and makes the effort to look out for the welfare of our children? In the public sector world those individuals are few and far between. Why? Because we have never created any incentives for them to exist. Instead the incentives are concerned with getting re-elected (we do not allocate any votes for our children) and with keeping ones hold on power or a job (again areas where it is difficult to give influence to the children). In the corporate world, the concept of "maximizing shareholder value" has been criticized for its resulting emphasis on short-term profits and stock price. When we raise the concept of long-term we are speaking of a few years. Yet, our children are our destiny. In the public world they have almost no voice. And they are not alone.

During the past fifty years the politics of our society has shifted greatly into the realm of redistribution. What started as a concern for the poor, the elderly, and the infirm has been shifted to concerns for the wealthy, the well connected and the well organized. We are not given the opportunity to vote on the extent of the redistribution nor its targets. Bill Clinton stated in his campaign that he would impose more of the burden on the rich, when were we told that he would also shift more of the benefits to them?

It is rare in America for politicians and public officials to be upfront in stating that some of the goals are redistribution. Those who have are to share the spoils with those who are described as having not. What is even rarer is for these same public officials to acknowledge that the important verb is "described" -- our system works to redistribute to those whose claim is articulated and recognized. It matters not if that claim is real, or if the redistributive goal has ever been endorsed by the populace supposedly being served.

Most troubling though is the corruption that accompanies the efforts to redistribute. The math behind this corruption is simple -- most redistributive programs cost each of us only a little so for any one of us to object to the "skimming" is not particularly worthwhile. In the aggregate what is skimmed, the increased costs, the misdirected subsidies, the missed opportunities cost each of us several hundred if not thousands each year. But that is the aggregate. For any individual program, the cost to any one of us may be only a few dollars. The benefits, however, to the skimmers to those who are profited from the missed direction is great. Thus efforts at vigilance are lopsided. Those who benefit do so greatly with each individual program, those who pay -- all of us -- pay significantly only when all things are considered. So with what seems like little at stake we fail to object.

Redistribution as a policy means that money is moved around. The parasites I referred to are in the business of getting their hands on some of it. That we allow such skimming to occur -- that we condone the theft -- makes it very difficult for well meaning public officials to take strong stands against it. The thefts that occur are not mostly motivated by a corrupt public official on the receiving end of a forbidden gift. Instead the thefts occur because no one is articulating that they should not occur. Indeed the system is set up to encourage them. The thefts are hard to find:

- ? Subsidies to those that do not need them.
  
- ? Overpayments.
  
- ? Hiring of less than qualified people/firms/teams.

? Missed opportunities.

The excuses are usually symbolic -- "affirmative action," but this is a "sacred cow," why "to touch this program means you must be willing to touch this other" program, agency, whatever. The reality is that the political system is so dependent upon the information, campaign funding, and mobilization offered by those who profit from the thievery that it seems helpless to resist.

Complexity has crippled us. The thieves ride herd over our inability to ferret them out. To stop one abuse is to invite two others. Our government needs help -- and it needs a new way of looking at the world.

## Our World Has Changed, Our Government Hasn't

The last forty years have seen dramatic paradigm shifts throughout American society. All our traditional institutions—the law, religion, and even the state—have changed in startling ways almost overnight. We are in the process of evolving from a raw material -intensive and capital-intensive economy to a knowledge-intensive economy. Yet a large part of tomorrow's labor force is not learning to read, write, calculate, and spell in school. The young workers most in need of on-the job training aren't seeking out that training. With all jobs that pay a living wage increasingly becoming skilled jobs, this means that the United States will soon have millions of adults who cannot be employed at acceptable family wages. America is in trouble economically, then, not because our economy is failing to grow; not because the Japanese, Koreans, Taiwanese, and Western Europeans are beating us in world competition; and not because American overall per worker productivity no longer is the highest in the world. Rather, we are in trouble because a large and growing part of our population is suffering from severe family-related pathologies that render them incapable of availing themselves of the opportunities that the American economy offers. Anyone who simply looks around at crumbling U.S. cities, with their potholes streets, and their sidewalks thronging with beggars, can tell that something is going wrong.

The catalog of major shifts includes the pill, soaring divorce rates, custody battles, poor single-parent households headed by women, right-to-life and pro-choice struggles, two-career families, surrogacy, women's rights, gay rights, battered wives and murdered families, the disappearance of traditional patterns of sexual differentiation, in-vitro fertilization, casual attitudes toward sex, and the emergence of an unparalleled level of

violence among young American men. Millions of Americans yearn for yesteryear, when the natural order of things was self-evident. Father worked, mother stayed home with the children, divorce was sanctioned, sex was unmentionable, a teen-age girl who became pregnant hid from society, criminals were sent to prison, literature and movies were censored, and drugs were unknown. That world is gone forever, not because pointy-headed, left-wing, granola-eating, atheist intellectuals have captured control of the government, but because most blue-collar and middle-class, church-going, hard-working Americans want that world to be gone forever.

In a changing world our government, its institutions, its mechanics, its rules and regulations have not kept pace.

Let's begin by looking at the most recent changes:

- 1 . Failing institutions.

Traditionally, institutions such as unions, political parties, and insurance firms have acted as our safety nets, but there is a growing sense that these institutions no longer meet the needs of individuals, that they are gradually fading in their influence over important decisions. A lot has happened to American politics since 1960, when the public's esteem for Washington stood so much higher. There were the expansive promises of the Johnson and Nixon years, and the subsequent disappointments; the Watergate Scandal and the disillusionment it spawned; the growth of a Washington press corps that became more independent and more aggressive, often adversarial; the professionalization of the Washington political class, which filled up with full time campaign consultants and public- relations experts and direct-mail

impresarios and fund-raising wizards. Outside Washington, there was the bitter reaction against the war in Vietnam, and the reaction against the reaction; there was the spread of an entitlement mentality among the voters, who increasingly looked upon government benefits as inherent rights rather than as earned privileges or temporary assistance; there was television, the civil rights revolution, and much else besides.

The members of the first generation of truly liberated Americans have not fared well with their unprecedented freedom of choice. They have had what the first governor of Massachusetts John Winthrop called "natural freedom," the freedom to do whatever they wanted. But in gaining this natural freedom, they have given up what he called "moral freedom," the freedom to do what others want us to. Our institutions have been undermined by the more sophisticated citizens' need to participate directly in decisions that affect their lives, through forums ranging from political action committees to television talk shows. Meanwhile, no institutions have been created to fill the vacuum, and, to a large degree, companies are expected to fill the gap.

The job is more important than it used to be. The employer is becoming the focus for government mandates and social concerns as diverse as health care, pensions, day care, training, and commuting. American workers demand meaningful and secure work and seek to use their skills in organizational settings that are humane and sensitive to their needs, but most are finding their world less secure. The employment rates of large companies are decreasing, and those with jobs find that their job is no longer for life and that it is missing the attendant security of pensions and health care. As a result, workers are less loyal, and they are worried about the future. There are fewer options for unions, political parties, professional organizations, or religious organizations to either provide services or be an

effective representative for individual nonjob needs. Thus the employer-employee relationship is filled with a host of important subissues that are not job-related. Expectations and confidence levels are moving in opposite directions. While individuals' dependence on businesses for social benefits is growing, their confidence in business leadership is at a historic low. Worker and consumer responses will be more directed. Instead of directing complaints through organizations like governments and unions that have permanent institutionalized mechanisms for negotiations and settlements, workers and consumers will have to act directly. The result will be more lawsuits, lower levels of worker loyalty, and diminishing confidence in businesses.

## 2. The quest to ascribe responsibility.

Americans want more direct accountability by someone, anyone. They hold their institutions, their government, and their employers up to a standard of scrutiny and accountability that escalates every year. This quest for accountability shows up as grass roots politicking, talk-show democracy, "throw-the-bums out" politics, and shareholder revolts. In the business realm, companies now have to be more responsive to the demands of a more aggressive group of shareholders. Over the past forty years, institutional investors, primarily pension funds, have increased their share of all equities outstanding from 13 percent to more than 60 percent. The institutional investors are using this financial clout to put constraints on the control and authority of the chief executive of firms and to make them more responsible to shareholders and boards of directors. This means that companies have another constraint on their freedom and their ability to respond quickly to other incentives. In the public realm where there is no one group with the identified clout of institutional investors in the

private realm, Americans keep asking how governmental programs claim to actually meet their supposed goals. Voters want answers but fail to get them.

One of the main sources of this malaise is an awareness of the inefficiency of governmental regulation in such fields as environmental protection. In the late 1960's, environmental impact statements were invented to control the harmful effects on the natural environment of power plant and factory smokestacks, industrial wastes, real estate development projects, and the like. Public and private agencies whose actions might plausibly injure the environment were required, under state and federal laws and regulations, to file assessments of the probable environmental impacts of their actions and to take steps designed to mitigate those impacts. On the basis of the impact statement and the comments of interested parties, a central government agency was to determine whether the proposed action met environmental standards. The manufacturers who polluted the air and water passed a cost inherent in their for-profit manufacturing processes on to the rest of us, who were then expected either to put up with acid rain, dirty air, and dirty water or fork out our own money to abate those nuisances. Before the new environmental laws, manufacturers were allowed to "externalize" their costs by making other people pay costs that were properly the manufacturers'. Deferring environmental costs in the nineteenth century and the first half of the twentieth century by allowing nature to absorb pollutants permitted the United States to accumulate industrial capital, but in the sixties we became aware we could no longer rely upon nature's resilience alone. Because A does not want to pay to clean up B's mess, we have spent the years since trying to make B and B's customers pay for their own mess.

By the early 1970's, it had become apparent that parties to the review process -environmental interest groups, developers, and industrial firms, among others – had earned how to use social



protest, informal strategies of political influence, or resort to the courts in order to manipulate the review process for their special purposes. It became increasingly likely that an interest group opposed to a development, such as an industrial firm, halfway house, or waste disposal facility, could readily block it, even when there was broad public consensus that some such development was publicly desirable. It is now twenty years after that realization but still the problems remain and the process has not been streamlined.

Another failure of accountability has occurred where the government itself is providing services. A blind spot of postwar American liberalism has been its failure to understand that a monopoly or cartel administered by a public authority is at least as likely to be backward and abusive as one administered by a private company. "It is one of the enduring paradoxes of American ideology that we attack private monopolies so fervently but embrace public monopolies so warmly," write David Osborne and Ted Gaebler, the authors of *Reinventing Government*. Both kinds of monopolies are likely to produce high prices, poor service, slow innovation, and entrenched arrogance. And because government monopolies are notoriously careless about their customers' welfare, they arouse ill will among the public, weakening government still further.

The problems arise when the government leaves the support of true individual facts and begins to operate on the basis of abstract principles. By ignoring necessary details, the government ensures that its abstract principles are never adequate to the precise realities of any particular case. Very often, in fact, the degree to which legal solutions fail to satisfy the complexities of a given incident is a fair measure of how far away from the facts the government has strayed, how far out it has become, and how badly it has overused its abstract capabilities to the detriment of fact-based wisdom. Think how many outdated 'laws

are still on the books and how many tired prejudices still linger in the halls of justice. Our government's failure to adjust to today's conditions is the source of much of its accountability problems.

### 3. Technologies.

The dynamic forces driving American companies to change have been exacerbated by the unprecedented revolution in information technologies over the past several decades. Impressive changes in computing power and new communication devices have changed the way America works. These changes are harbingers of a larger trend in the decade ahead. There will be senior executives in organizations who leverage the growing anytime/anyplace infrastructure to effectively guide their organizations while more or less constantly traveling. The surprise behind this is that telecommunications will not substitute for transportation—we will not abandon aircraft for teleconference rooms. In fact, quite the opposite will occur, an extension of a century-old trend. Increased telecommunications leads to an increased demand for transportation and vice versa, for the two are mutually reinforcing. Talking regularly with executives in, say, Tokyo will lead inevitably to a trip to Tokyo, and the contacts made on the trip will lead to further demand for telecommunications, and so on. Nomadic executives will be a new breed of industry captains that have learned to artfully balance both transportation and communications to effectively project their presence across their organizations.

All of the changes brought about by technology will only increase the pressure on workers to carry the burden of change and adaptation. At a time when a record number of workers have

major family responsibilities, the anytime/anyplace office will demand workers to be ready and willing to respond on a moment's notice to consumers, clients, or bosses at any time from any place. New ties between corporations and small businesses mean that more time must be spent managing-and not just managing employees within the same organization playing by the same rules, but also managing workers whose only link to the firm is electronic. As the reach of a company goes beyond borders, technology must not only tie together dispersed people but do it across linguistic and cultural barriers. Finally, the empowered consumer will be demanding more service and more choices and feed their own frustrations back to the organization through multiple outlets. Technology is enabling organizations to learn about markets quicker and more efficiently, to serve customer and clients better, to extend their reach by finding new markets at home and abroad. But technology will also put more of a burden on workers to manage the higher expectations of consumers and the needs of a dispersed and flexible workforce without clear organizational rules and support. Technology is another element contributing to the uncertain future of businesses and workers alike.

#### 4. Senior citizens have become America's largest interest group

Seniors are transforming the economy. There are more of this group than ever before. More than half of adults under fifty have gone to college. Their desire for value, quality, service, and responsiveness has turbocharged competition in the American marketplace, and it is increasingly difficult for businesses to satisfy them as customers or workers. Those over seventy-five years old are gaining political clout. The American Association of Retired Persons is the largest and most powerful membership group in the country. Increasingly the costs of their medical and nursing care will fall on the American worker.

Objectively, over the past twenty years there has indeed been a large net transfer of resources from youth to elderly in a number of trends: growth in entitlement programs for the elderly like Medicare and Social Security; an erosion of the education budget as the baby boomers left school; the growing value of homes and property in the hands of the elderly as the boomers forced up the value of the existing housing stock. But younger people don't seem to begrudge this improvement in the status of the elderly. There is little support in public opinion surveys for an intergenerational battle over resources. When asked if we spend too much on health care for the elderly, young people are among the most adamant who say, "Not enough!" The problem is not about the merits of improving the position of the elderly, but how to pay for it.

The basic structural problem is paying for the growing entitlement programs for the elderly -- Medicare and Social Security in particular -- at a time when the federal deficit is large and growing, taxes are increasing, and the savings rate languishes. Baby boomers in particular are unprepared economically for the future. They have low levels of savings compared to their predecessors. They had their kids late--many of us will be paying for college education for our kids around the time we hope to retire, and around the time our very old parents will be in need of the most help financially, physically, and emotionally.

If we resort to taxes as the solution to our problem, we are condemning a generation of younger taxpayers to economic servitude. They will have to work hard to pay the taxes to keep Medicare and Social Security alive, even though we have not been quite so generous with them in providing opportunities for jobs or developing programs for education, job training, housing, and economic development.

5. US Companies face global markets and intense domestic competition like never before.

Like their U.S. counterparts, global consumers are growing more educated and sophisticated, prying open domestic and global markets that many American companies long assumed to be stable, safe, and profitable. American companies are changing what they sell abroad, moving from manufactured goods to intellectual property rights such as patents and licenses. This adds to the insecurity of American workers by moving jobs out of the United States. Workers are worried that trade pacts like the North American Free Trade Agreement (NAFTA) will do the same thing. On the domestic front, new competitors have appeared from abroad, forcing virtually every firm in local markets to compete with global players.

At the same time, a long list of factors contributes to a more competitive climate for the consumer dollar in the United States: less regulation in some critical industries, a steady flow of new technologies, a more sophisticated consumer, quicker turnaround in the development and delivery of new products, a more varied way of reaching customers, and a greater number of new products for those customers. Protected market positions will be hard to retain, as consumer loyalties are likely to continue to decline. Because of these pressures, companies can no longer afford to provide safe harbors unless they can be persuaded that such loyalty to employees will result in bottom-line results in both the short and long term. And without companies as safe harbors, without faith in institutions, with worries about corporate and government accountability -- the American worker is scared and confused.

## Theft By Policy - Our Government At Work

Our world has changed, but our government and the tools it uses have not changed with it.

Our state and local governments can no longer meet their existing obligations. Everywhere the budgets for essential government services like education, police protection, health department inspections, criminal courts, and road repair are being pillaged to pay for public housing, battered children's shelters, efforts to collect child support, foster care, programs for latchkey children, residential treatment facilities for law-breaking juveniles, and, steepest of all, Medicaid. The states find themselves struggling to pay for programs mandated by Washington, for which their citizens did not even vote, and unable to pay for their own desired policy choices. The collapse of state and local government, however, is only one symptom of a broader economic, educational, and social decline that no government-funded social programs can remedy -- foremost among which is the steady erosion in the living standard of the bottom half of our labor force. The deterioration in real wages for unskilled and semiskilled workers occurring since 1980 results from a convergence of international competition for low-skill work and our own failure to teach basic literacy and number skills to our children. The breakdown in education is symptomatic of the overall disjunction between what we want and expect from government and what we get.

Increasingly Americans feel that the rules by which our lives are regulated are out of touch with our actual needs. We imagine our politicians as insiders who craft laws for privileged self-interested elite groups, all the while denying our own complicity in giving these insiders

their necessary grass-roots support. It is as if nobody voted for them. We talk freely about special interest groups buying votes, but less so about our willingness to sell. As a result of all this our government seems increasingly arbitrary and patch-worked. We begin to sense that our officials are playing by rules foreign to our native sensibilities. Government becomes oppressive, monolithic, irrefutable.

Water, electricity, and garbage -- these issues involve all of us and they are ripe with their own examples of distrust, abuse and theft. In the western United States water is perhaps the most important political and economic issue, yet water policy and its economic tradeoffs are run as if the world we live in was still the 1870's. Agriculture receives subsidies to overuse a declining resource to such an extent that in California farmers grow rice (a water intensive crop if there ever was one) in what by all rights should be a desert. In the southernmost part of the state the Imperial Irrigation District allows enough water to be wasted through leaks in its canals to service several major cities. Yet, in these same regions urban populations with no defined riparian rights pay ten or twenty times as much for water. Why? The litany I would cite is not dissimilar to that of trucks congesting New York City streets. The benefits to the many are almost non-quantifiable and diffuse, the costs to the few are known and considered high. The few thus have every incentive to organize and lobby the government to preserve the status quo. And the status quo once established is formidable.

As Rauch put it, "Every program does some good for somebody, or else it wouldn't exist. ...Most major policy decisions are made by near unanimous votes either in committee or in Congress itself. Answerability is minimized by the absence of discussion of and public information about who would benefit at whose expense. As a result, legislators have the opportunity to inject special interest provisions into the details of the law, and the incentive

for anyone to anticipate future adverse consequences is small. Politics seems caught in a kind of trap. Government tries to do more, yet people are less satisfied; politicians rail against special interests, yet special interests proliferate. From the individual's point of view, it always makes sense to hire a lobbyist, or vote for a politician, who can bring you a subsidy or use public resources to solve what you believe are pressing problems. But if everybody follows this seemingly sensible logic, everybody spends more and more time chasing everybody else's tail" and no one is focused on the global picture -- answering the question what do we need not what does Joe want.

America's news media insists that crises and emergency responses are taking place every day and in every arena. Contrary to the way we usually speak of it, the news isn't simply a report of what happened yesterday. It's a story, with characters, action, plot, point of view, dramatic closure. Moreover, it's a story about crisis and emergency. As officials and journalists adapt to the news story's preconception of ordinary events as crises and the front page's preconception of ordinary days as times of great excitement and historical consequence, the actions they undertake and the stories they tell become fabrications. The news stops representing the real world and begins to falsify it. What's actually going on in the real world is the ordinary business of ordinary institutions.

When the crisis is only simulated, as it is in the world according to the news media, the level of mendacity and exploitativeness soars through the ceiling. Facts in the news generally remain true, that much being necessary to maintain the credibility of the entire exercise. However, sooner or later almost everything else becomes a fabrication. The public discourse degenerates into a farrago of invented cases, illusory programs, government interventions that make matters worse, benefits to the undeserving, punishment of the innocent, sneaky



heroes, villains whose only offense is to be on the losing side, and lies of every size and description.

Emergencies and crises open up a giant loophole in our textbook image of an eighteenth century constitutional society. We have a naive belief that normal constitutional government is a stately, deliberate, often quite principled affair. Rules predominate, people and institutions have prescribed roles, powers are both conferred and limited, the objective of public processes is to represent and discuss and make general rules generally applicable. Whatever function isn't explicitly assigned to government is reserved to the individual. The presumption is that the private sector and individual rights come first and that government is their servant. Right.

In response to crisis, government by executive decree is the prevailing practice; the role of legislatures and courts is primarily to go along and give their blessing. The presumption in favor of the individual and private sector is in eclipse. Now the going-in assumption in public affairs is that society will bear any burden, pay any price, support any friend, and oppose any foe to assure the survival of democracy. The media's continual manipulation of ordinary events into the crisis de jour calls for we the people to continually condone and acquiesce to this governmental approach. Except there is no crisis. Just a media event.

The process of making public policy in a blaze of urgent, televised glory, then quietly unmaking and twisting it to ends different from the ones originally conceived is what media politics is all about. Public support for emergency policies evaporate the minute they're in place and the crisis passes, but officials acting in emergency mode can't make meaningful public policies. In such circumstances the central action of governing-the framing and

making of choices among competing values-isn't undertaken. There's action but no decision or responsibility. Public policy is established as a response to media-highlighted crisis conditions. At the moment of its creation, the policy is clearly defined and usually broadly supported. The moment passes, and the policy's purpose and occasion disappear. Then the crisis passes; the seeming threat to society's survival that energized the president, press, and legislators to act quickly is no longer present; the source of its popular political backing disappears. Thus, crisis-oriented public policy is always more or less stillborn. The act of creating it guarantees that almost as soon as it comes into existence, it finds itself bereft of the public purposes and political support that occasioned its creation.

After a bill becomes law, the legislation's identity changes. The bill having been passed, there was no more crisis; the law's main purpose had been achieved. Yet the legislation was on the books and a bureaucracy was in place setting up programs. Soon officials promulgating action were taking steps not contemplated, and officially rejected, by legislative decision makers. The rules they write and implement do not reflect the public consensus achieved through the reporting of a crisis -- but instead reveal the need for detail and firm purpose. To be sure, the policy remains on the books and continues to define a source of authority and funding for bureaucrats to use. Official activities continue to be undertaken in its name. But now the purposes to which it's put are not the ones involved in its creation. Slowly the policy is co-opted, the media loses interest, the general public no longer cares or is perceived to care and some special interest takes over. Another unintended redistribution accomplished.

Rauch's Demosclerosis is clear on this point.

"Redistributive programs are in use everywhere, and should be. Aid to the unemployed provides security against the most bruising trauma of capitalism; aid to the elderly gives security in old age. Aid to farmers can help maintain a base of food production. Aid to veterans repays a public debt to those who serve. All of those goals are worthy, and all of those programs serve real social purposes. The problem is understanding and then minimizing the programs' cumulative side effects, which turn out to be both nasty and inherent."

"By definition, government's power to solve problems comes from its ability to reassign resources, whether by taxing, spending, regulating, or simply passing laws. But that very ability energizes countless investors and entrepreneurs and ordinary Americans to go digging for gold by lobbying government. In time, a large, sophisticated, professionalized, and to a considerable extent self-serving industry emerges and then assumes a life of its own. This industry is a drain on the productive economy, and there appears to be no natural limit to its growth. As it grows, the steady accumulation of subsidies and benefits, each defended in perpetuity by a professional interest group, calcifies government. Government loses its capacity to experiment and so becomes more and more prone to failure."

"'The greatest goodies for the greatest number' is how a wag once described the time honored principle underlying American politics. When Senator Arlen Specter, a Republican of Pennsylvania, had some trouble in 1992, he responded by touting his seniority, which he dedicated 'to using every bit of influence I can.' 'On the campaign trail,' reported The Economist, 'Mr. Specter has something for everyone. He fights as hard as the best Democrat for import quotas on steel. Roads? He has brought back \$1.28 for every tax dollar sent to Washington.' Senator Alfonse D'Amato, the New York Republican, 'makes the

clearest, rawest pitch in politics,' reported The Washington Post in 1992: 'Look what I done for you lately,' D'Amato said. 'If you put the pie out, don't blame me for wanting a slice of the pie for my people-who've gotta eat also.' Such is the logic of transfer-seeking."

"Public-interest advocates are especially indignant if you suggest that they, too, are playing the game. You soon discover that everybody is a selfless public servant. Not only does everybody say so, almost everybody believes it. One of the game's most wickedly ingenious defenses is that it allows every individual player to think that he is serving the greater good while everyone else is evil. The conceptual breakthrough comes when you realize that it doesn't matter whether the people playing are vicious opportunists or high-thinking moralists. Whether the people engaging each other in distributive struggles are idealistic or cynical, the economic outcome is the same: people devote scarce reserves of time, energy, and money fighting back and forth over existing wealth."

Rauch's parasites "make their livings by turning society's pursuit of the common good to private advantage. Yet they never present themselves in this light. They speak of themselves as neutral, expert, beneficent providers of needed services to society. They are students of policy problems, gatherers of information, managers of trends, doctors of the body politic, mediators of conflict, experts on the future in a changing world, architects of global survival, security engineers. They talk like professors, think tank staffers, public health doctors, theologians, ethicists. The one thing they don't admit to is what they are."

"These people practice a politics of self-interest in which no one owns up to an interested self. The clients and constituents on behalf of whose selfish interests these selfless servants toil are invariably highly deserving. Due to no fault of their own, an exogenous event over

which they had no control has harmed them. A natural disaster had just overwhelmed them. A mindless bureaucracy was about to deprive them of life, liberty, or property. In short, bad things are happening to good people, and there ought to be a law against it. Government help was urgently needed. To oppose such help is evil incarnate."

"Even in principle, the line between public-spiritedness and pursuit of private gain is subjective. One person's public spirited crusader for environmental sanity or entrepreneurial freedom is another's job-destroying Luddite or selfish tycoon. Garment workers' unions long defended federal regulations forbidding people from doing commercial sewing at home. You could say they were fighting to prevent a resurgence of exploitative sweatshops, or that they were trying to throw their nonunion competition out of work. Take your pick."

"Indeed, idealistic activists can be much more expensive than cynical opportunists. A man who wants to take your car just for the money can often be warded off by an alarm, which may make the effort not worth the trouble. But the man who believes he is entitled to your car can be much more persistent. 'Dammit,' he thinks, 'that's my car, and no bastard is going to keep it from me.'"

"The merely greedy give up when they stop seeing dollar signs, but the outraged don't stop lobbying or suing till they get their rights. In fact, someone who is morally outraged is easily capable of spending more than \$10,000 to get your \$10,000 car: even if he suffers a financial loss, he makes his point and makes you miserable. He might even destroy the car if he fails to get it; better to ruin the car than allow you to enjoy it."

"A tapeworm doesn't hate you and isn't out to get you. It is just trying to get what it thinks is its fair share. Similarly, the investors in the transfer-seeking economy aren't out to wreck the economy. They are just trying to get what they think is their fair share."

"Or, rather, we are just trying to get our fair share. If you seek or receive any sort of benefit from Washington (or the state capitals), you are in on the game. It is safe to say, indeed, that every American is implicated in transfer-seeking. Benefits flow to all income groups, roughly in proportion to their share of the population. Rich, poor, and middle-all are enjoying benefits and feeling entitled. America is the land of the free and the home of the subsidized."

The result of all this is a pattern of policy making that is positively schizophrenic in quality. On the one hand, policies have a sweeping, radical, whatever-it-takes grandiosity about them, corresponding to the crisis-and-emergency- response scenario by which they are sold to the public and pushed through the legislative process. On the other hand, the laws as written are riddled with exemptions, special timetables, one-time payments, tax breaks, and all manner of goodies and deals tailored to the special requirements and agendas of the many interests that are to be affected by the sweeping declaration of policy. Often, dare I say always, there is no meaningful policy-related connection between the two sets of provisions. And is there then any wonder why we feel that our government isn't working?

We have a role in fixing this mess. In this respect, we are all like the boy apprenticed to a famous Chinese master who fashioned a head of stone in the hope it would reveal secret knowledge. But the master had exhausted himself and charged the boy to watch the head and come at once to wake him should anything happen.

In a lull during which the boy's mind could not help but wander, the stone head trembled slightly and whispered, "Time is coming." The boy was quickly alert and across the room. As his hand touched the door, he looked back. All was still and as before. "Did I doze off", he asked himself, "and dream?" He slipped back to scrutinize the head. "Nothing's changed," he told himself. "if I wake the Master shortly after he's gone to rest, and then have nothing to show, he'll be angry. Besides, if I heard right, the voice said only, 'Time is coming' so nothing has yet happened."

And as the boy hesitated, the head shook, gave off a puff of smoke, and said smartly, "Time Is Now." The boy again sped across the room, determined not to repeat his initial error. But as he neared the door he pictured the long passage down which he would need to travel to wake the Master, who would then need to travel the same route back. "Is there time," he asked, now filled with fear, "for the trip? The voice said, 'Time Is Now,' so there's no time left."

The boy opened the door but looked back in despair. If I leave, no one will hear the secret. What would my Master want me to do?

And as the boy stood, one foot in the room, one in the corridor, hesitating, the stone head discharged a great black cloud, roared, "TIME IS PAST!" and shattered into a thousand pieces.

We can solve the theft. But time is running.

# Part Two

From The Many to the Few

and

From the Few to the None



## We Have Problems

The past three decades have seen wondrous growth, impressive technological advances, and major change. Yet if we ask about quality of life -- the good news is not as sanguine. What's become of honesty, loyalty courage, patriotism, discipline, hard work, commitment to marriage and the family, or a pitcher who knows how to make the double play? No one wants to give up the freedom and autonomy that modernity has brought. No one wants to give up the transformation of our material lives that the past decade or two has brought. And even if we did want to give these things up, we couldn't. At this point in our history, we have to figure out how to live with modernity because we can certainly no longer live without it. But at the same time that we value modernity, we are beginning to see the need to find a way to balance the guidance and constraint of tradition with the chaos and openness of change. It's a very difficult challenge.

Thirty years ago the United States was in its worst recession and greatest political crisis since World War II. Yet, by a variety of indicators, we were better off then than we are today. Back then, the U.S. government was frustrated that it could not erase a \$20 billion budget deficit. Today the government struggles with an annual deficit of roughly \$100 billion<sup>?</sup>. In 1974 America was fighting both the Cold war and the Vietnam war, yet our military expenditures as a percentage of gross national product (GNP) were roughly the same as they are today when we have no such perceived threats. Back then the government declared

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<sup>?</sup> No comment as to source be it 9/11/2001 or tax cuts.

a health-care crisis because the percentage of GNP spent on medical costs was 7.5 percent. Today we spend 14 percent and the number of uninsured has ballooned to more than 35 million.

The United States was a creditor nation in the 1970s. In the 1980's, for the first time in the century- it became the world's largest debtor nation. In 1974 we worked shorter hours for more money. Real wages peaked in 1973 and have been declining every since, yet we work on average one month more per year now than we did two decades ago. The picture is even more dismal for those out of work. In 1974 a 6 percent unemployment rate was considered both economically and politically unacceptable. Today it is the target figure for the current administration. Moreover, income distribution was more equitable in 1974, when the top tax bracket stood at 70 percent. It subsequently declined to 28 percent during the Reagan era, allowing wealth to concentrate further without a broadening in the middle. For the poor, the past two decades have been especially cruel. The poverty rate among children, for instance, has risen dramatically, striking one in five today compared with only one in seven in 1974.

The signs of political, economic, and social decay are everywhere. Wages of production workers in America have declined 20 percent since 1973, as corporations have shifted millions of jobs. Among the twenty most developed nations, the United States is first in divorce and teenage pregnancy. The cost of health care has exploded, and a record number of Americans are now without the type of health insurance which matters most -- coverage for acute critical care. The ranks of the poor have officially swelled to record numbers, including more than 10 million children. Crime in America is at an all-time high, even though our prison population is proportionally larger than that of any other country in the world. Nineteen countries have infant mortality rates lower than that of the United States.

For more than a decade during this decline the officials in power argued that nothing was wrong and that nothing could be done about it anyway. This was their oft stated "law of unintended consequences." Try to assist the poor, and you will only make them more dependent and demoralized. Try to regulate the economy, and you will only squelch the productive energies of free enterprise. Attempt to use the government for any purpose -- other than law enforcement or military actions -- and you will merely swell the deficit and the already bloated federal bureaucracy. All problems should be left to Adam Smith's invisible hand. If private business is not interested in cleaning up the environment or providing affordable housing or offering health insurance to the poor, too bad. An op-ed article by an anonymous federal employee, published in the New York Times in March 1991, acknowledged chillingly that the government "is no longer responsible for anything. The unequivocal message throughout the Federal bureaucracy is that nothing is to be accomplished by this government except the creation of good feelings and the illusion of action."

Where are we today?

Our health care system stands out for its high costs and poor results. We have a medical system that costs more than any other in the world, yet denies critical access to 37 million Americans.

Environmental issues have become so politicized that we gain minimal improvements at maximum expense. New perceived threats to the climate or

atmospheric purity need cool analysis, not the massive disruption of politically guided policies.

As a nation, we spend too much on housing, yet there are severe regional housing shortages. Solutions to housing and infrastructure problems are increasingly constrained by local politics.

Family and community structures are deteriorating. All the key indicators of social problems-crime, drug abuse, child abuse, teen pregnancy-are the worst in the developed world. We maintain a drug policy which artificially supports scarcity, inflating the price of drugs and making it possible to become rich by pushing drugs.

Our education system is ineffective and costly. We spend more than any other nation, yet we have low rates of both basic and technical literacy. Our educational system pays many teachers so poorly they can no longer afford to teach, yet has more administrators than corporate America.

Money-oriented, single-issue politics has become a high art the courts and Congress use their ever-growing powers without responsibility. Presidential decision making is increasingly constrained and ineffective.

Our inefficient legal and insurance system has become a drag on the national economy.

American management has grown lazy, insular, and focused on financial manipulation instead of product improvement.

Much of our military has become a vast pork barrel rather than an efficient fighting machine.

The American public has no sense of control over government and involvement in the policy process. Many citizens feel left out perceiving that they are on the receiving end of arbitrary government actions, not part of a democratic decision making process.

Americans have lost confidence in our ability to control our own destiny. Our nation was long noted for its "can-do" spirit, indeed we had a self-assurance which to Europeans often bordered on cockiness. Today we have become mired in pessimism and self-deprecation. It has become fashionable, indeed almost obligatory, to predict decline in America's economic strength and stagnation in its standard of living.

We worry that America's manufacturing jobs will be lost to those countries where unskilled peasants are willing to do repetitive jobs for little money. At the same time, we read predictions that the United States will be unable to keep up with Japan and the members of the European Economic Community, whose workers are more skilled, factories more automated, and transportation systems more efficient than our own. All agree we live in an age of rapid change.

A problem of rapid economic change is lack of job security. Until recently many individuals found their primary extrafamilial social relationships on the job. The workplace as a stable social entity is dying. The old industrial form was probably easier for integrating diverse ethnic groups. The training and communication required were fairly simple. You got to work on time, punched in, did a single manual task repeatedly, took a half-hour lunch break, worked some more, and punched out. A computer doesn't care what color you are or what god you pray to, but is demanding in other matters. Modern workers-especially in the fast-growing information sector but in industrial jobs, too-must perform complex tasks that require accurate communication, familiarity with technology, and self discipline. The modern economy forces frequent changes both in the type of work you do and in the organization you work for. The average U.S. job lasts little longer than 6 years -- by far the lowest in the developed world. Many new jobs are available, but they demand new skills and, often, relocation. Long-term relationships with employers and employees are vanishing, even at the middle-management level. Even the largest corporations are fair game for acquisitions, often followed by waves of layoffs. Job insecurity is thus now a permanent feature of American society.

Frustration and foreboding about the economy have erupted in popular anger at the political system, especially at the federal level, but few believe that public officials will take steps to reverse the gloomy economic outlook. Again, attitudes are inconsistent. People blame Washington both for excessive interference with private initiatives and for failure to provide economic direction and leadership. They criticize Congress and federal executives for being out of touch with real people and not caring what ordinary citizens think. At the same time, they castigate officials for being too political and doing only what is popular with voters. Pundits bemoan lack of leadership, while predicting that Americans would reject any

potential leader who asked them to make sacrifices or work hard to improve future performance.

Quality of life? The daily juxtapositions in our lives are so bizarre that they strain belief, however numbingly familiar they grow. In New York City, directly under the windows of the treasure-crammed five million-dollar apartments that loom over glittering Fifth Avenue, for instance, sleep the homeless, one and sometimes two to a park bench, haggard, usually ill, huddled in rags turned dead gray with dirt and wear. In a gentrified neighborhood across town, bustling with upper-middle-class professionals, only a thickness of brick separates a building where staid burghers have paid upwards of three quarters of a million dollars for an apartment from the squalid crack house next door. Not far away, for the last few Christmas seasons, the line of fur-coated holiday makers jovially filing into a luxury food store to buy caviar advertised at \$250 a pound has adjoined the sullen line of ravaged paupers waiting for the soup kitchen to open at the church around the corner. Downtown, in the suave, postmodern towers that house health clubs, power lunches, and automated teller machines, grimy derelicts looking like leftovers from the Depression haunt the gleaming atriums for warmth and safety, while above sit dapper investment bankers, some of whom made seven-figure incomes rearranging the industrial order before they were forty.

As for the urban parks and pillared train stations that speak of a once confident civic pride and prosperity, how often are they now-graffitied, vandalized, reeking of human waste-but dreary gauntlets of beggary? These public places-the grand, columned train stations, the metropolitan parks-are powerful embodiments of the democratic social order: splendid constructions made by communal effort not for the pleasure of kings and aristocrats but for dignifying the ordinary lives of ordinary people. That for a decade train riders have had to

hurry through the stench of waste and atmosphere of threat with averted eyes, that park users have had to steer clear of the tents of the mad and keep their children out of the tall grass for fear of AIDS contaminated needles discarded by homeless drug users. These are scandals that starkly symbolize how far we have succeeded in eroding the boundaries of the social order.

Crime is the last refuge of the curious notion that man is basically good. Here the best intentions enter into strange alliances with old fashioned theories of environment and socialization and a slimmed-down version of psychoanalysis. Its proponents, in their boundless good nature, excuse the aberrants from all responsibility for their actions. Its never the fault of the offender, always his environment: his home, the consumer society, the media. It's as if every criminal were handed a multiple-choice questionnaire which he had to fill out as best he can:

- 1 ) Mom didn't want me;
- 2) My teachers were far too authoritarian / liberal;
- 3) Dad came home drunk / never came home at all;
- 4) The bank gave me too much credit / closed my account;
- 5) I was spoiled/neglected as a child at school/at work;
- 6) My parents got divorced too soon too late;
- 7) In my neighborhood there weren't enough / there were too many leisure activities;
- 8) So there was nothing else for me to do but arson / robbery / mugging murder.

(Please delete whichever does not apply)



At a stroke we can rid the world of crime, since there are now no criminals, only "poor dears". Even Hitler and Goebbels, were they to appear today, would be regarded as victims in need of sympathy and, perhaps, psychotherapy paid for by the state.

We need the law, the courts and the police, though you would never know it from reading a newspaper. The law and its enforcement agents do many worthwhile things. Many laws enhance public safety and individual security. The police sometimes protect life and limb, direct traffic, administer first aid, assist in times of community emergency, and perform other services with commendable dedication and courage. The police confront dangers and social miseries of a kind most of us can only imagine. They deal with the waste products of an affluent, competitive corporate society: corpses in the street, back-alley muggers, pimps, child molesters, winos, heroin pushers, psychopaths, the ill-fed, the ill-housed, the desperate, and the defeated.

Police keep order or used to keep order -- by relying on an array of time-honored prohibitions against loitering, vagrancy, disorderly conduct, disturbing the peace, and obscenity. Under such laws, they can question suspicious characters and quiet the disorderly or move them along. But lawyers and judges came to feel that the order-keeping function of the police was yet one more instrument by which the authority of society was used to harass the have-nots. When does taking the air turn into loitering? When the person doing it, judges feared, is a poor black in a white neighborhood. So too might poverty and blackness transform sitting on a park bench into vagrancy, or turn high-spiritedness into disturbing the peace. With thoughts like these pervading our judiciary and creeping into the legislative branch, a great gulf has developed between the general public and politicians. The wholesale overturning of

the bars to crime and disorder has scrambled the moral order. What becomes of the sense of justice when, almost daily, people violate the fundamental principle of the social contract? What becomes of the sense of personal responsibility for actions when people take no responsibility for their own?

The "right to privacy" has been extended to protect drug abuse and criminal records. It is difficult if not impossible for an employer to identify, much less dismiss drug abusers, alcoholics, criminals, or the mentally unstable. The American criminal justice system is so tied up with endless proceduralism that dangerous and violent criminals treat the justice system as a joke; and they're often right. Abusive and drug-addicted parents are allowed to retain custody of their children, dooming these youngsters to deprivation, pain, and, far too often, death. School systems, paralyzed by bureaucratic red tape, are unable to protect the great majority of their young wards by taking effective disciplinary actions against the tiny minority of violent students. It is politically and socially unacceptable to take any action, even life-saving action, if that would appear intolerant toward politically influential subcultures. San Francisco spent years of bitter debate on closing its gay bathhouses while hundreds of patrons engaging in indiscriminate, anonymous sexual activity, were being infected with the deadly AIDS virus every night.

"I'm entitled. I don't have to earn it. It's mine as a matter of right because I'm an American -- a citizen of the richest, most powerful nation on earth." Who do you suppose pays for the quality of life we enjoy? I am referring to schools, parks, monuments, museums, highways, and bridges. Every time we use one of these facilities we spend money, although we are seldom charged for it. Even when we do pay a toll or fee, it rarely covers the cost of usage.

Are we willing to pay the price necessary to obtain clean air, clean water, and "good" land use? If we are not so willing, who is?

We have become shortsighted and selfish, acting against our own long term self-interest. Our vaunted sense of confidence seems lost, long term considerations go out the window, and the focus is on survival. The rule becomes "look out for number one" at all costs. The attitude toward our neighbors, co-workers, customers, and employers becomes one of suspicion and fear. Each of us tends to become more likely to see the "bad" or "different" aspects of our neighbor. Our neighbor becomes less of a person and more of an object. We tend to transfer our fears and animosity toward these neighbors by assuming they seek to take advantage of us and expecting the worst from them. This becomes justification for a preemptory first strike, which we justify to ourselves on the basis that "it's a dog-eat-dog world." We have become a nation of strangers. We are alone in our strange land, rootless wanderers moving from city to city, job to job, marriage to marriage.

We misinterpreted Adam Smith's ideas to mean that if we each looked after our own interests, some "invisible hand" would mysteriously arrange things so that it all worked out for the best for all. We therefore promulgated the rights of the individual and freedom of choice for all. But without the accompanying requirements of self restraint; without thought for one's neighbor, and one's grandchildren, such freedom becomes license and then mere selfishness. Adam Smith, who was a professor of moral philosophy not of economics, built his theories on the basis of a moral community. Before he wrote *A Theory of the Wealth of Nations* he had written his definitive work *A Theory of Moral Sentiments* -- arguing that a stable society was based on "sympathy," a moral duty to have regard for your fellow human

beings. The market is a mechanism for sorting the efficient from the inefficient, it is not a substitute for responsibility.

We need to remind one another that each right we claim for ourselves generates a claim on someone else. A claim of "rights" is often designed to arouse or play upon feelings of guilt in others. There is a limited amount of guilt, however, that one can lay upon other people before they balk. The expression of ever more wants, many quite legitimate, in the language of rights makes it difficult to achieve compromises and to reach consensus, processes that lie at the heart of democracy.

A society that is studded with groups of true believers and special-interest groups, each brimming with rights, inevitably turns into a society overburdened with conflicts. Rights talk polarizes debate; it tends to suppress moral discussion and consensus building. Once an agenda is introduced as a "right," sensible discussion and moderate positions tend to disappear. It is one thing to claim that you and I have different interests and see if we can work out a compromise; or, better yet, that we both recognize the merit or virtue of a common cause, say, a cleaner environment. The moment, however, that I claim a right to the same piece of land or property or public space as you, we start to view one another like the Catholics and Protestants in Northern Ireland or the Palestinians and Israelis in the Middle East. For many people rights can be conclusions masquerading as reasons, simply asserting that some position is a right gives it a preeminence, as if its evocation closed off all debate. But to society, an individual's entitlement can only be established in details that weigh the "right" at issue against the "rights" of those who are hurt by the given act.

Our failure to speak in a language of social virtues, interests, and, above all, social responsibilities only produces contentiousness and diminishes the opportunities for social cooperation. In the current environment of drugs crime and festering race relations being inside becomes a powerful symbol for being protected, buttressed, coddled, while being outside evokes exposure, isolation and vulnerability. In an increasingly blighted urban landscape these code words become loaded, bearing meanings far beyond their prosaic origins. The symbolic power of bridges and tunnels in the discourse of public space is such that, though their purposes are couched in seemingly neutral terms, their very physical properties pander to some of our deepest fears. It is an unspoken terror for many white middle-class Americans to be surrounded by hostile blacks in an open street. We will go to considerable lengths to avoid these zones of potentially frightening friction outside.

We are no longer as likely as in the past to consider ourselves members of the American community, much less members of a community defined in terms of state, city, church, school, profession, or neighborhood. Now, we are more likely to define ourselves in terms of what we own, or what we drive, or the house we live in.

It was Jean-Jacques Rousseau who noted that in their economic livelihoods, people were closely integrated with and interdependent on one another; the simple, self-reliant life of the solitary forager was a distant and forgotten bit of the past. Constitutional government, Rousseau held, was based on individuals' self-interest rather than their mutual commitment to the ideal of freedom. It promised justice but delivered manipulation and exploitation as everyone sought to use the system to his own immediate advantage. In short, Rousseau argued, the philosophy of Hobbes, Locke, and Bacon had brought forth what he called a new bourgeois society. It was based on fear of death and a new science of self-preservation

and personal comfort, and amid its idealistic promises of individual freedom and social harmony, it was a recipe for hypocrisy. People professed devotion to law, freedom, and the common good. But these promises were opportunistic, based on an expectation of advantage. It was a society that taught privilege and injustice.

The late Allan Bloom wrote that the bourgeois is defined by the fact that, when dealing with others, he can think only of himself and that, when trying to satisfy himself, he can think only of how others will see him. Is this different than Tocqueville's noting of America that "the first thing that strikes the observer is an innumerable multitude of men, all equal and alike, incessantly endeavoring to procure the petty and paltry pleasures with which they glut their lives. Each of them, living apart, is as a stranger to the fate of all the rest; his children and his private friends constitute for him the whole of mankind. As for the rest of his fellow citizens, he is close to them, but he does not see them; he touches them but he does not feel them; he exists only in himself and for himself alone...."

Two hundred years after Tocqueville, we don't "see" the poor or the homeless or the junkie, much less feel benevolent or compassionate toward these people. We don't see the problems of our neighbors or our fellow citizens. "They" have become different than "us." "They" are part of the problem. The government is helping "them" and not "us." "They" need to get out of our way.

We need to change our thinking.

Modern American society provides us with an opportunity to control our lives to a degree that is unparalleled in human history. This is true both because technological change has freed us

from many of the constraints imposed on us by nature and because cultural change has freed us from many of the constraints imposed on us by social institutions. Nowhere is the value of autonomy and control more important or obvious than in modern America. It probably undergirds the extraordinary importance we give to freedom of choice and the sanctity we give to the rights of the individual. We rebel against our social institutions (church, state, school) when they try to tell us what to do. Our children rebel against us when we try to tell them what to do. One of the reasons that the character of many of the things we do in life keeps changing is that we refuse to be constrained by the customs, habits, and traditions of those who came before us. We are in a unique position to realize the values of autonomy and control. But this opportunity is some thing of a two-edged sword. To the extent that we can take responsibility for making of our lives what we will, we must also take responsibility for failing to do so.

Albert Hirschman, in his book *Exit, Voice, and Loyalty*, has suggested that we have two general classes of responses available to us when things are not as we want them to be. We can leave and thus exit the situation, or we can protest and thereby give voice to our concerns. In the marketplace exit is the characteristic response to dissatisfaction. If a restaurant no longer pleases us, we go to another. If our once favorite breakfast cereal gets too expensive, we switch to a different one. If our favorite vacation spot gets too crowded, we find a new one. One of the principal virtues of freemarket choice is that it gives us the opportunity to express our displeasure by exit.

In the domain of social relations, things are different. We don't dismiss lovers, friends, or communities the way we dismiss restaurants, cereals, or vacation spots. Treating people in this way is unseemly at best and reprehensible at worst. Instead, we give voice to our displeasure, hoping to influence our lover, our friend, or our community to change. And even

when our efforts fail, we feel bound to keep trying. Exit, or abandonment, is the response of last resort.

By contrast, our society's emphasis, indeed obsession, with security heralds an age in which we seem to have quit trying. We create parallel, middle-class suburban cities growing on the fringes of old centers abandoned to the poor and enclaved cities for the rich. Throughout America government has largely ceased its historic role as the integrator of communities in favor of managing and enforcing distinction. Each individual, each group, seems out for its own and seeks to be protected from the others. There is no common goal to be strived for and no shared understanding of the common good -- but instead 250 million plus separate understandings, 250 million plus sets of goals, 250 million plus isolated islands.

The ensuing complexity leads directly to part of the theft. For in the competition to only better ourselves -- without regard to "them" -- we have created the very system that rips us off.



## Government Is Not The Answer

When Americans talk about the problems above, problems caused by "them", the first instinct says government is the answer. Well that instinct is wrong.

Our government has talked of tackling these problems for years -- but talk is just that.

Take, for example, the environment.

No environmentalist can be pleased with the government's record over the past twenty years. Its management of public lands often has been deplorable. To subsidize logging in ecologically sensitive areas is a betrayal of the public's trust. Subsidies for irrigation, grazing, and farming all degrade the environment, not protect it. The government's reliance on command-and-control regulations has stifled innovation, imposed huge and unnecessary costs on businesses, and left us unprepared to cope with non-point sources of air and water pollution. And contrary to the claims of those who defend it, the Endangered Species Act may be responsible for as much injury to as protection of wildlife. If, as the research seems to indicate, compliance with environmental regulations costs between four and six times as much as the least expensive way to accomplish the same level of emissions reduction, then \$3 of every \$4 spent on pollution abatement in recent years has simply been wasted. With pollution abatement costs now running at \$150 billion a year, the waste could be over \$100 billion a year. The mind reels at the thought of what could be achieved with a more efficient investment of this money.

Our present environmental policies ignore some basic truths:

The environment is cleaner than at any time in the past half-century. The environment is safer than at any time in recorded history. Life expectancy has never been longer. Cancer rates are falling, not rising. Predictions of impending global ecological disasters are untrue. Prosperity is good for the environment.

Not everything can be explained. Trends can't predict the future. Correlation is not causation. Facts count for more than opinions. We mustn't forget the past. We can never avoid risk completely. We have only limited resources and limited time and have to make choices.

The dose makes the poison. The dose-response relationship is often not linear. Mice are not little men. Epidemiologic studies can be unreliable. Risks can be measured and ranked. It is impossible to prove that something does not exist. Science is not immune to politics.

Pollution problems tend to occur where ownership rights are not defined and enforced. Rights to air, water, and wildlife can be defined and enforced. Ownership leads to better stewardship.

Incentives are better than commands.

Environmental risk assessment traditionally has been based on the risk to a hypothetical individual who is assumed to be exposed to the worst possible combination of exposure

circumstances. Yet, we can never avoid risk completely. Everything we do carries with it some risk, even common activities such as taking a bath (drowning) or crossing the street (being hit by a car). Seemingly harmless things (like balloons and tooth picks) sometimes kill people. There is no such thing as a product, decision, or action that carries no risk whatsoever.

Government policy seems to be based on the thesis that if "there may be a risk" that a chemical, nuclear power plant, or landfill will endanger our health, we should not allow it. No one calmly asks, "How much risk is there?" When the risk is unknown, no one waits until reliable evidence is available to estimate the risk. Instead unknown risks cannot be. Practical advice -- if the risk is one in a million (the level of risk often found for things like incinerator fumes and pesticides), it may not be worth attempting to reduce it any further. But not to the government -- Superfund sites are to be cleaned so that a child could eat the dirt and not get ill. Why? The risk of drowning (16 in a million), or dying in an accident at home (90 in a million), or dying in an automobile accident (192 in a million) greatly exceed almost all alleged environmental risks.

Or take driving.

Americans love cars and hate welfare. George Bush needs to speak to that dichotomy from the bully pulpit and explain that our private vehicles are by far the nation's biggest welfare cheats. The highway trust fund is a unique, self-perpetuating paving and construction fund financed by a dedicated tax. Yet even the tens of billions of dollars each year that swell the highway trust fund cover only about half the cost of roads and a tiny fraction of the overall medical, social, environmental, police, and fire costs generated by vehicular use. By my

estimate the subsidy to cars and trucks is nearly \$300 billion a year, thirty times more than the federal government gives in aid to cities. If Americans had to pay the true costs of personal vehicles, they would not be able to afford them.

Driving seems inexpensive only because in thinking about it we neglect to include such social costs as polluted air, rush hour gridlock, illness from breathing gas fumes, huge government subsidies for highways and parking, and maintenance of an expensive military presence in oil producing countries. Americans pay a hidden cost of \$2.25 per gallon each time we fuel up, over and above what we pay at the pump.

Only a political death wish could motivate a member of Congress to vote for a \$2.25-a-gallon gasoline tax, yet the auto-centric policies Congress has endorsed over the last several generations have actually imposed a burden of that size on all Americans. Highway subsidies are not merely the construction and maintenance costs that road revenues do not cover. Roads also burden taxpayers because of the need for someone to patrol highways, clean polluted air, insure that foreign oil flows freely to U.S. shores, subsidize downtown parking for millions of commuters, dispose of millions of junked cars, tires, and batteries, cover higher health-care costs associated with the breathing of gasoline fumes, deal with fuel wastage and time lost in traffic jams, cope with losses of life and human capacity in traffic accidents, pay courts and judges to handle personal injury lawsuits, pay auto insurance premiums and bear the uncountable costs of living in an auto-centered world.

Most Americans live in sprawling automobile suburbs. As commuting distance increases, and speeds drop below twenty miles per hour, and the freeways back up, life on wheels becomes increasingly intolerable and people go mad with ennui. What is wrong with this

auto-centered suburban world? It devours vast amounts of rural land, including some of the best farmland. It squanders energy. It wastes people's time, condemning them to solitary imprisonment in their cars for hours each day. By failing to provide decent public places that bring people into casual face-to-face contact, it is by nature homogenizing and intolerant of diversity, both economic and social, and cannot provide the odd little corners for people with odd little lives necessary to keep all of us sane.

The actual dollar costs add up:

General tax subsidies to build roads:	\$ 21 billion
Police and safety services:	\$ 6 billion
Highway administration:	\$ 5 billion
Interest and debt service:	\$ 5 billion
Loss of taxes from free parking:	\$ 21 billion
Military presence in Persian Gulf	\$ 25 billion
Strategic petroleum reserve:	\$ 1 billion
Costs of traffic congestion:	\$100 billion
Air pollution and health costs:	\$ 9 billion
Casualty insurance premiums	\$ 99 billion

Millions who pay the \$2.25-per-gallon premium through property, sales, and income taxes and higher consumer prices do not even drive -- the elderly, city folk who rely on mass transit, and the poor. We used to have railroads and trolleys before the highwaymen dominated Americans' choice of travel. Government policy made railways build and pay taxes on their own pathways while sparing the rails' competitors from such burdens. Traveling by road seemed cheaper with good reason. To have a system in which those who

benefit shift the costs to those who do not is not merely unfair; it understates the costs that car users make society pay. And charging motorists less than what their driving costs encourages more driving, which in turn intensifies the problems of overuse.

Or take health care.

Behavior and non-medical technologies have always been the keys to widespread good health. For individuals, technology can buy cures, but for a society it buys mostly cost. The society that substitutes behavioral discipline for medical technology-the opposite direction from where we're headed right now-is ahead by a hundred to one, if not a thousand to one. The great breakthroughs in conquering infectious diseases around the turn of this century came primarily through the application of sanitation techniques. That in turn required behavioral change. It was not enough simply to install safe water systems; people had to buy and use them. The whole profession of plumbing had to be created and financed.

Now we face a different set of behavioral problems -- our "diseases of choice." During the next thirty years, the great majority of diseases of people under age fifty or so will be incurred as a result of specific behavioral choices. These behavioral choices include:

Smoking

Diet and activity patterns

Alcohol

High-risk sex

Violence

Illicit drugs

Many hundreds of thousands become victims of these behaviors without indulging in them. Drunk drivers kill others besides themselves. Secondary smoke is a killer. At least 150,000 babies per year in the United States are severely damaged by fetal alcohol syndrome and fetal cocaine addiction. Their lives can undoubtedly be improved to greater or lesser degree; but keeping hundreds of thousands of brain-damaged children alive from infancy will become a multi-billion-dollar problem. Prevention is clearly preferable, yet may require controversial behavioral intervention controlling what pregnant women do.

Medical costs are viewed as the responsibility of those using the system, not as society's burden. We wouldn't ask only those who have had fires to pay for the fire department or only those who have been crime victims to pay for the police department. But health care is different. Some states, like Minnesota, even proposed or enacted taxes on the gross receipts of health providers to pay for the uninsured. They didn't suggest similar taxes on lawyers to keep the courts going or taxes on schoolteachers to keep cash-strapped schools open. They rationalized the approach by saying that it recirculates medical dollars, thus preventing health care from absorbing even more money. But that's a spurious argument.

If society fails to control social ills, medicine can't be expected to absorb sicker patients without increased costs.

If society wants unlimited technology, it has to be willing to pay for it. Society must decide how much medicine it wants, a decision that opponents decry as rationing. But ultimately, cost control is rationing. Society cannot simply open the faucet and expect providers to offer an unlimited torrent of services. We have to accept that providing a certain level of health

care is a social good-an ethical obligation not a commodity to be traded by special interests. To do this, if we are to do it fairly, health care has to be rationally distributed.

Health care isn't a right, like free speech, but a service that for society's sake-both practical and moral should be offered to all. Unlike rights, services are directly tied to dollars. We have to decide how much we want to spend, then spend it as rationally and fairly as possible. How much we spend is not the doctor's decision, but society's. How best to spend it becomes an issue for medical experts.

What does government do in response to these problems? Well every problem has a "victim." And every victim is entitled to relief. So government creates a program and the program begets a bureaucracy. Self interest takes over.

We spend untold billions each year fighting a national addiction to drugs. Yet, the "War on Drugs" is lost. It was as inappropriate a war to wage as any in our history. Why do we choose to ban some drugs and not others? Tobacco is more dangerous and more addictive than cocaine. Alcohol is no better, and perhaps worse in many ways, than marijuana. The war should be fought against the effects drugs have had on our society not on the drugs themselves. But to change the focus of this war means fighting those who profit from it.

The people with the most to gain from our current drug policy are the drug lords. These people become rich as they sell drugs at artificially inflated prices. They can maintain exorbitantly high prices because of substance scarcity imposed by the government's only partially effective interdiction efforts. The result is a black market economy exempt from



taxation involving billions of dollars every year and which corrupts all levels of society from school children to international bankers.

Those of us with the most to lose are bystanders to the direct action. We are the ones who pick up the pieces of our children's lives after they are destroyed or damaged by drugs. We are the ones who pay the taxes; our money finances the high-tech tools of the law enforcement trade, pays the costs of the legal system and its accoutrements, then operates the countless jails needed to accommodate the war's casualties.

Incredibly important human and economic resources are wasted fighting our war on drugs.

Anti-drug mandatory-minimum sentences have created dissension in the federal legal system, prompting many judges to seek early retirement. The prison systems in forty states are now operating under court order to reduce over crowding. Violent criminals are sometimes being released early to provide cell space for nonviolent drug offenders whose mandatory sentences do not permit parole. The number of drug offenders imprisoned in America today is greater than the number of people imprisoned for all crimes in 1970. Since the latest war on drugs began, in 1982, the nation's prison population has more than tripled. The United States now has the highest rate of incarceration in the world. No society in history has ever imprisoned so many of its own citizens for purposes of crime control.

One reason that the drug war is so persuasive in America is that most people see only two possible courses: Either a crack down on supply, which is expensive, often tragic for individuals, and actually increases the drug supply. Or legalization, which sends a message of social hypocrisy and impotence: "We don't believe in a society with drugs, but we can't do

anything about it, so we'll change our values: they'll be acceptable from now on." But there is a third scenario, suggested in 1989 in the Economist magazine. What if the United States passed a law creating a new legal category called "unacceptable practices?" Unacceptable practices would be those things which the majority of people in a community or nation would like to ban, stop, and prevent-but cannot do by legal means, at least not with any effective enforcement.

Right now in America, this might include such things as alcohol, tobacco, marijuana, cocaine, and pornography. These would be treated differently from murder and robbery; the practitioner would be regarded as someone who was doing something to him or herself. Society's problems would be the social effects: the crime after a drink, the poor performance on the job, the added danger to others. Society would neither officially condone these things nor officially say that practitioners were criminal. Instead, the government would define strategies for minimizing use.

One strategy might be making criminal penalties far more severe if an unacceptable practice were involved: a train engineer who took cocaine and then plowed his locomotive into a car, for instance, would be severely punished. The United States has such a strategy for alcohol already. It includes severe drunk driving penalties, restrictions for minors, limits to the availability of alcohol (it is sold only during certain hours, or in certain stores), and general availability of Alcoholics Anonymous. People accept those limits. The most we could imagine adding is a substantial increase in taxes on alcohol to diminish its use. We have an increasingly effective strategy on tobacco, making it increasingly awkward and socially unpleasant for people to smoke. (The change about alcohol is slower, probably because there's more social hypocrisy involved.)

One of the great ironies of American drug policy is that anti-drug laws over the past century have tended to become most punitive long after the use of a drug has peaked. When drug use is at its height, so is tolerance; but as drugs recede from middle-class homes, their users are marginalized, scapegoated, and more readily punished. The price that society pays for harsh sanctions becomes invisible to most people. Musto thinks that our nation's drug laws reflect cultural changes after the fact; though extreme punishments may help to limit a drug epidemic, the principal causes of its rise and fall lie elsewhere.

If drugs were legal and relatively cheap, users would have no more reason than anyone else to steal, kill, become dealers, or consort with the criminal elements that traffic in these drugs. Pushers would lose their profits, with which they corrupt law officials and purchase assault rifles to outfit their private armies. Given a choice between stepping over a few more nodding users, on the one hand, and having their children shot at by a swarm of Uzi-toting gang warriors or getting mugged by crazed addicts foraging for drug money, on the other, many people who actually have to live in drug-infested neighborhoods would choose the former.

Legalizing drugs is the quickest way to end violence and substantially slow the current epidemics of AIDS and hepatitis B now spreading like wildfire in urban ghettos through the sharing of needles used to inject drugs intravenously. To decriminalize drug use by no means implies tolerance of behavior destructive to others; rather, community controls of a behavior like drug use are vastly more efficient than criminal-law controls, which work only when a very small minority of the community is breaking away. American policy can shift

from trying to reduce drug use to ending the incentives for violence and creating drug-free schools, neighborhoods, and workplaces without evolving into a police state.

Will the other people with much to gain from our current drug policies the politicians, who use fear of drugs to gain office, and the bureaucrats and law enforcement agencies , the people who investigate, litigate, and then incarcerate the countless low-level pawns caught up in this war -- the institutions of war allow society to make this change? I doubt it. Their vested interest is in preserving the battle -and in the process eroding your quality of life.

Take the war on poverty. Boosted by the unseeing but hardly innocent eye of the media, the poverty industry has become a veritable fifth estate. Acting as stand-ins for actual poor people, they mediate the politics of poverty with government officials. This estate's a large and ever-growing power bloc that routinely and by whatever means necessary trades off the interests of poor people to advance its own. Millions of dollars are regularly dispensed in contracts to virtually useless "nonprofit" agencies. Shelters. Soup kitchens. Name it. Nationwide, poverty is big business-as long as you are politically connected. The consequence to poor people of this ever-expanding poverty industry has been that over the past two decades, the purchasing power of welfare benefits has fallen in every state in the country, in spite of the fact that aggregate spending on most other social programs has soared.

It doesn't take too much intelligence to figure out the idiocy of paying thousands of dollars a month to "shelter" a homeless family instead of paying for a real apartment. Incompetence is a heavy contender with greed as prime motivator of the bureaucracy. Any time there's money to be had, every manner of opportunist crawls out for a piece. Various layers of

government blame one another. Taxpayers are bilked and poor people are sacrificed as hundreds of millions of dollars pour into the sinkhole of the social welfare establishment. Poor people are not the beneficiaries. They aren't even in on the deal.

As the public's recognition of the misery of poor people increased, so did the cacophony of private interests competing for government contracts, foundation grants, donations by individuals and corporations, and tax advantages for the donations to correct their version of the problem. The only people who did not cash in, the only ones absent from the debate in any public way, as ever, were poor. As the agencies that did cash in grow and reinvented themselves, it became apparent that they were in an inherent conflict of interest with poor people. Welfare mothers, for instance, wanted an adequate guaranteed income, which would have rendered many of the activities of the social welfare professionals meaningless. The agencies wanted a guaranteed income, too: for themselves. With the money and power to lobby effectively, they got it.

Despite the fiscal success of the Clinton welfare reforms. The Social Welfare "mindset" as we know it cannot be fixed. That mindset pervades throughout much of government. Tinkering with it for decades has accomplished little of value. Bureaucracies within bureaucracies have bloomed, mutations of a polluted society. Too many contradictory interests compete at the public trough in the name of poor-people. Entrenched charities dwarf any efforts at self-determination and actively muzzle the political expression of the people they purport to represent. Poor people of our inner cities, small towns, and rural countryside exist in a sprawling banana republic where fighting factions of outsiders-institutionalized poverty pimps-battle over which issue, which treatment, what cabal will

dominate at any given point in time. Those who live in poverty are the means for the charities to acquire foreign aid from dozens of sources, including the U.S. government.

The social worker is presumed to have a level of moral superiority simply because he works in the nonprofit sector. He is good because he says he will do good. The sector itself has achieved a chimera of sanctity that puts it above the scrutiny normally accorded government contractors. Politicians and those who get the contracts have taken full advantage. The really bad news is, the social regression from the mid-seventies to the present has been long and deep. With remarkable creativity, every time the social welfare institutions discover a need of poor people or redefine an already perceived one, they find a way to get money for themselves, knowing there's little they can do about it as long as people remain so very poor.

A major impediment to dismantling the existing social welfare programs is the extent to which they have degenerated into patronage troughs. The government contracts to "help" are first and foremost political tools to strengthen the base of elected officials at all levels of government. Often it is said that government budgets are balanced on the backs of the poor. Certainly over the last quarter of a century, that has happened. There has been an observable redistribution scheme under way-the most disturbing one this country has ever seen-from poor women and children to middle-class social welfare professionals. We need to reverse the process, redirecting resources from the coffers of stagnant social service agencies to the pockets of poor families, to those with no other source of income as well as those who live in wage poverty.

How would poor people remedy poverty? Ensure that jobs are available and improve their quality. Raise benefit levels and relax eligibility rules for government safety net programs thereby stretching poor people's income by helping them obtain necessary goods and services such as housing, health care, food, and child care and raising poor people's income directly by providing government cash assistance.. Increase funding and improve the quality of education and training.

The data available do not begin to convey the social devastation that has been visited upon our poor communities. In some areas, capital flight has systematically robbed the younger generation of any opportunities for meaningful, stable employment. In others, violence has escalated to war-zone levels, and mothers and children share a single aspiration: to live until the following week. Childhood diseases such as measles and rubella have returned, along with the new plague of violence led by guns and drugs. In some areas, AIDS fills a majority of hospital beds, and gunshot wounds account for a majority of emergency room admissions. In rural areas, the need for jobs is so intense that communities welcome hazardous waste incinerators and federal prisons. In cities and rural areas alike, some families send every available adult and child into the growing underground economy to work for sub-minimum wages. Homeless people push grocery carts full of scavenged belongings past people who have increasingly learned not to see them. Everywhere communities have responded with organizing and charitable efforts, but none of these efforts are commensurate with the scale of the devastation and many are just inappropriate and a waste of funds.

For example, social service advocates agree that the problem of low birth weights is poverty. Yet the solution they propose to reduce the rate of such births is to increase access to health care in advance of these births especially for uninsured women They all but ignore the fact

that for most of the poorest, those with the highest rates of low-weight births, medical insurance per se is not the barrier; they have Medicaid, which covers health care, however feebly. Still, these women give birth to low-weight babies. If the common denominator is poverty, then the solution must deal with it. Creating more jobs for health care professionals, advocates, and nutritionists will not change the unalterable fact that eating enough food is and always has been essential to birthing normal-weight babies. Food cannot be prescribed by a physician or dispensed by a pharmacist. Telling someone what is nutritional will not access nutritional food. Only being able to purchase it will.

All social programs, whether the benefits are paid in cash or in kind, are based on insurance principles. This basic truth is often obscured by today's fashion of calling government benefits "entitlements." Yet the insurance nature of social programs should be obvious upon a moment's reflection: We all pay part of our taxes into a pot so that when one of us suffers a tragedy, like becoming a widow or giving birth to a retarded child, we can draw on that pot to get us past the hard times. When we set up welfare, unemployment compensation, and other types of social insurance in the Roosevelt administration, we assumed that people would act responsibly and attempt to limit losses. Today, voluntary decisions are increasing the loss rate to such a point that our safety net mechanisms can no longer be viewed in any reasonable sense as insurance. We have, in effect, converted a comparatively cheap yet highly comprehensive social insurance system into an exorbitant, overtaxed, and largely incompetent general subsidy program. Our social insurance premiums act both to raise taxes and to devour other state and local programs such as infrastructure. Combined, these fundamentals form the basis of a wasteful public policy.



Entitlements are federal programs that give money to people because they fall into a certain group. If you're over age sixty-five, for instance, you get Medicare health insurance benefits. You're entitled to those benefits, not because you necessarily need them, but because of your age. The same principle applies to farm subsidies, unemployment benefits, school lunches. Some are for the poor -- welfare, Medicaid, housing and nutrition programs -- and they approach \$150 billion. Some are for the middle and upper classes: school loans and less obvious subsidy programs like the tax deduction on home-mortgage interest payments, worth an estimated \$40 billion.

Entitlements and interest on the national debt make up more than 65 percent of the federal budget. There are few if any checks on this spending, it open grows automatically. Congress made these programs mandatory so they wouldn't have to baffle for funding each year. And now no one controls them.

And the money does not necessarily do what we want it to do.

## Theft By Government

There is a problem; it seems bigger than any one of us can handle -- we ask government to intervene. It is a typical thought process. But it is a dangerous thought process. We learn that asbestos miners have a far greater risk of lung cancer -- a cancer caused by prolonged exposure to loose free floating asbestos molecules. Someone notices that the insulation used in public schools is asbestos. Contained, won't go anywhere unless disturbed, asbestos. The governments response. "Remove the asbestos." That is intervention all right. Although different forms of asbestos pose different risks Congress didn't differentiate. It was estimated that by 2000, the program had already cost \$20 billion to remove or seal asbestos in 200,000 schools. It was a questionable use of funds, considering the immense needs of our schools and the fact that contained asbestos poses no risk. The billions of dollars spent on inspecting schools for asbestos would have been better spent teaching teenagers not to smoke or even motivating them to stay in school.

When economists speak of governmental intervention, they usually seem to have in mind the imposition of taxes or, less frequently, direct regulation of the activities of the firms or individuals concerned. This approach has serious weaknesses. It fails to disclose the factors which determine whether governmental intervention is desirable, and of what kind, and it ignores other possible courses of action. It has consequently misled economists in formulating their recommendations for economic policy. In particular, the existence of what they call "externalities" does not imply that there is a prima facie case for governmental intervention. Assume that A, in manufacturing a product, emits smoke (which A has a right to

do), harming B with whom A has no contractual relations and of whose existence he may even be unaware. The smoke (or more properly the harm the smoke is doing) is an "externality."

Assume that the government is able and well motivated. What should it do? Consider the case in which the amount which B would pay to avoid the harm is less than the additional cost that would have to be borne by A to eliminate it. In these circumstances, the perfect government, anxious to maximize the national well being, would do nothing, neither through taxation of A nor by direct regulation, to prevent the smoke emission. The "externality" would continue to exist and would not call for governmental intervention.

Now consider the case in which B would pay more to avoid the harm than the additional cost that would have to be incurred by A to eliminate it. We must first enquire why B has not made a bargain with A to end the emission of smoke, since a bargain would appear to be possible on terms which would be profitable to both A and B. The answer must be that the costs of making the transaction were such as to offset the gain that the transaction would bring. If this is the situation, what should this perfect government do? Just as A and B would take into account the costs of carrying out their transaction, so a perfect government would take into account its costs of discovering what B would pay to avoid the harm and the costs that A would have to incur in order to eliminate it, as well as the government's costs in administering whatever scheme is adopted.

If the costs of investigation and administration are sufficiently high and/or the results obtained are sufficiently uncertain, with the consequence that the expected gains from governmental intervention are less than the costs involved, such a government would neither

place a tax on A nor impose regulations which would eliminate the smoke. Another possibility would be to change the law to make A liable for the damage caused.

The traditional approach has tended to obscure the nature of the choice that has to be made. The question is commonly thought of as one in which A inflicts harm on B and what has to be decided is, How should we restrain A ? But this is wrong. We are dealing with a problem of a reciprocal nature. To avoid the harm to B would be to inflict harm on A. The real question that has to be decided is, Should A be allowed to harm B or should B be allowed to harm A? It has to be remembered that the immediate question faced by the courts is not what shall be done by whom but who has the legal right to do what. It is always possible to modify by transactions on the market the initial legal delimitation of rights. And, of course, if such market transactions are costless, such a rearrangement of rights will always take place if it would lead to an increase in the value of production.

The problem is to avoid the more serious harm.

There is, of course, a further alternative, which is to do nothing about the problem at all. And given that the costs involved in solving the problem by regulations issued by the governmental administrative machine will often be heavy (particularly if the costs are interpreted to include all the consequences which follow from the government engaging in this kind of activity), it will no doubt be commonly the case that the gain which would come from regulating the actions which give rise to the harmful effects will be less than the costs involved in governmental regulation.

Most economists seem to be unaware of all this. When they are prevented from sleeping at night by the roar of jet planes overhead (publicly authorized and perhaps publicly operated), are unable to think (or rest) in the day because of the noise and vibration from passing trains (publicly authorized and perhaps publicly operated), find it difficult to breathe because of the odor from the local sewage farm (publicly authorized and perhaps publicly operated), and are unable to escape because their driveways are blocked by a road obstruction (without any doubt, publicly devised), their nerves frayed and mental balance disturbed, they proceed to declaim about the disadvantages of private enterprise and the need for governmental regulation.

While most economists seem to be under a misapprehension concerning the character of the situation with which they are dealing, it is also the case that the activities which they would like to see stopped or curtailed may well be socially justified. It is all a question of weighing up the gains that would accrue from eliminating these harmful effects against the gains that accrue from allowing them to continue. Of course, it is likely that an extension of governmental economic activity will often lead to this protection against action for nuisance being pushed further than is desirable. For one thing, the government is likely to look with a benevolent eye on enterprises which it is itself promoting. For another, it is possible to describe the committing of a nuisance by public enterprise in a much more pleasant way than when the same thing is done by private enterprise.

For example, the concept of risk assessment ranking environmental dangers in order of importance and devoting resources to the biggest threats appears unimpeachable as common sense. It was endorsed by 80% of the public in a 1993 Harvard University poll. Yet, the Environmental Protection Agency's spending bears no resemblance to any rational risk

assessment. Consider this example: Between 1980 and 1992, the agency spent roughly \$8 billion under the Superfund program to clean up fewer than 70 toxic-waste sites. Many of these cleanups are undertaken only because EPA consistently assumes that future site uses will include children, who will live there for 70 years, ingesting slightly less than one teaspoon of local dirt every day, and rely exclusively on contaminated local groundwater for bathing and drinking. Examples like this urgently cry out for the EPA to more rationally allocate its resources. That cry has been heard by rank-and-file members of Congress, who have introduced bill after bill to force the EPA to show that its spending meets genuine threats. The EPA and environmentalists hate the idea. Their case was set out recently on the front page of the Philadelphia Inquirer in a story which claimed that risk-assessment is so time consuming that the agency would have to devote all of its resources to producing studies.- "it would immobilize EPA", worried Cornelius Kerwin, an American University professor and EPA consultant. Gosh, how awful. Too bad the EPA has never shown similar concern about "immobilizing" thousands of local governments, companies and individuals with its ruinous fines and regulations.

It's time to bid farewell to these fantasies of omnipotence. In the long run no one-no country and no individual-can avoid coming to terms with the limits of his own responsibility, and setting priorities. Perhaps we ought to explain what a priority is. Some people pretend to be more stupid than they really are as soon as they encounter an argument that doesn't fit their view of the world. So: the word priority means more than a simple either-or, more than just the choice between mutually exclusive alternatives. Where to begin? Where can I engage my efforts most effectively? Which of these options should take precedence'?

Thomas Sowell in a Business Week article wrote that "What logicians call 'the fallacy of composition' has come into its own. Prosecutors, who see obviously guilty defendants either acquitted or let off with convictions for much lesser crimes than the ones they committed, complain that juries are too easily swayed by emotional appeals based on unsubstantiated claims of unhappy childhoods. Professors complain that today's college students have many passionate opinions but very little ability to use logic to support those opinions or to analyze opposing views. In the media, buzzwords increasingly replace thought and non sequiturs have become so common as to cause no notice or embarrassment.. The notion that what is true of a part is true of the whole is the lifeblood of TV programs like Oprah and Donahue, where great issues of public policy are reduced to how particular individuals feel. For example, when someone said that our government should not ransom hostages being held in the Middle East, Donahue's reply was: 'But suppose it was your brother they were holding?...

"in a similar vein, columnist Anna Quindlen replied to those who objected to disruptions by activists by saying: 'if I could help give someone I loved a second chance, or even an extra year of life, what people think would not worry me a bit.' In other words, if it helps A, who cares what it does to B. C. D. and the others-or to law and order in a society where mob rule becomes the way to get what you want?"

"Just look at some of the public health causes that do get our attention. Asbestos kills asbestos miners, at least the ones who smoke; from that fact has grown a giant industry to rip asbestos out of the ceilings of public schools. In New York City alone, this project swallowed up \$102 million last year, and has either saved no lives-if you listen to one group of experts-or saved at most five lives, if you listen to another group. That's \$20 million per

life saved. A federal rule regulating wood-preserving chemicals has racked up a cost of \$5 trillion per life saved. The banning of the pesticide Alar has cost U.S. apple growers as much as \$200 million. It is impossible to put a price tag on the lives saved with that move, since there is a good chance that the ban increases mortality. Alar is only a very weak carcinogen, if it is in fact a cause of cancer in apple eaters at all. The higher prices for -apples, meanwhile, translate into reduced fresh fruit consumption and thus higher colon cancer rates. So, carried away by feeble-minded media hype and hypochondria, we spend billions fighting imaginary enemies. Of the \$41 million the Centers for Disease Control spends on infectious diseases, only a fraction goes to looking for future killers. If an outlay of \$ 1 billion a year on disease surveillance and vaccine preparedness could forestall another Spanish flu-size epidemic sometime in the next century, it would save 3 million lives in the U.S. at a cost per life saved of well under \$ 1 million. Alas, there is no Meryl Streep to plead the cause before television cameras, as there was for the Alar ban. Liberals love to say things like 'We're just asking everyone to pay their fair share.' But government is not about asking. It is about telling. And telling must have a higher standard."

During the decade which preceded this book several clear illustrations of governmental theft appeared in the press. At the risk of over amplifying my point I am going to repeat a few. I use the older ones because they have proven themselves over time and are exempt from a "we don't yet know all the facts" defense. Similar and more current stories abound but since it is the mindset they reveal which is critical not their details let us stick to the older ones.

From the Wall Street Journal, one could learn that in August, 1994 " the government released a massive five-year study showing that the U.S. is losing only 66,000 acres of



wetlands a year. This may have come as a surprise to EPA Administrator Carol Browner, who claimed before Congress only four months earlier that the figure was 300,000 acres. The EPA and its enforcers have been treating wetland regulation as an environmental crisis. Maybe someone should tell them the crisis is over, before they do any more damage."

Their story continued, " in the normally quiet little Gulf Coast town of Port Bolivar, Texas, federal bureaucrats are threatening to throw an old man in jail because he wanted to spend his last few years by the sea. Part of the story is told by a humiliating bill board -- 10 feet high, 20 feet across -- that he is now forced to post in front of his house. It announces to the world that he has sinned against the Army Corps of Engineers by depositing 'illegal fill material' on his property and that he must now remove it, and 'restore' the property, at his own expense. The incident began when Marinus Van Leuzen, a 73-year-old immigrant from Holland, decided to build his retirement home on a bit of property he had owned for more than 20 years. Unfortunately for Mr. Van Leuzen, the Army Corps of Engineers and the Environmental Protection Agency had other ideas. They considered his land wetlands and hauled Mr. Van Leuzen into court for violating Section 404 of the Clean Water Act."

"Section 404, which the Corps cites as the authority to regulate wetlands, actually does not mention the word 'wetland.' It simply requires that a person obtain a permit before filling in a navigable water of the U.S.. This, however, has not stopped the Corps from harassing Mr. Van Leuzen and hundreds of other Americans whose property is not a navigable water. Twenty years of vigorous agency action, coupled with a spate of court decisions, have completely changed the original meaning of the statute. The federal wetlands regulatory program has taken on a life of its own. As part of the court order against Mr. Van Leuzen, not only must he post the billboard ('six feet off the ground... facing-Highway 87'), he must

also put \$350 a month into a special account for eight years. At the end of this eight years the money will be used to move his house. In effect, the government is forcing Mr. Van Leuzen to pay rent on a house that he already owns so that it can be relocated. In addition, during the intervening years Mr. Van Leuzen must spend a significant portion of his life savings to restore the land to its pre-adulterated condition. Perhaps this punishment could be justified if Mr. Van Leuzen had destroyed thousands of acres of pristine Everglades. However, the land in question is less than half an acre and is situated 50 feet from Highway 87."

"Federal authority preempted state laws with the 1973 Endangered Species Act, but its reach was limited by the statute's condition that economic impacts be considered before a species was listed as "endangered." In 1982, however, environmentalists pushed through Congress a provision that abolished the economic impact requirement. After that, it was save the bugs, never mind the cost. The endangered species bureaucrats rarely deny development permission. Outright denial would effectively destroy the property's value, inviting applicants to demand compensation under the Constitution's Fifth Amendment. The service finds stalling safer and more effective. Recently, the service has been listing as endangered creatures that are neither few nor declining in numbers. It ingeniously interpreted the act's prohibition against inflicting harm on a creature to include alteration of habitat, estimating future habitat loss with what critics argue are highly unscientific 'extrapolations' from past land use patterns. That means that landowners may be criminals if they cut down a tree deemed to be important habitat even though no bird has ever been sighted there. Wouldn't it be much less damaging to the private property rights that underlie many of our freedoms if the government or private conservation groups simply bought up wildlife-rich land? But that would undermine one of Washington's fastest-growing regulatory

armies, cost thousands of bureaucrats their jobs-and force Congress to spend public money rather than imposing the cost on unlucky private people. Federal control over private land surged."

The Journal article was just the tip of an iceberg. A substantial problem with the current wetlands program is that it fails to consider the environmental value of wetlands. To most Americans the word wetland conjures up the image of a water-laden marsh, filled with saw grass or cattails, where great blue herons and snowy egrets stalk minnows and bull frogs in the shallow water. They basically think of a wildlife-rich ecosystem, with great diversity and ecological value. Unfortunately, the wetlands definition of the Army Corps of Engineers says nothing about wildlife, nothing about diversity and absolutely nothing, about ecological value. All the definition talks about is wetness. If a piece of land gets wet and stays wet for more than a few weeks a year, then it's a wetland. The Corps treats all lands that meet this definition the same regardless of their actual value to society. It makes little difference whether the area is a stagnant mosquito pond the size of a ping-pong table or acres of pristine cypress swamp. A wetland is a wetland.

This -one-size-fits-all approach to land use regulation often leads to perverse results. Take the next story I read about, of one John Piazza, president of Piazza Construction Co. " In 1991 Mr. Piazza obtained a local government permit to build a mini storage facility on a seven-acre tract of land in Mount Vernon Wash. But before he could begin construction, wetlands were discovered on the site. Wetlands are technically defined as swamps bogs marshes or similar areas. Mr. Piazza's wetlands supposedly fit into the last category. They were in three small sections and totaled less than an acre. In any case Mr. Piazza designed his facility so that its construction would affect only 0. 18 of an acre of wetlands small

enough for him to apply for one of the Corps exemptions known as a nationwide permit. The Corps had other ideas however. After several delays bureaucrats from the Corps visited the site and decided that the wetlands were adjacent to a water of the U.S. and thus not isolated as the nationwide permit demands. The Corps determined that Mr. Piazza would have to apply for an individual permit. This would require an extensive analysis of alternatives, an updated site plan, a mitigation plan, and consultation with two other federal agencies not to mention public notice and comment. As Mr. Piazza waited for his permit the Corps adopted a different manual for identifying wetlands. Under the new definition his wetlands added up to a mere 0.089 of an acre. But even this did not release Mr. Piazza from the Corps regulatory grip."

"To date he has spent more than \$25,000 responding to the government's efforts to preserve his wetlands. At an average cost of nearly \$300,000 a wetland-acre this is costly conservation by any calculation. The current regulations as interpreted by the Army Corps of Engineers tend to treat every wetland as if it were a national treasure. During his three-year wait for a permit Mr. Piazza gave one of his U.S. senators a tour of his property in an attempt to explain his problem. At one point during the tour the senator asked how long it would take them to get to the wetland. Mr. Piazza replied You're standing in it."

"The biggest tragedy of Mr. Piazza's situation is that draconian command-and control wetland regulations are no longer necessary. In the past 10 years the federal government has made dramatic changes in its wetland policy. The result is that the U.S. is currently restoring more wetlands every year than it is converting to other uses. (It does this for example by buying fallow land from farmers and flooding it.) The U.S. has effectively achieved what former President Bush repeatedly called for no-net-loss of wetlands."

"In 1994 the government's top three wetland restoration programs will restore a combined total of 157,000 acres of wetlands. At the same time data from the governments National Resource Inventory conclude that the U.S. will convert only 66,000 acres of wetlands to other uses. In other words by the end of 1994 there should be tens of thousands more acres of wetlands than there were at the beginning. What is more government agencies have developed cost-effective ways to restore large tracts of wetlands without trampling on the rights of property owners. For example the Agriculture Department's Wetland Reserve Program will restore 75,000 acres of wetlands for less than \$1000 an acre. This figure includes the cost of purchasing a permanent easement on the land to ensure that it remains a wetland. It would have cost the Agriculture Department \$89 to restore wetland acreage equivalent to what would be lost due to Mr. Piazza's development. In contrast Mr. Piazza and thousands of developers homebuilders and property owners across the country are wasting millions of dollars hiring experts filling out permit applications and paying loans and taxes while they wait for the Corps to reach a decision. Unfortunately, after three years of waiting Mr. Piazza still does not have a permit. Unless Congress acts to change the broad wording of the 1972 Clean Water Act, the American people may have to wait even longer for rational wetland regulation. The phenomenon we are witnessing here is that when no clear limits are placed on a government's authority, it is very likely to run out of control eventually. If Washington decides it needs land to preserve the greater needs of the community, it should acquire it justly: by paying for it."

The theory the Corps uses -- "we can get by contract and regulatory denials, what we can't get from Congress" -- is used by other government agencies as well. By brute force (and by virtue of a little known law entitled the Administrative Procedures Act) regulators impose their version

on the common good on unsuspecting private citizens. It is unchecked power. With wetlands, as with Superfund and other supposedly environmental threats, the government uses its power to coerce to force what it claims is the "greater good." The effort to create an unfettered source of government power at root rests on an apparent position that private parties are entitled to contract for good reason, bad reason, or no reason at all. It then exaggerates the scope of freedom of contract in private transactions, and imputes the same level of freedom to a government whose power must always be questioned: what lawyers refer to as "the takings risk that results from its power of taxation and the bargaining risk that results from its monopoly position in all areas of life." A government that can tax, and hence take, at will should never be totally free in choosing the parties with whom it contracts and to whom it makes grants. And a government that has any level of monopoly power cannot be trusted to impose whatever conditions it wants on these same parties. The conventional wisdom has it that government is subject to extensive limitation when it regulates and none when it contracts. But the conventional wisdom contains only a tiny portion of the truth, for it ignores the need to limit government in all its activities. Government and statecraft are always a high-risk enterprise, and bargaining by the state has to be watched as closely, and with the same level of concern and suspicion, as taking, regulation, and taxation -- the traditional forms of government power.

The concept extends to what are known as "indirect" federal mandates -- regulations that withhold funds unless a state or locality does something which the federal government desires it to do. Not that the withheld funds and the directive need be related -- it seems to be considered appropriate to withhold any form of revenue sharing. Where the federal government uses tax revenues to control the power of the states, it substitutes its monopoly power for the very diverse responses of the states to common problems. The argument for

diversification seems strong here because the independent course followed by individual states does not seem to create local monopolies which wise federal regulation might prevent. If the national government can regulate the states with a free hand, then, alas, it can bargain with them with a free hand as well.

Business Week carried a story which clearly illustrated this point. "Philadelphia Mayor Edward G. Rendell used to be a prosecutor. But two years ago he was so angry he almost became a lawbreaker. Washington wanted him to pay for a new \$500 million wastewater-treatment plant to protect fish in the Delaware River. But Rendell argued that the existing plant was just fine-and pointed out that the fish weren't dying. I told them I m simply not going to do it and you can put me in jail before I go along Rendell recalls. The feds are reexamining their position. Multiply the mayor's war story hundreds of times and you can see why the Clinton Administration and Congress face an insurrection outside the Beltway. Furious state and local officials are demanding that Congress stop passing so many programs that must be financed by localities with no help from Washington. Mayors and governors contend that unfunded mandates are destroying their right to set priorities. Ohio Governor George V. Voinovich for one complains that a law requiring that rubberized asphalt be used in paving highways cost his state \$50 million. All told the U. S. Conference of Mayors last year found that 10 federal mandates ate up 11% of city budgets. Something is wrong when you have to enforce pooper-scooper laws but you can t afford the tops to enforce drug laws says Rutland (Vt.) Mayor Jeffrey N. Wennberg."

Of course even individuals can find themselves on the receiving end of unwise federal mandates. On Dec. 31 1995 production of chloro-fluorocarbons (CFCs) such as Freon the primary cooling agent in air conditioners, refrigerators and freezers will be banned,

necessitating replacement or retrofitting that could cost hundreds of billions of dollars. Environmental Protection Agency (EPA) has been urging owners of air-conditioning equipment to act now and prepare for the phase out of CFCs. Owners are advised to begin the process of converting or replacing existing equipment with equipment that uses alternative refrigerants. Offices, shopping malls, hospitals, hotels, schools, supermarkets, colleges, churches, factories, and owners of homes all face expensive cooling-changeover costs. Car air-conditioning repair costs have already exploded. What was once a minor expense can now cost as much as \$1,000-more than fixing a failed transmission. Many home air-conditioning systems will have to be replaced when they lose their existing coolant. Invented in the 1930s as safe nonflammable and inexpensive alternatives to deadly air conditioning coolants, such as one that leaked and killed 100 people in a Cleveland hospital in 1929, CFCs were once highly esteemed. In the 1970s however they were demonized on the basis of speculative theorizing. Allegedly, CFCs percolate up into the stratosphere release chlorine and destroy the ozone shield against ultraviolet radiation from the sun causing increased skin cancer among humans.

H. L. Mencken once said that "the whole-aim of practical politics is to keep the -populace alarmed by menacing it with an endless series of hobgoblins all of them imaginary." Ozone depletion seems to be such a hobgoblin. No global reduction of ozone levels has ever been detected. Moreover measurements show a decrease in ultraviolet radiation reaching the earth's surface, and a recent study by Brookhaven National Laboratory finds that malignant melanoma is caused by a type of ultraviolet radiation not absorbed or blocked by ozone. The evidence for ozone depletion is the hole in the ozone that has recently been noticed over the Antarctic for a couple of months a year. Whether or not CFCs are involved, most scientists regard the ozone hole as a purely localized phenomenon due to the exceedingly cold polar



night that freezes nitrogen oxides (which inhibit chlorine chemistry) out of the stratosphere. When temperatures rise the ozone hole disappears. Other scientists believe the ozone hole is a natural and transitory phenomenon related to sea temperatures volcanic eruptions tropical wind patterns and sunspot activity. Actual historical readings of Antarctic ozone levels are inconsistent with the CFC buildup theory. Ozone levels in the 1960s and 1970s were twice as high as in the 1950s. Whatever the true story turns out to be eventually, propaganda has prevailed over scientific fact up until now, and a government policy that is going to impose undue hardship on us all has run far in advance of the evidence. It is money, purely money., that drives these behaviors.

Then there is my final story quote from the Journal. In late summer 1994, " coordinated rallies were held in three states to protest overzealous enforcement of the Endangered Species Act. In California, a Taiwanese immigrant farmer faces a year in prison and \$300,000 in fines for killing five kangaroo rats while tilling his land. Residents of Idaho's Bureau Valley are fighting the listing of a pinhead-size snail that differs from other snails only in that it has a larger-than normal sexual organ. The most vociferous demonstration was in Austin, the Texas state capital. More than 3,000 marchers protested plans by the U.S. Fish and Wildlife Service to declare 800,000 acres in a 33 county area as "critical habitat" for a migratory songbird called the golden cheeked warbler. Many farmers claimed they will be prevented from doing anything that could be viewed as "harassment" of the warbler, including building new fences. A spokesman for the Fish and Wildlife Service claimed the agency's enforcement is 'reasonable and prudent', while acknowledging that 'harassment' would include chasing away a warbler that took up residence on the front porch of a farmhouse. A group called Take Back Texas is fighting back and has support from many state officials. Democratic Attorney General Dan Morales was quoted as saying he would

sue the Interior Department if they lock in the 33 counties as warbler habitat. 'The Endangered Species Act has been recently employed in ways that appear to defy Congressional intent, sound governmental policy and basic common sense,' he wrote Secretary Bruce Babbitt. Governor Anne Richards wrote a 'Dear Bruce' letter noting that most landowners practice 'good land stewardship' and urging 'an extraordinarily cautious approach.'"

Government wasn't always like this. We used to be ruled by political bosses who willingly called themselves that and didn't bother with labels such as "good government" or "do-gooder." Sure the old bosses were crooks, but so what? They delivered the goods, ranging from jobs to vital services, for constituents. Most Americans today look down their noses at such open vote-buying, but their moral superiority is largely unjustified. The bosses stole thousands, maybe millions, of dollars from city treasuries. Look at what our professional experts have done to win political support: Medicare, welfare, farm subsidies, the Tennessee Valley Authority and on and on. (The bosses, incidentally, opposed entitlements because it undermined their patronage power.) That waste is measured in the hundreds of billions, not millions, of dollars. There's a good case to be made that the country would be better off today if lawmakers stuck to enriching themselves. Even the most profligate bunch of congressmen couldn't put away \$1.5 trillion (our current federal budget) on fancy cars, luxurious houses and exotic vacations. But our current breed of politicians more sober and less openly venal than their predecessors-have no problem dreaming up schemes to hand over one seventh of the economy to "policy planners." What's worse, the politicians seem congenitally unable to level with the public about what they're doing. Thus taxes become "revenue enhancement," rationing becomes "cost containment" and quotas

become "goals." 1984 is here, ten years later. What's worse honest graft or dishonest social engineering? ....

In order to reinvent government properly, the purposes, duties and priorities of departments and agencies have to be re-examined from scratch. The government has to ask what it does best, and where it is unnecessary. Sometimes -- indeed, almost always -- whole cultures will need changing.

## Waste Is Also Theft

As early as 1799, Congressman John Randolph was relishing "that most delicious of all privileges -- spending other people's money." Contrast this to Thomas Jefferson who said, "The same prudence which in private life could forbid our paying our own money for unexplained projects forbids it in the dispensation of the public moneys." While we may agree with Jefferson in spirit, the reality is that we envy the privilege noted by Randolph and want more of the same for ourselves. As a result Congress can't resist.

Congress is set up to fund causes it favors and then Congressmen are rewarded for funding them. The system has helped create a spending machine. Once something gets in the budget, it stays. The attitude is that if one program falls, all are in danger. The machine can't be turned off. This is not about just the notion that "I'll trade you my vote for your support on this bill," instead it's the whole Congress saying each member must defend every other member's spending or he runs the risk of losing his.

And what spending. In the Government Racket, Martin L. Gross has listed some of the more brilliant items out of the past few Federal budgets:

- ? \$13 million for an industrial theme park in Pennsylvania.
- ? \$500,000 for a museum to honor former Secretary of State Cordell Hull.
- ? \$2 million to construct an ancient Hawaiian canoe.
- ? \$350,000 to renovate the House Beauty Salon.
- ? \$6 million to upgrade the two-block-long Senate subway.

- ? \$20 million for a demonstration project to build wooden bridges.
- ? \$160,000 to study if you can hex an opponent by drawing an X on his chest.
- ? \$250,000 to study TV lighting in the Senate meeting rooms.
- ? \$800,000 for a restroom on Mt. McKinley.
- ? \$100,000 to study how to avoid falling spacecraft.
- ? \$100,000 to research soybean-based ink.
- ? \$1 million for a Seafood Consumer Center.
- ? \$130,000 for a Congressional video-conferencing project.
- ? \$16,000 to study the operation of a Korean stringed instrument.
- ? \$1 million to preserve a Trenton, New Jersey, sewer as a historic monument.
- ? \$6000 for a document on Worcestershire sauce
- ? \$10,000 to study the effect of naval communications on a bull's potency.
- ? \$33 million to pump sand onto the private beaches of Miami hotels.
- o \$10 million to a small Pennsylvania college to study separation stress in military families.
- o \$57,000 for gold embossed playing cards on Air Force Two.
- o \$60,000 Belgian endive research study for the University of Massachusetts.
- o \$6.4 million for a Bavarian ski resort in Kellogg, Idaho.
- o \$13 million to repair a privately owned dam in South Carolina.
- o \$3.1 million to convert a ferry boat into a crab restaurant in Baltimore.
- o \$43 million for Steamtrain, U.S.A. to recreate a railroad yard of old.
- o \$107,000 to study the sex life of the Japanese quail.
- o \$4.3 million for a privately owned museum in Johnstown, Pennsylvania
- o \$11 million for a private pleasure boat harbor in Cleveland.
- o \$150,000 to study the Hatfield-McCoy feud.

- \$6 million to repair tracks owned by the Soo Railroad Line.
- \$320,000 to purchase President McKinley's mother in-law's house.
- \$500,000 to rehabilitate the South Carolina mansion of Charles Pickney, a
- Frammer of the Constitution. Unfortunately, the house was built after he died.
- \$2.7 million for a catfish farm in Arkansas.
- \$84,000 to find out why people fall in love.
- \$1 million to study why people don't ride bikes to work.
- ? \$19 million to examine gas emissions from cow flatulence.
- ? \$3 million for private parking garages in Chicago.
- ? \$1.8 million for topographic maps of two parishes in Louisiana.
- ? \$144,000 to see if pigeons follow human economic laws.
- ? \$250,000 to study the cause of rudeness on tennis courts.
- ? \$200,000 to examine smiling patterns in bowling alleys.
- \$219,000 to teach college students how to watch television.
- \$500,000 to build a replica of the Great Pyramid of Egypt in Indiana.
- \$850,000 for a bicycle path in Macomb County, Michigan.
- \$10 million for an access ramp in a privately owned stadium in Milwaukee.
- ? \$1.8 million for an engineering study to convert Biscayne Boulevard in Miami into an exotic garden.

Of course while spending money on the above the government has neglected the vast investment necessary to build and maintain the nation's public works, the wastewater treatment plants, drinking water plants, solid waste facilities and transportation facilities that have allowed America to prosper.. State and local governments have been forced to pick up ever bigger portions of the bill. Not only has the federal government reduced its

spending on the nation's deteriorating public works, but by diverting trust funds established to support infrastructure construction and maintenance, it also has broken a promise. Special trust funds paid for by taxes on gasoline and airplane tickets were created by Congress in the early 1970s to pay for infrastructure improvements. The gasoline tax was to be used to fund highway repairs and renovations, and a share of passengers' airline ticket costs was to offset the costs of maintaining airports. As the federal deficit began to increase, however, Congress took to holding back portions of these dedicated taxes in order to cover the government's growing red ink. In 1990, the legislature stipulated that one-half of a new gasoline tax increase won't even go to the Highway Trust Fund at all. The inability of Congress to control spending and tackle the deficit has not only weakened domestic agencies, but also has weakened-at times literally-the physical fabric of the country.

The so-called budgets cuts weren't really that. They were, instead, a reduction in projected federal spending, meaning the government was simply going to spend less than it had originally planned and that amount would be called savings-even though it was still spending more each year than the year before. This is something you can do only using someone else's money. It would be like your husband coming home and saying that he decided not to buy a \$500 television set and instead bought a \$300 suit. So you "saved" \$200. Try telling that to the guy at the bank when your check bounces.

One of the most perverse types of subsidy is the Maritime Administration, which is responsible for regulating the nation's merchant marine fleet. Since George Washington decreed that the nation should ship cargo on its own boats, a dense web of subsidies costing as much as \$5 billion a year has grown up around shipping and turned it into one of

the country's largest welfare recipients. By some estimates, the Mining Law alone restricts the government to leases that are \$1 billion below what it could get on the open market. And none of this takes into consideration the environmental costs that occur when you undersell a public asset.

One provision in the defense bill said that U. S. bases in Europe couldn't buy foreign coal or burn natural gas to heat their facilities, but instead had to ship in anthracite coal-no substitutes would do-from the United States. Overall, the Pentagon annually buys 300,000 tons, or 10 percent of the nation's output, of high-sulfur anthracite coal, a less desirable fuel than bituminous coal, that nevertheless costs the federal government several hundred million dollars extra to acquire and use. Currently, the Pentagon has a ten-year supply which it can use to overspend for the American taxpayer and increase pollution in Europe.

Take, for instance, the rail projects funded with grants from the Urban Mass Transportation Administration. Everyplace that thinks of itself as a city wants one, but in only a very few densely packed urban areas does mass transit make sense. Still, there's a pot of money, so projects costing billions get built as long as they have patrons who know how to get the money. A study by UMTA found that a much-touted line in Jacksonville, Florida, attracts only 1,000 riders a day and serves as "a shuttle from a large parking lot to downtown." Miami's downtown people mover has been a costly bust. Both projects bear the fingerprints of William Lehman, chairman of the Transportation Subcommittee in the House. Portland, land of Mark Hatfield, is building a rail line that will cost the government \$20 per commuter trip and includes a provision that the federal government help in the development of a shopping center in order to give the line a place to go to. Towns like Austin, Texas, and Salt Lake City, Utah, have systems under way with \$20-per-rider costs (UMTA thinks about \$6 a ride is as



high as subsidies should get), not because they have dense populations but because they have appropriators Phil Gramm and Jake Garn. But the best is Buffalo, where, thanks to Al D'Amato, an extension to its unsuccessful light-rail line is being built that will cost between \$46 and \$67 per trip. It would be cheaper to have limousines pick up Buffalo commuters at their homes and drive them to work.

Such pervasive self-interest creates unending support for the web of pork barrel programs that affect whole blocks of congressmen such as subsidies for farm products, milk and timber, cheap power in the West, mass transit money for the cities, textile quotas and maritime grants. And then there's what some say is the hugest pork of all, the so-called entitlement programs such as Social Security, Medicare and student loans, which largely benefit the middle class and are considered so sacred that in recent years they have not even been touched. Yet these are the fastest-growing parts of the budget. They've been taken out of the budget process and made automatic, so each year they're given increases for inflation and growth of population without Congress even having to vote. Washington isn't a place where the fundamental questions ever get asked. I mean the hard ones, such as "Why the hell are we spending all this money on this project in the first place?" Or asking people, "What would you be willing to do without if you knew you had to pay for it out of your own pocket?" Because, of course, all spending in Washington comes out of the same pocket. Taxpayers just don't see it that way. They think they're getting something for nothing. That's the big inside joke in Washington. The people who really know the town are in on the gag. Everybody else is a dope, as far as they're concerned.

But that hasn't stopped the progress of unneeded projects. True need takes a back seat to politics. And the system is rigged to see to it that once the spigot has been turned on, it can't

be turned off (the Supercollider in Texas being the only counter example I can think of). When John Stennis and Jamie Whitten teamed up to build the Tennessee Tombigbee Waterway through Mississippi and Alabama, they started it at both ends and in the middle. When the pressure to kill it or scale it back built up, they argued that it would just be a useless billion-dollar ditch if they stopped now. The only solution that made sense, they argued, was to put in another billion-some dollars and finish it up. Otherwise people would say, "There goes Congress, wasting the taxpayer's money again." Never mind that new studies were showing the same thing the old studies had showed: that there was no point in building the thing in the first place. It was too late for that now, the smug old Southerners argued. Best to just suck it up and do what's right. The idea is to have a lot of partially completed parts, each with a good deal of money invested. Then you can evoke the great cry of the porker: "We've got too much invested to kill this project now! Think of all the money we'd be wasting." Naturally, Congress went along.

The same Jamie Whitten was quoted as saying "When we put the federal government in is when our rural areas quickly became wealthy." Farming of course has changed from family farms to factories. Today, half of the people getting subsidies earn more than \$100,000 per year, but no matter -- the "poor farmer" needs all the help Congress can provide. One source has noted that farm subsidies "are the equivalent of giving every full-time subsidized farmer two new Mercedes-Benz automobiles each year. With the \$260 billion the government and consumers have spent on farm subsidies since 1980, Uncle Sam could have bought every farm, barn and tractor in 33 states."

Each year more than \$500 million in crop price-supports go to farmers who have more than \$100,000 a year in nonfarm income. Attempts to end payments to corporate farmers and

wealthy people who take in more than \$100,000 a year from completely different pursuits, cutting subsidies to doctors and lawyers who live on farms, have continually ended in failure. A legion of farm-state lawmakers and agricultural lobbyists promptly offer plausible arguments about why it's a bad idea. Price-support payments are not welfare payments for farmers they argue but part of a much broader national food stabilization program. Price-support programs in tandem with government programs to reduce planting in times of crop surpluses stabilize farm incomes and encourage consistent planting in periods of good prices and bad. That evens out wild swings in food production and prices.

End the payments for rich farmers the argument goes and they will simply opt out of the government programs entirely, plant as much as they can, drive down prices and thereby hurt small farmers and actually force the government to fork out even more to them in support payments. Besides it is argued many payments ultimately go not to rich landowners but to hard-working tenant farmers. And anyway enforcing such a program would be devilishly difficult because people are so good at hiding their finances from inquiring eyes. Indeed many farmers have figured out ways around an annual ceiling on total support payments that was imposed a few years ago. Such arguments got a sympathetic hearing from Democrats and Republicans alike on Congress's agriculture committees. So those committees essentially ignore requests to end the payments. Instead they choose to meet their overall budget targets by trimming a little here and there in other programs. The payments live.

Somebody somewhere can make a case for just about every program. But cutting spending means telling all kinds of people rich and poor alike that they simply can't have what they think they are entitled to get. Some of these farm programs are the ones that provide lavish

incentives to grow a given crop and, when naturally too much of the crop is grown, provide lavish incentives not to grow the crop. This money-for-no-crop-or-work concept is part of the conservation program to keep some lands idle, a plan that has put 61 million acres-the size of Indiana and Ohio combined-to "sleep" under federal cash protection. Meanwhile, foreign food exporting nations have increased their acreage more than that.

The biggest mistake is to give money to products instead of to people. Instead of giving the money to the redundant corn grower, the government pays money for extra corn by keeping the price at a certain level no matter how much is grown. The effect is just as we have seen for two generations: corn prices remain higher than they should be, and we have silos of useless, rotting corn. Let us count the ways this is stupid. First, prices stay high. Second, the extra corn growers will never even try to change jobs. Third, further efficiency becomes less urgent, stifling the next generation of changes-as with bovine growth hormone. Fourth, trade wars start because, to keep prices high, cheaper corn from other countries is banned, as in France. Fifth, we pile up stocks of permanently worthless stuff instead of encouraging the creation of wealth people actually want to buy.

Our nation's milk price support system is crazier than any thing dreamed up in seventy years of Soviet communism. Everyone knows and admits it, and it still persists. We subsidize tobacco even while spending millions teaching people not to smoke. (At the same time, we throw marijuana sellers. into prison for thirty years, although their drug is certainly less addictive and probably less harmful than the tobacco our government subsidizes.) The system is crazy, but we keep doing it Why?

Two reasons: First, people getting these permanent subsidies think they might starve if the subsidies stop, because they have no assurance the government would send checks to people as reliably as it sends checks to bushels of corn. Second, even when the government does in fact try to send checks directly to the farmers instead of to the corn, the farmers themselves scream the loudest. France has tried to give permanent subsidies to the noisy French farmers to simply maintain their farms as farms, but the farmers reject this form of compensation. The French government realizes the farm subsidies keep prices high, and, worse, threaten world trade agreements and the development of the European Community, but can't talk the farmers into accepting checks to remain farmers.

And why won't they accept these checks? For exactly the same reason many old-thinking taxpayers don't want to send them checks: they feel it is wrong to pay or be paid for doing nothing. Our Protestant work ethic says it is better to pay for work that is useless and even harmful than it is to give money to people just because they are people. The farmers themselves accept this old-style Puritanism/Calvinism (call it whatever you want, you know what I'm talking about) as much as anyone else does. It would destroy their self-esteem to accept checks just for waking up and walking the fields every day, or even for working hard at improving the countryside they own. Their self-esteem requires they grow corn and receive a fair price for it, as their families for generations have done. They don't know whose corn goes into the surplus silo, after all, so they can presume theirs is actually being eaten.

Consumers don't notice negative events like the failure of prices to go down, so they don't scream. And the effect of a trade war, or reduced international trade, seems too remote from the corn price subsidy for people to tie them together in the public debate. It might

seem to be another paradox, but the facts are indisputable: it is better to pay people to do nothing than it is to pay them to make unneeded corn by keeping the prices too high.

Most Americans undoubtedly share a belief that businesses should be encouraged to do the things that sustain the nation's economy and its people: to hire American workers, invest in American plants and equipment, create products that the United States can export to bring money into the country. Instead, businesses today are rewarded as they eliminate jobs, substitute minimum-wage or lower-paid workers for those who once earned middle-income wages, employ part-time rather than full-time workers, trim or eliminate health care benefits, slice into pensions and other benefits, and move their manufacturing plants offshore.

Why does the government spend \$3 billion a year to buy cars, when much of their use could be met from a rental fleet? The yearly depreciation alone has passed the \$1 billion mark annually. Why do we maintain a private airforce to fly public officials around instead of taking commercial flights. The cost of the aircraft has been estimated at \$2 billion. The depreciation runs at least \$200 million a year The annual upkeep costs another \$800 million. There's also the added cost of civilian airports and military bases that accommodate the planes. And if that's not enough, government agencies lease still another 5000 private planes each year at a cost of \$100 million

Why do we have a helium operation \$1. 2 billion in debt, with most of the world's helium supply, which can't be used up until the year 2101 ? Or a Forest Service which runs a yearly deficit of almost \$2 billion helping the private timber industry with subsidized wood and roads? Or why does the government spend almost \$2 billion for new furnishings each year while leaving at least that many dollars worth in warehouses unused and rejected because

they were, as Cadillac so proudly phrased it, previously owned by one agency or another? Each of these items is more than the entire budget of the state of North Dakota.

Why when the budget is enacted are there many spending items not authorized by the proper committee in Congress and which -never have been the subject of hearings? Most of these get added during a conference committee even though neither the House nor Senate bill had contained it. Some bear no relationship to the agency that was supposed to pay for it and many are of purely local interest with no national or regional merit.

Why does our government use cost-plus contracts which, as anyone building a house knows are just foolish and tempting to the contractor? Why do we pay any part of a company's or even a university's "overhead?" Can't these folks drink, party, and dance on their own dollar?

Why do former Congressmen retain for the rest of their lives the privilege of walking onto the House floor at all times, even in the middle of votes that could mean money for their clients. The former members of the Senate have the same privilege in both Houses of Congress.

Why is there no line-item veto, a powerful tool that would give the president the ability to reject specific projects such and force Congress to debate and try to override his action? If a two-third majority of both houses wanted a project and was willing to vote on it in the open, fine, they could have it. Today, the president's only choice is to sign or veto an entire spending bill, so he almost always signs.

Why do we subsidize wealthy farmers? Why do we spend millions on mohair, wool and milk subsidies? Why do we allow truly wealthy people to collect Social Security free of taxes?

Why are our military retired allowed to double dip? Why because the information that would allow these programs to be changed is made obtuse. In the haze, politics not wisdom rules.

Just what kind of a system is this? Very simply, a system that is rigged by members of Congress and the executive branch. A system that caters to the demands of special-interest groups at the expense of all Americans. A system that responds to the appeals of the powerful and influential and ignores the needs of the powerless. A system that thrives on cutting deals and rewarding the privileged. A system that permits those in office to take care of themselves and their friends.

Government programs suffer from incentive problems. Government officials seek to expand their budgets and authority by delivering short term benefits to special interest groups. Because they do not own the resources they manage, these officials are unlikely to manage them for maximum asset value. The special interest groups who stand to benefit most from changes in government policy are the renters of natural resources or people who are getting free use of unowned resources such as air and water. They lobby for short-term subsidies and continued free use and against investments in long-term asset management and determining property rights. Too often, they get what they want.

Government programs tend to avoid easily gathered information like pricing. Prices serve several valuable functions, which apply to the public sector's services as well as to those of the private sector. Besides producing revenues to pay the costs of the operation (and thereby avoiding unfairly charging nonusers), a price serves to ration demand so as to prevent overcrowding. When the city of Oakland, California, eliminated admission charges at two pools serving partly low-income neighborhoods in 1968, attendance soared-by 29% in



one case and by 67% in the other. The pools quickly became overcrowded and unpleasant to use. This is an expected consequence of providing a desired service at a price of zero.

Prices also serve to measure people's relative demand for various types of services, thereby giving the providers valuable feedback as to the quantity and quality desired. If, for example, small quantities of lawn chairs, umbrellas, and baby strollers are all made available for rental in a park, their relative popularity-measured by the income received-will tell the park manager which types of equipment are most wanted. They may even experiment with more expensive chairs (at a higher price, of course) to see if there's a demand for such diversity. Were the equipment made available for free, whatever was there would be used, and most likely abused, and such experimentation would most likely never take place.

Consequently, the decision not to put prices on public services is an implicit decision to produce them inefficiently. The taxpayers are then doubly victimized. They have to pay for services they may not use and they pay more than is necessary to produce the services. If the political process decides that the poor (or the elderly, or any other favored group) must have better access to recreational services, it is far less costly to make this special privilege explicit, by such devices as giving out free or reduced rate passes to persons meeting certain criteria, or relying on income-supplement programs which let the poor make their own expenditure decisions. That way at least all other users will pay a price for the services, and many of the efficiency-promoting benefits of the price system will still be realized.

Without price information government programs suffer from knowledge problems. An egregious example, in the United States, supposed water shortages are bad economic policy masquerading as an environmental problem. Water shortages exist, primarily in the

West, because water is underpriced -- mainly to farmers. Ninety percent of the water in the western U.S. is used by the agriculture industry, which gets the water at giveaway prices. City dwellers generally pay over two hundred dollars per acre foot (enough water for the average family for a year), while many Western farmers pay as little as ten dollars per acre foot--far less than the cost of storing and delivering their water. About 7 per cent of California's water supply--more than the entire Los Angeles area consumes--is used to grow rice in the desert, a practice made profitable only by taxpayer subsidies.

When information is at a premium, numbers count more than words. Government programs work the same way. In public policy debates and deliberations, words like decency, right and wrong, peace fairness trust and hope have lost their force. Numbers which can offer so much illumination and guidance if used professionally and ethically have become the tools of advocacy. Even if their cause is worthy, people who massage data undermine the power and the purity of statistics that may be critical to future decisions. There are numbers we will never know and we should admit it. It is essential to understand a problem before making policy about it. But understanding is not the same as counting.

Reliance on the very great regularity and predictability of human behavior in modern technologically advanced societies is based on a trust in often unseen experts who understand and operate the abstract systems on which the routines of everyday life are so heavily dependent. The dependence of modern men and women on time-space systems staffed by experts and specialists is a thoroughly concrete datum of everyday life. Dependence on heat and light supplied by electricity, on plumbing linked to water supply systems, on automobiles and the unobstructed roadways they require, on telephonic communications, on regular garbage collection and disposal, to mention only the most

obvious examples long antedating the products of recent electronic technology, binds people to myriad others in far-flung systemic networks. System integration sustains rather than subverts social order by inducing a fear of violent conflict and discouraging support for violent adversaries of the status quo. Trust in personal relations contrasts with the characteristically modern trust in the impersonal faceless commitments of experts who may rarely if ever be encountered in the flesh.

With the development of abstract systems, trust in impersonal principles, as well as in anonymous others, becomes indispensable to social existence. Nonpersonalized trust of this sort is discrepant from basic trust. There is a strong psychological need to find others to trust, but institutionally organized personal connections are lacking, relative to pre-modern social situations. Routines which were previously part of everyday life or become drawn off and incorporated into abstract systems. Routines which are structured by abstract systems have an empty, unmoral character-this much is valid in the idea that the impersonal increasingly swamps the personal.

Highly trained experts are not the sole repositories of such trust: it is also extended to relatively unskilled functionaries and suppliers of goods and services such as bus drivers, shopkeepers, garbage collectors, and policemen. Social integration depends on a normatively grounded belief and trust in social relations extending even to imagined communities of strangers with whom a social identification is claimed, but system integration involves a more mundane, prosaic, and profound trust in the often distant and anonymous representatives of technical and administrative systems.

Government agencies often approach this problem as if descending a dangerous set of stairs. The first step is to measure whatever can be easily measured. This is OK as far as it goes. The second step is to disregard that which can't be easily measured or to give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that what can't be measured easily really isn't important. This is blindness. The fourth step is to say that what can't be easily measured really doesn't exist. This is suicide. Yet it is how most of our governmental decision makers act every day.

Take debt. If we are wise, we borrow only to finance investment not to cover the monthly bills. Government muddles them up and borrows to cover both. No business would want to behave like that, nor would it be allowed to. Politicians have always and consistently resisted the pressure to do their accounts in a proper 'businesslike' way, arguing that it would tie their hands unnecessarily and that, one way or another, they have to finance both the running deficit and the capital expenditure by borrowing, so why separate them out artificially? The result is to distort priorities. There is no incentive to think long-term. There is no way to trade an expenditure today against savings or benefits in the future because we can't sort out the numbers. There is no need to take account of future liabilities piling up; the costs of not maintaining roads and railways, or of the pension liabilities that accrue for each worker in the unfunded state pension scheme.

We don't know the difference between dollars "wasted" on military expenditures and dollars "invested" in a road. If we behaved that way in our own lives we should never buy a house, we would run our cars until they fell apart, and we would spend the minimum on our children's education, because the long-term future would always come second to paying the bills. In our private lives we get round that problem by turning large lumps of investment,

such as a house, into smaller streams of expenditure, by means of a loan or a mortgage. We then plan around that smaller known expenditure. In short, we generate usable information and then use it. Government works the opposite way. It destroys usable information for fear that more knowledgeable interests might use it.

To take a tragic example, if the FDA mistakenly approves a device that has adverse side effects, this would result in highly undesirable publicity. On the other hand if the FDA delays in approving a life saving device the people who die are politically invisible. For a regulator it is easier to err on the side of overcaution even when the results are deadly.

Other problems come from attitudes and expectations that are built into our national outlook. We have a great belief in absolutes, in seeing problems in black and white rather than in shades of gray. Changes to the system are portrayed by the media as purely beneficial, and the public remains remarkably unskeptical. While there may be a net benefit for most people and we may have no choice other than to compromise, nevertheless we would achieve a better solution if we saw the problems of reform as complex. In a complex world, first order effects (intentions) can be drowned out by second order effects (the reaction which takes over).

Consider the issue of rent control (as a New Yorker, this issue is near and dear). Because long time residents of a neighborhood have more political influence than newcomers, New York legislators are and were more concerned with protecting sitting tenants than with protecting new arrivals. The law therefore put tight limits on rent increases for old tenants while allowing larger increases when a new tenant moved in. Unfortunately, that gave landlords a financial incentive to drive out sitting tenants. To prevent such abuses,

legislators had to make evictions almost impossible. Rules that make evictions difficult usually protect all tenants, good and bad. Protecting bad tenants hurts not only landlords but good tenants. Because New York City took forever to evict tenants who failed to pay their rent, landlords' revenue fell. That forced many landlords to cut services. Because they could not evict tenants who sold drugs, robbed their neighbors, or treated their building as an oversized dumpster, many landlords gave up trying to run a respectable building and settled for renting a dump. Thus while rent control did little to lower poor tenants' rents, it may well have reduced the number of cheap apartments in which the landlord tried to keep the building safe and presentable. There is one other effect of rent control that most analysts ignore, which is the way it poisons relations between landlords and tenants. In a normal housing market, tenants who do not like their landlord simply move. But when rent control keeps a city's rents artificially low, demand for housing soon exceeds the supply, and vacancy rates fall almost to zero. Meanwhile, many landlords cut back maintenance and services, making tenants unhappy. But these unhappy tenants cannot simply move, because there are no vacant units nearby, or none at prices comparable to what they are now paying. No matter how unhappy they are, therefore, tenants stay and fight. Since landlords cannot evict aggrieved tenants, they fight back. In due course landlord tenant warfare occupies a large portion of everyone's time and energy. As I noted reform is usually complex, and first order solutions may not work very well.

Our belief in black and white can lead to obscure and perverse discrimination. No one has suggested the mother on social security suffers from "dependency," yet everyone seems concerned about dependency when it comes to welfare. There is no rational public policy basis for treating families in essentially identical circumstances in such radically different ways. It was the very same act-the Social Security Act of 1935-that created both these

income maintenance programs. The only real difference between "survivor" and "welfare" families, then and now, is the imprimatur of the father. The message: the needs and rights of women and children are determined not by universal standards but by the nature of their poor relationship to a man. Why punish the mother and children for the negligence or inability of the father to provide?

Americans also believe that doing something is better than doing nothing. Ambiguities should be avoided, since they often signal a failure of resolve. The public expects to get better when they see a doctor, but that isn't always possible. Doctors and patients tend to believe that medicine can always offer something. But this is only true in the sense that medicine can relieve pain and suffering, that death can be eased. Medicine may not be able to change the course of disease. Unfortunately, people often want to leave no stone unturned.

With regard to medical care as with regard to government programs, there is little understanding of the problem of "marginal benefits," of benefits that are too meager to pursue or too costly to justify. Patients are often reluctant to accept the ambiguity that "something" could be done but that it isn't worth doing. Instead, it is increasingly common for all the stops to be pulled all the time. This mechanized, no-holds-barred approach sidesteps the need for medical judgment. In our current medical climate, in which patients mistrust doctors and physicians fear malpractice suits, this course is often easier for both patients and doctors. Unfortunately, the cycle pushes costs upward and leaves everyone dissatisfied. A recent study found that the majority of primary care doctors felt that patients sought too much care. Another study found that the difference in cost between the attitudes "when in doubt, do it" and "when in doubt, stop" could add up to \$100 billion a year. If this same

approach were extended to other government programs the savings would eliminate the so-called budget deficit for at least a decade.

Government programs have become an organized form of the tragedy of the commons. Suppose that three people in a rural neighborhood share a private road or driveway. They might easily form a group to repave their road; each one will pay something, but all will benefit. If all three chip in, the road is fixed at minimal cost to each. But now suppose there are a hundred people sharing the road. Now the temptation becomes strong for each person not to chip in. Each one thinks, "Someone else can worry about filling potholes. I'll let other people fix the road, and then I'll be able to use it for free." If enough people think that way, the road never gets repaved.

The problem here is an ancient one, namely that people try to ride for free if they think they might get away with it. It involves what economists call public goods: goods (or services) which everyone can enjoy even if only one person takes the trouble to pay for them. Roads are one classic example; national defense is another. The classic Solution is for a majority to require everyone to contribute to road-building and national defense, through taxes. Otherwise, too few roads would be built and too few soldiers recruited, because too many people would wait for someone else to do the building and recruiting. But the classic solution in our society has been turned on its head, those interests that can capture the mechanics of government for even a second have the means of free riding on the backs of all the rest of us.

The fact is that all interest groups, without exception, claim to be serving some larger good, and almost all believe it. And all groups, without exception, are lobbying for more of



whatever it is that their members want, generally at some expense to non-members. By the same token, every single law, regulation, subsidy, and program creates losers as well as winners, and whether you think justice is served depends on who pays when the bill is due.

## Who Governs

Who should govern America? A struggle exists between the bureaucrats and the public. The bureaucrats view of the general public is that it is ill informed and ill equipped to deal with the problems to which they, the experts, have devoted their lives. But to the public, trusting the experts is what has led to the present mess. One part of the problem is that the people we are supposed to trust, no matter how idealist they were when they started, are burned out. Inadequate support, ill-defined missions, and no sense of purpose make day-to-day existence in the government more than difficult even for the best intentioned public servant. And then we are unwilling to pay them the going wage. Government service in the United States isn't service at all but servitude.

Without support from its people and attention from its elected leaders, government suffers. Only in recessions and, as a last resort, do the nation's brightest individuals consider government careers. With no payback in votes and political mileage, legislators ignore government's management. The quality of the governmental work force and its physical infrastructure decline as an ever distrustful citizenry decides through its politicians that there has been enough of "government growth." Pay raises to attract quality employees and investments for modern equipment, or even maintenance, are deferred in the name of deficit reduction. Demands are placed on agencies without regard to the resources needed. Responsibilities critical to effective program management are parceled out to the private sector. Finally, an ever changing cycle of leaders determined to work their will on an allegedly unresponsive public service inject political influence into professional decision

making, at times undermining laws, and often ignoring those most qualified to shape public policy.

The government monolithic as it seems, is like any other organization in that it requires dedicated and motivated people for its successful operation. The private sector has recognized this fact for years, and many companies work hard to promote and praise their employees. The nation as a whole loses when the federal government is unable to recruit and retain superior workers. Public service increasingly has been dismissed and disparaged as the popular myth of an incompetent, burgeoning bureaucracy flourishes.

College graduates have found better paying jobs in the private sector, especially during the economic boom of the 1980s, that carry none of the bureaucracy's stigma. As the country increasingly identifies government as a cause, instead of a solution, of society's problems, many of the civil service's brightest employees have departed for the country's colleges and corporations. The Volcker Commission summed up the quiet crisis well: "It is evident that public service is neither as attractive as it once was nor as effective in meeting perceived needs. No doubt, opposition to the specific policies of government has contributed to a lack of respect for the public servants who struggle to make the policies work. This drives away much of our best talent which can only make the situation worse. The problems of serving in government today are many. Federal pay and benefits often lag well behind private sector compensation. Drug testing requirements and ethics rules are demeaning and smack of distrust, and critical professional needs such as travel and training often are denied as agency budgets tighten. For those who answer the government's call, most quickly find their advancement stymied by the increasing politicization of the career civil service.

The reasons why people join government today and stay with it are basically the same as they always have been. The challenges and the rewards that come with making society better instead of, perhaps, making some detergent better, are still a powerful motivator. But in an age of "bureaucrat-bashing," and when many no longer can afford to stay, these rewards no longer seem to be enough. Part of the problem is compensation. A climbing deficit, a politically sensitive Congress unwilling to vote bureaucrats more money, and antipathy toward the government have not been conducive to federal pay raises.

Because starting salaries in government have fallen so far behind the compensation given to the graduates of leading law schools and business schools, the civil service needs some special initiative to attract exceptional young people. Attracting talented young professionals will do little good if they leave after a few years for lack of opportunity to assume more responsibility. A major drawback of government service is the widespread impression that the prospects for advancement are much more limited than in the private sector. Several forces combine to limit opportunities. Careers in the federal service are typically narrow and specialized, giving young professionals little chance to develop their skills to assume wider administrative responsibilities

In the private sector, top corporate managers delegate much authority to younger executives, despite the risk that errors will occur, because the flexibility and innovation that can result are more than worth the cost of an occasional mistake. In government, although creativity and flexibility may be celebrated in theory, the benefits seem minor in comparison with the political cost of errors that lead to negative publicity or a hostile public. Overall, the obstacles to developing a shared sense of mission and commitment are undeniably greater in government than they are in the public sector. much of what is wrong with our workplaces,

both public and private, is the effects of restricting people's sense of self-determination. This situation is more egregious the lower one is in the hierarchy, and is aggravated by the constraints of public sector employment. By and large, those who do the least interesting work and receive the least compensation are those who should, at a minimum, have the consolation of being able to make decisions about how they carry out their assignments. Instead, they are the most carefully controlled. Regardless of the organizational level, the difference between success and failure, enthusiasm and apathy, even health and sickness, can often be traced back to this issue.

Why do so many employees become burned out and bitter? Burnout is not a function of how much work they have to do so much as how controlled and powerless they feel.

What kind of job is associated with high levels of psychological stress and coronary heart disease? Not the success oriented, managerial or professional occupations (where Type A and high incomes are most prevalent) but those where individuals have insufficient control over their work situation. Which characteristic of an organization is most likely to kill creativity? Not inadequate pay or tight deadlines, but a lack of freedom in deciding what to do or how to accomplish the task, lack of sense of control over one's own work and ideas.

Why do people so often mutter and groan when a change in policy is announced? Not because it is a change but because it is announced-that is, imposed on them. ("People don't resist change; they resist being changed.")

Rosabeth Moss Kanter studied a range of large American corporations and reported the news about change in her book *The Change Masters*. She came up with ten rules for stifling initiative and they seem to describe government almost to a tea:

- "1) Regard any new idea from below with suspicion-because it is new and because it is from below.
- 2) Insist that people who need your approval to act first go through several other levels of management to get their signatures.
- 3) Ask departments or individuals to challenge and criticize each others proposals.
- 4) Express your criticisms freely and withhold your praise. (That keeps people on their toes.) Let them know they can be fired at any time.
- 5) Treat problems as a sign of failure.
- 6) Control everything carefully; count anything that can be counted, frequently.
- 7) Make decisions to reorganize or change policies in secret and spring them on people unexpectedly (that also keeps people on their toes).

- 8) Make sure that any request for information is fully justified and that it isn't distributed too freely (you don't want data to fall into the wrong hands).
- 9) Assign to lower-level managers, in the name of delegation and participation, responsibility for figuring out how to cut back, lay off, or move people around.
- 10) Above all, never forget that you, the higherups, already know everything important."

If the above tendencies are true in the private sector they are more grossly true in the public sector.

People are most motivated when they are able to participate in making decisions about organizational goals (and, of course, are given the necessary information and resources to do so). Even when those goals are determined by others, it is critical that employees be able to decide how best to reach them, that they hear from a supervisor, "Here's where we need to get; you decide how we get there."

First, we teach our government bureaucrats to distrust their own thinking by making them use stilted civil service tests for advancement and to avoid seeking promotions on merit or hard work. Never mind what you accomplished, how did you do on this multiple choice test? Then we teach them that small errors are considered errors just like big ones. A mistake, you can't be trusted with responsibility. No wonder they learn to play it safe, and wait to be told, rather than exercising a little intellectual autonomy. Why take the chance? Many

people's sense of worth is directly related to the number of situations in which they are in control. Many people have problems with their self-image because they are clearly in control of so little. In challenging situations, some will take chances to get things done. Most won't. They fear being wrong. That fear discourages what is probably our least expensive and most valuable learning technique, trial and error. Done right, cognitive trial and error costs next to nothing. More importantly it gives them the confidence to do what we actually want them to do -deal with problems responsibly.

Moments of achievement, mastery, and recognition account for employees' lasting satisfaction with their work. In most cases, success will turn on building a strong culture based on mutual respect that motivates all to work hard and accept smaller differentials in exchange for greater collegiality and relief from having to argue over who deserves "credit" in its varied forms. Almost invariably, building such a culture will depend on having key members of the team transmit the desired values to their colleagues by personal example. In other words, success in keeping loyalty high and pay differentials low requires a kind of leadership that values a strong, cohesive organization above the desire to maximize personal rewards. In government have a strong cohesive organization requires that the team understand its goals, have a clear vision of service, and can feel a sense of personal reward and responsibility in providing that service.

Government staffs are under constant scrutiny and pressure by elected officials and often the press: each of these blocs or factions wants results, wants them fast, and wants them at the "bottom line," whatever that may mean. This urgency is rapidly taken up by management who are hypersensitive to such demands so that they may continue their movement up the career ladder or even just keep their present jobs. The traditional manager strives to avoid



mistakes, or to delay recognizing them for what they are for as long as he can get away with it. As a result the standard mode of Western management is an obsession with outcomes (lest they fall short) and with self-interest (the preservation of career and power). Even worse for the organization and for society as a whole, the career critical outcomes in this perverted system are necessarily very short term. One of the most persistent underlying beliefs on the part of these demanding constituencies is that of the linear growth model: a belief in the ability of a system to continue previous patterns of accomplishment, however briefly such patterns occurred and no matter what changes will occur in the future. Such thinking encourages the expectation of future outcomes based on previous ones without recognition of the variability inherent in all observed phenomena. A parent is disappointed when the child gets a B in some subject after having received a string of As and starts offering rewards for a return to higher grades. A company has had several years of 10% growth, and its stockholders demand another such year and another from top management. The FBI brags on the percentage of crime reduction each year while all around we feel less safe on the streets.

The physicist Freeman Dyson has argued that size matters, and his arguments have inspired both Rauch and 1. As Rauch put it: Dyson "doesn't mean size just in the physical sense. Rather, if you want to know whether a machine is worth building or a program is worth undertaking, you have to scale it to make sure it's flexible enough to adapt to a changing world. 'Never sacrifice economies of speed to achieve economies of scale, and never let ourselves get stuck with facilities which take ten years to turn on or off. Otherwise, projects are out of date by the time they open for business. ... Judging by the experience of the last fifty years, it seems that major changes come roughly once in a decade. In this situation it makes an enormous difference whether we are able to react to change in three

years or in twelve. An industry which is able to react in three years will find the game stimulating and enjoyable, and the people who do the work will experience the pleasant sensation of being able to cope. An industry which takes twelve years to react will be perpetually too late, and the people running the industry will experience sensations of paralysis and demoralization." Though he didn't know it, Dyson was writing about government. Our government.

Governmental entities have to build their organizations on the basis that they can only prosper if they deliver what we ask of them. Organization means more than just who reports to whom. It also includes how performance review and compensation systems work, how decisions are taken, what style and set of values are communicated from the top, how new staff members are trained, and all the other facets of day-to-day life that make one entity different from another. Government managers need to build organizations that focus on and learn about service and goals. Once this initial message has been sent, however, the largest management challenge follows: to make these goals visible within the organization. The service goal has to become a "language" that is spoken throughout an agency, so that all staff members are fluent and can instantly see when the "syntax" of a policy is wrong. In this light governmental entities must handle with great care the language they use. Managers and staff can focus on only a limited amount of information during the day. Focusing on goals must be the priority.

Government managers have to not only avoid public relations disasters, they simultaneously have to deliver quality services. What is needed is an organizational approach that supports confronting the problems we ask our government to deal with -not to hide from them.

## Part Three

### Aren't All Thefts Tax-Exempt?

"A government which robs Peter to pay Paul can always depend on the support of Paul."

-- George Bernard Shaw

"Who stole the tarts?" -Lewis Carroll in Alice's Adventures in Wonderland

This chapter is an introduction to some of the second order effects in our society. Effects that pervert the very intention of our lawmakers and of the public. Charities that aren't. Localities in competition with one another to give away more and more of your hard earned dollars. All because the law is complex -- and people like me have learned how to take unfair advantage of it.

I am an investment banker. My job is to provide financing for state and local governments. My firm does this by arranging for the sale of debt instruments (usually tax-exempt bonds) which create the funds for these localities. To the extent we are providing a needed service and are paid reasonable compensation, no problem. However to the extent we get greedy and raid the till we are in effect committing public theft. Much of the saga which follows is a sad reflection on the amount of public theft which is committed everyday. It is not just the investment bankers who are the parasites here (although thank you Michael Milken for giving the world that impression) there are lawyers, expert advisors, public bureaucracies, and organized interest groups.

It was Kurt Vonnegut who observed: "in every big transaction, there is a magic moment during which a man has surrendered a treasure, and during which the man who is due to receive it has not yet done so. An alert lawyer will make that moment his own, possessing the treasure for a magic microsecond, taking a little of it, passing it on." Lawyers are not the only ones to profit from these precious microseconds. Brokers, investment bankers, and consultants of various kinds are among the fortunate ones who are similarly situated. These professionals are commonly involved in transactions where the amounts at stake are so large in relation to their compensation that they encounter little resistance to their fees. When hundreds of millions of dollars change hands, even a tiny percentage fee yields handsome returns, but who is to complain? Well, when it is the public's money that is involved, we all should.

I must begin this section with a disclaimer. For nearly fourteen years I made quite a good living assisting state and local governments arrange for quasi-legitimate transfer payments from the Federal government. The "quasi" is somewhat troubling. Congress does not sit down and allocate which state or locality will get what. Instead the money is there for the taking. What bankers such as myself do, if we are "good" by the standards of the industry, is help each locality make its take of the pot as big as possible -- regardless of the cost to the federal taxpayer. This is a pure outgrowth of fiscal federalism -- each jurisdiction is out for itself. But I am not writing in complaint about the behavior of the localities. They did what any interest group would do -- seek to maximize benefits. What I am writing about is the parasitism that accompanies such activity -- for it is symptomatic of the troubles our overall system faces, i.e. theft.

The problem started innocently enough. States and localities routinely borrow money for capital projects much like you and I would borrow money to buy a house. As our world moved into the latter half of the twentieth century and our infrastructure needs grew, borrowing needs grew in parallel. But, taxpayers are an incredibly conservative bunch. While they might enjoy voting for vast new programs of infrastructure and social welfare, they have an inherent objection to actually being the ones to pay for it. As the need for funds grew -- creative minds invented new ways of getting at money without the explicit consent of the voters. Nelson Rockefeller and Robert Moses made the most out of an old English concept "the authority" to begin wholesale borrowings for a variety of purposes. Eventually it dawned on the politicians that with the right semantics and rhetoric money could be borrowed to finance not just capital but other programs -- with the cost shifted off into an indefinite future. They were encouraged in this endeavor by a Federal government that had grown too generous with its own resources and now was trying to shift costs off onto the states and localities. When cost shifting is involved it is difficult for one level of government to call attention to the more dubious tactics of another layer. Thus from an innocent beginning, there arose great trouble. Promises that required money and the money was nowhere to be found.

Washington backed away from new Great Society-type programs beginning in the mid-1970s, and this was followed by the conservative Republican politics of the 1980s. The result: A hollow federal government has precipitated a nation of hollow state and local governments. For almost two decades, rising fiscal needs at the local level had been eased by federal funds. Great Society programs, General Revenue Sharing, hundreds of grants and other forms of federal aid helped cities struggle against the persistent growth in urban poverty, inadequate housing and hopelessness, crime, drugs, high school dropouts, and

illegal immigrants-the ever rising tide of the cities' troubles. Reagan's idea of intergovernmental relations was to return to the states responsibilities that over several decades had accrued to Washington. The states readily agreed, sensing in the proposition a chance to control at the local level greater resources, to dole out and to get the credit for more federal benefits distributed to their communities.

Reagan failed to mention, however, that in turning back the responsibilities to the states, local governments would in many instances not be getting the federal funds necessary to effectuate the programs themselves. As the 1980s turned into the 1990s, governments at all levels in America were cutting services to cope with budget deficits even though demands for services continued to rise. Public works are not the only part of the nation's infrastructure that the federal government has neglected. States haven't the resources or powers of the central government. Except for Vermont, states cannot legally run deficits to wait out recessions that rob them of revenues. Thus, most states have no choice but to raise taxes to offset budget shortfalls, an action that often is a death knell for elected local politicians who are held closely accountable for the communities' living conditions.

As times got harder for state and local governments, the national government made things tougher yet. As one component of the 19% of discretionary spending left in Congress' immediate control, federal grants in-aid to states and cities became obvious targets for cutbacks. In the 1980s, the federal Revenue Sharing program was eliminated entirely, and federal grants-in-aid to states and cities fell from about 21% of domestic spending in 1980 to 17% in 1988. States felt such reductions in virtually all areas of policy. In the 1980s, federal dollars for clean water, sewage treatment, and garbage disposal shrank by more than \$50 billion per year. The federal share of spending on local transit shrank by more than 50%.

Federal spending on new public housing collapsed entirely. And as Washington crunched the states, the states just turned around and crunched the cities. State aid to cities plummeted from 62.5% of locally generated revenues to 54.3%. The cities, like the states, have to make up the revenue somehow or go without. In either case, they too are on their own.

At the same time that Washington has shirked much of its funding responsibilities, however, Congress has not been shy in imposing costs on others, mainly the local governments. New regulations designed to protect drinking water and enforce pollution laws are expected to cost billions of dollars at the local community level. There is little dispute that most of the federal government's environmental mandates will provide benefits in the long term, but its increasing inclination to make local communities bear the burden for improvements is part of an overall trend by which Washington, in recent years, has handed off its responsibilities without the commensurate resources to achieve the results. Environmental regulations are costly. Public water systems alone will be forced to spend \$553 billion by the year 2000 to comply with regulations mandated by the 1986 amendments to the Safe Drinking Water Act. Federal, state, and local governments in 1987 spent \$40 billion for environmental protection, but simply to maintain the 1987 standards will cost \$56 billion in the year 2000. The amount climbs to \$61 billion if costs for new environmental regulations are figured in.

The burden of these rising costs will fall predominantly on local governments, which are expected to pick up 87 percent of the public bill for sewers, drinking water, and waste management in 2000, up from 82 percent in 1987. Meanwhile, the state's share will remain steady at about 5 percent and the federal government's environmental public works spending will fall from 13 percent to 8 percent as Washington phases out wastewater



treatment facility grants. Larger communities will have little trouble tapping into the bond market to raise their share of the estimated \$20 billion in new capital that local governments have to raise annually to pay for environmental projects. Smaller communities with limited resources and less access to capital markets, along with older cities already struggling under significant debt burdens, could have trouble keeping up.

It is said that giving money to politicians is a form of democratic participation. In fact, the rich can participate in this way so much more effectively than the poor that the democratic principle of one person, one vote is severely compromised. It is said that money buys only access to the politician's ear; but even if money does not buy commitment, access should not be allotted according to the depth of one's pockets. It is said that every group has its pool of money, and hence as they all grease Congress, all Americans are served. But those who cannot grease at all or not as well lose out, and so do long-run public goals that are not underwritten by any particular interest groups. What no one might have expected is that if a locality is to survive, it too must give to politicians -- it too must lobby, and it too must try to influence higher levels of government.

Crunched by slow growth in employment and a decade of reductions in federal aid, state and local governments are fortunate to stay just one step ahead of tax increases and spending cuts themselves, not to mention layoffs of public employees, tax revolts, and community protests over threatened programs. These governments, which to gather employ seven times as many workers as the federal government, compete hungrily for new business investment by offering competitive tax abatements and other benefits, which local tax payers must then make up through higher tax rates or reduced services. But states and cities have

little choice. They need business to generate jobs, wages, and taxes. Desperate for scarce labor-intensive capital, many jurisdictions steal existing businesses from one another.

Among the states and cities, economic policy has become a war of each against all., thus increasing fiscal isolation, or autonornization, of state and local governments. The prevailing theme of intergovernmental relations is now go-it-alone-federalism. In the face of slow growth, hyper-mobile corporate capital, and diminishing financial support from Washington, every unit in the sub-national government system must preserve, protect, and expand its own tax base, if necessary, at the expense of every other unit. The law of fiscal federalism is "every jurisdiction for itself."

And America has many jurisdictions. Most large cites are surrounded by dozens and dozens, sometimes by hundreds, of suburban governments, each of which maintains autonomous control of their taxing, spending, and service policies. Chicago has more than 1,200 governments around it; New York City more than 500 surrounding governments just within the boundaries of New York State alone; Philadelphia, more than 800; Pittsburgh, almost 700. The list of urban fracture and fragmentation could go on and on; suffice it to say that the average U.S. metropolitan area has no fewer than eighty-four separate governmental jurisdictions that function to carve and divide its potential area-wide majority. All of this means, simply, that the clashing class and group interests of the nation's huge metropolitan populations do not have to make political peace with one another. Without a need for political peace.... well. Any suggestion of true regional governance, even involving limited operating functions, raises many difficult questions: Who would exercise such powers? Who could authorize such decision making? What factors would regional authorities have to control ? Would such control be centralized in a single organization, or would it be exercised

by several, more specialized organizations? How could political support for such a radical change be found ?

In the meanwhile, our many jurisdictions compete for limited dollars, limited jobs, and for what they perceive is a limited quantity of having a quality way of life.

Places receiving less direct funding from national and state sources have to rely more on generating their own funds to support basic services. Places will need to be more attentive to environmental forces and regulations in planning their future, which will require getting the most out of existing facilities, making public facilities and investments fit better into the natural environment, and meeting needs more creatively. Places will be influenced more than ever before by global developments and changes, and therefore must actively monitor and anticipate their impact on the place. Places caught between business- residential tax increases to support more public services and service decline due to tax-resistant voter will simply have to do more with less, which means different and more productive approaches to service delivery.

Imagine a city that is initially attractive. It might be blessed with expanding industries, have an exceptional climate or natural beauty, and might have a remarkable historical heritage. Assuming that job opportunities are strong and the quality of life is appealing, this city inevitably attracts new residents, visitors, business firms, and investment. The inward migration of people and resources raises housing and real estate prices and strains the existing infrastructure and social service budget. The city typically raises taxes on residents and businesses to pay for the needed expansion of transportation, communication, energy, and social resources. Some residents and businesses begin to move out of the city

boundaries to lower their costs, thus reducing the tax base. Thus the very state of being an attractive place may unleash forces that ultimately unravel the place's attractiveness.

As a place begins to lose its attractiveness, forces are released that worsen the situation. A major industry in the town might falter or exit due to business mismanagement, an eroding community infrastructure, the onset of a general recession, or lower costs elsewhere. Business profits and jobs decline. Real estate prices fall. Infrastructure deteriorates. These developments accelerate the outward migration of residents and businesses and cause a sharp drop in tourism and convention business. Banks tighten credit, causing an increase in bankruptcies. Joblessness leads to more crime and drugs, and social needs increase. The city's image becomes further tarnished. The government raises taxes to maintain or improve infrastructure and meet social needs. But the higher taxes only accelerate the out-migration of resources

Urban states forced to bear the burdens of Medicaid, welfare, big-city crime, illegal immigration, and crumbling transportation infrastructure can't keep their fiscal heads above water in a federal system that lets less-developed states turn themselves into tax havens and skim the nation's economic and demographic cream.

A profitable multinational corporation sets off a bidding war among several states to see which will come up with the most generous tax concessions to subsidize construction and operation of a new plant. A profitable multinational corporation closes a plant with higher-paid workers in one city, and the state arranges subsidies to help it open a new plant that will employ lower-paid workers in another city. Corporate-takeover artists, who acquired

an airline and transformed it from a moneymaker to a money loser, pit state against state to see which will finally hand over the most tax subsidies.

Even the tax breaks offered foreign companies to move to the United States produce illusory benefits. In 1978, Volkswagen, the German car maker, opened a plant in New Stanton, Pennsylvania, just south of Pittsburgh. It was built after the state came up with \$70 million in incentives, including tax abatements and money for new infrastructure. Ten years later, in 1988, the plant closed. The 5,000 people who were once employed there were out of work. No one keeps a running count of the value of all the tax concessions and assorted incentives that local and state governments extend to corporations. But it is easily in the tens of billions of dollars. If you are a typical middle-income or working-poor taxpayer in any of the fifty states, its your tax money that state and local officials are handing out. And they are handing it out in ever larger amounts.

Like other states, New York tries to recruit and retain businesses by offering various kinds of bribes. These include targeted tax breaks, discounted energy, and even direct investment. Four different agencies put out press releases every few days heralding their giveaways to companies from Spalding Sports to ABC Television. Susan Glass of the Urban Development Corporation claims the state has created or retained some 200, 000 jobs. There is, however, no evidence to support this fantastic assertion. Governments cannot do better than the marketplace at determining where investment will best generate growth and create jobs. Businesses love it when governments try, because it allows them to make a direct claim on state monies. But it doesn't really help. As Vincent Tese, Director of Economic Development for New York State, admits, threats to leave have only increased since New York began bribing firms to stay. Cuomo's economic-development programs are inordinately expensive,

consuming 2 percent of the state bud get. Infrastructure, meanwhile, has gone begging. Nearly 70 percent of New York's bridges are currently rated deficient, double the national average. The state spends time and money creating and implementing its taxes and regulations, then spends more of both finding ways around them for those who complain the loudest. Instead, we should just cut business taxes across the board. But the notion that the key to a sounder economy is doing less rather than more seems never to have occurred to those who make the decisions.

In Minneapolis the owners of the NBA'S Timberwolves built a private stadium for about \$100 million well over budget. They consequently lost about \$15 million when a local savings and loan failed. But the owners Mary Wolfe son and Harvey Ratner are looking to the public to get them off the hook. Their pitch: If the state doesn't buy the Target Center from us we're moving. Minnesota blinked. The state legislature agreed last month to buy the arena if the team stays in Minneapolis. What we have here is professional sports version of Gresham's Law. which states that bad money drives out good money. Once the public starts subsidizing these new facilities it becomes hard for those without subsidies to compete. A recent study calculated that when all is factored in pro sports facilities drained \$500 million from governments annually. For whose benefit?

For taxpayers everywhere, and society as a whole, it is the ultimate lose-lose situation. The new jobs that are created in one state when a company opens a plant, courtesy of tax breaks, are offset by the loss of jobs in another state, where the company closes a plant. One community gains tax revenue. Another loses it. What's more, the new jobs often pay less than the old, and they have fewer benefits.

As more states and places joined the incentives contest, competitive advantages blurred. However, a negative-sum game (where all bidders lose) did not end the practice. Places are still willing to offer incentives to attract or retain a business. In most cases involving the subsidization of capital and credit (loans, grants, tax abatements tied to capital investments), the cost to the government providing the subsidy exceeds the benefits to the firm. Similarly, the cost-benefit ratios for places generally overstate immediate benefits and, depending on choice of economic multipliers used, often exaggerate the ripple effect of secondary benefits from business attraction or retention. On the other hand, one can point to incentives and programs where costs are minimal, leverage great, and distortion potential low. For example, programs that reduce information costs-where to obtain capital, location specific data, labor force availability, how to facilitate exports, technology transfer, and the like-can be extremely beneficial to places and businesses.

From the vantage of elected public officials, inducements initially constituted a win-win game, irrespective of what economists and others may think. Should officials fail to grant a concession or play the bidding game, either the failure to attract a business or the loss of a business could cause them to lose the next election. Should they overpay or offer incentives that detract from other values (tax equity) and get a firm to come or to stay, greater short-term political risk still lies with the former rather than the latter. For defensive reasons alone, incentives escalate.

One key to this escalating process is the tax industry. It employs tens of thousands of people, accountants, economists, lawyers, academicians, think tank analysts, lobbyists, brokers, computer programmers, government workers, and all their support personnel. It costs billions of dollars a year to operate. It is America's largest nonproductive business. It creates nothing.

It makes nothing. It redirects creative energies away from innovation and job building to ever more sophisticated forms of paper shuffling. It drains money from the productive segments of the economy. It takes money from people who have little and gives it to those with much. It takes from the young and gives to the old. It takes from the thrifty who save and gives to speculators. It takes from some affluent people and gives to other affluent people. It takes from small and medium-sized companies and gives to multinational corporations. It takes from U.S. -owned businesses and gives to foreign-owned businesses. Long ago, tax people discovered how to guarantee a never ending supply of complexity, so that their jobs would last for ever and no one would ever understand what they were doing. After years devoted to "simplifying" the nation's tax laws, they are more complex than ever. They are longer than ever. They take more people to interpret than ever. They cost more money to enforce than ever. They waste more money than ever. And they give rise to some of the worst cases of theft we've ever experienced.

Let us go back a decade and consider the case of Northwest Airlines and its then (as now) ongoing struggles to avert bankruptcy. Northwest is important to Minnesota, so important that it could extract valuable dollars. The all important tactic: scare elected officials. Early in 1991, the airline disclosed that it was reviewing offers from other state and local governments that wanted the maintenance base, which ultimately would employ 1,500 persons. Northwest said it was trying to decide on one of six areas-the Twin Cities; Duluth, also in Minnesota; Detroit; Memphis; Kansas City, Missouri; and Atlanta. Now the rush was on to see who would hand out the most tax breaks and loans.

Minnesota officials scrambled to come up with an offer and push it through the legislature. In May 1991, state lawmakers approved a controversial \$740 million package of tax breaks,



government-backed loans, and cash for Northwest. The bill authorized the state to sell \$350 million in revenue bonds to build an aircraft maintenance base in Duluth and an engine repair facility in neighboring Hibbing. Northwest would pay off the bonds through lease payments on the hangars. More significantly, but little understood at the time, the bill gave Northwest authority to negotiate a loan from the Metropolitan Airports Commission, which managed Minneapolis Saint Paul International Airport, where Northwest was the dominant airline.

In the public's mind, the bill was to build aircraft maintenance hangars in Minnesota's depressed far north. But only \$350 million of the \$740 million price tag would go for hangars. What was the remaining \$390 million slated for and where would it come from? It was to be a low-interest loan to Northwest, the one from the Metropolitan Airports Commission. In short, it was a loan from taxpayers to help Northwest through tough financial times arising from the leveraged buyout.

After the bill was signed, Northwest, its financial fortunes still sagging, pressured Minnesota officials to come through with the loan. Northwest claimed it had to complete negotiations by the fall so the overhaul bases could be built and opened on schedule by April 1993. In fact, the airline's own pressing cash needs were driving the deadline.

When negotiations went slower than Northwest liked, the airline broke off talks and threatened to cancel plans to build the bases in Minnesota. A representative was dispatched to Louisiana to meet with Governor Buddy Roemer about the possibility of converting two existing hangars in Lake Charles, Louisiana, into maintenance bases. Roemer told reporters that a Northwest official had told him the airline was terminating discussions with Minnesota, and that Lake Charles was the airline's preferred site. The Louisiana threat brought all the

parties back to the bargaining table in Minnesota, and in November, agreement was reached to provide Northwest with the cash it was seeking.

The pact called for the airport authority to convey \$270 million in cash from the sale of revenue bonds to the public. In turn, Northwest would sell to the airports commission its flight training center and subsidiary operations at Minneapolis-Saint Paul International, where it had been training pilots and other personnel for years. Northwest would then lease back the facilities. By any standard, it was a most unusual transaction. Here was an airline that had long owned and operated its own flight training center selling the facility to a government agency for \$270 million. Then leasing back the same facility for an annual fee to cover the interest on the bonds. A memorandum to the airport commissioners noted the significant economic impact that Northwest's operations and presence have on the region.

Northwest's strategies and business plans called for significant financial improvement, but the carrier lacks the financial safety net a strong balance sheet would provide and was more vulnerable than financially stronger carriers as it relied solely on credit lines to weather unexpected events. By the time the airports commission came through with the cash for Northwest in 1992, the airline was on its way to losing \$1.1 billion for the year. When this was added to losses of \$316.9 million in 1991 and \$302 million in 1990, Northwest had run up total losses of \$1.7 billion under Checchi. Throughout this period, Northwest laid off workers, extracted wage and benefit givebacks from remaining employees, instituted stringent cost-cutting measures, sold assets, and restructured its debt. What the taxpayers got was a huge risk -- a loan to a failing carrier which might never be paid off with a subsidy that could never be recaptured. And why? Because no one could face what would happen if Minnesota said no. But then again, who was consulted when Minnesota said yes?

Did the taxpayers have a say? No.

When resources grow scarce, the politics of who gets what from government will get more bitter. Politicians understand the simple fact that in our complex economy, governments do not just protect private economic power; they can create it. Through the shrewd distribution of utility franchises, tax abatements, contracts, jobs, inside information, regulatory exemptions, politicians can capitalize on any government decision that might fetch a price from business owners or other interests dependent on it. A government facing annual gaps between resources and demands has to carefully ration and discriminate between the various claims for tax exemptions, tax payments, and social services; it has to choose among conflicting pressures and demands, giving in to some interests, denying support to others. Anyone who believe that such rationing occurs on the merits ... well there is a bridge in Brooklyn I might be able to get you a good price on if you are interested.

It has been estimated that there are more than ninety-one thousand lobbyists and people associated with lobbying activities in and around Washington. Academic attempts to calculate their annual cost to the overall U.S. economy generally put it in the 5 percent to 12 percent range, which comes to roughly \$300 billion to \$700 billion. But the number of lobbyists in Washington pales beside the aggregate number nationwide. In the game of taxes, the states and localities often have as much to offer a thief as the Feds -- and with less work.

Wall Street makes money by underwriting municipal bond issues, collecting huge fees for guaranteeing the sale of city and state debt. Others simply advise elected officials on the process. Some manage the money municipalities collect with the issue. Indeed the business is

important to Wall Street's profitability. In 1993, it accounted for 9% of total public and corporate new issues. And that year, it was everybody's game to win. Low interest rates drove cities, counties and states across the nation to refund their debt just as many homeowners sought lower borrowing costs by refinancing their mortgages.. While one executive described his business as not rocket science, its status as a one-time financial backwater allowed campaign contributions to grow increasingly important in influencing elected officials' decisions on underwriting contracts.

Distributing lucrative bond-underwriting work to favored law firms, investment bankers, financial advisers, and other consultants has long been a part of local politics. Those who get the work often contribute to political campaigns. Some bonding authorities are so small they don't even have offices. When a bond issue is needed, politicians call up an underwriter and lawyers; the process essentially takes place by mail. Others are known as captive authorities, created by the nonprofit organization selling the bonds, housed in an office of the nonprofit, and existing only to sell its bonds. Often authorities compete to sell bonds. And it is not unusual for a nonprofit that gets rejected by one authority to turn to another authority to issue its bonds. Each day, hundreds of quasi-public agencies and state governments issue tax-exempt bond offerings for nonprofit groups. These authorities don't actually borrow the money. They merely serve as conduits for the real borrower-the hospital, college, or nonprofit institution that runs the project once it is built and is responsible for paying back the debt. Instead of turning to private money markets, where they would have to pay higher commercial interest rates on the money they borrow, nonprofit groups are able to turn to their own private market for raising capital. The lower financing costs can result in savings of millions of dollars in interest. Most state officials concede that they have little control over these many authorities, let alone regulate them. Oversight is so loose that many authorities don't bother to send copies

of their annual report and audited financial statement to the state government. In most states, no state agency in any sense is really controlling the authorities. They establish their own rules, set their own rates and have their own priorities.

They will never admit the real explanation for the lack of oversight is politics.

"Its is a bit like buying a stereo system. If you get a better CD player the defects in the amplifier show up, so you buy a better amplifier, and then the speakers won't handle it, so you rush down to the store with your credit card and buy such a fantastic set of speakers that it is ridiculous to keep using the old CID player. Everything co -- evolves with everything else, in the direction of increasing expenditure..."

-- Future Tense by Ian Morrison and Greg Schmid

The problems in municipal finance stem from the fact that elected politicians are in a position to dole out lucrative municipal business - the selling of bonds to build dormitories, bridges and roads, among other things. Until recently, municipal finance -bankers could contribute to local political campaigns. That has been halted, but the ability remains to befriend politicians and influence their decisions about who on Wall Street gets to sell the bonds.

As long as major securities firms were able to make big campaign contributions to the local and state officials with whom they do business, the \$1.2-trillion municipal bond industry was fraught with potential for scandal. In Florida, Massachusetts, New York, New Jersey and

elsewhere, the cozy relationship between bond firms and elected officials has led to criminal investigations. In most cases, though, the favorable treatment municipal bond dealers have bought with their campaign dollars has fallen into a gray area just beyond the reach of the law.

By 1994, the Securities and Exchange Commission moved to clean up a corrupt system so pervasive that most firms had come to consider campaign payoffs "just another cost of doing business," according to then SEC Commissioner J. Carter Beese Jr.. The action came because of "increasing concern about the opportunity for abuses and the perception of problems associated with political contributions in connection with the awarding of business," according to the Public Securities Association, which represents municipal bond dealers. Specifically, the SEC approved rule G-37. It prohibits bond dealers from doing business with state and local governments for two years if the firm or its associates have made campaign contributions to elected officials of those governments. The prohibition doesn't apply to lobbyists, attorneys or consultants, but does prohibit routing campaign contributions through those types of individuals. Yet the widespread use of political consultants points to a big end run. A spokesman for one banking firm proposed a fascinating standard. Consultants should not be hired if that would subject the firm to embarrassment if exposed in the national media. Now there's a deep thinking litmus test devoid of public policy concerns. And one wonders why people don't have more faith in the self-regulatory process.

Pitiable howls of complaint arose from the elected officials who have gotten used to stuffing the bond industry's campaign cash in their pockets. Although the selfishness of their actions was self-evident, these officials lamely asserted that they were only looking out for bond

dealers' constitutional rights. Instead, the rules are aimed at eliminating the big piles of money accumulated by bond firms with the express purpose of gaining an institutional advantage with elected officials. Some elected officials may suffer from the loss of this cash cow, but the public - which had been subsidizing this "cost of doing business" - will reap the benefits. Hypothetically speaking, what would a candidate be promising in return for a contribution? Contributions go to support good candidates. Then again just hypothetically speaking, if this bargained for exchange took place, shouldn't we move along to criminal law? All the rhetoric notwithstanding, isn't "pay to play" just nice words for bribery?

The municipal bond market coasted from the New York City crisis of the 1970s through the Washington Public Power Supply System default of a decade ago through the issuance of billions of dollars of "build-nothing" bonds in the mid-1 980's. The desperate cash needs of localities fueled an every growing expansion in the business and a proliferation of more than questionable tactics by participants. In what some critics depict as a vestige of a bygone era of states' rights, bond issuers remain exempt from the broad panoply of the federal securities laws, and are subject only to the antifraud provisions. Because issuers enjoy this exemption, regulatory review has not centered on the manifold others in the industry. Only as the practices of the industry become more and more obscene did this scenario change.

Local officials often have far greater discretion in selecting the firms used to prepare bond sales than they have in awarding contracts through the type of competitive bid process used for expenditures such as construction work. That discretion has led to many a scandal. An investment bank's political relationships and contributions often play a larger role in the selection of underwriters and advisers than do skill and qualifications for the assignment. Across the country, local governments issue hundreds of billions of dollars a year in

municipal bonds, using the proceeds for projects such as building roads. Investment banks act as dealers, or underwriters, buying the bonds from governmental issuers and reselling them to investors at a markup. Under the old system, bond sellers could recover the cost of donations by charging the state higher fees. Fees were not subject to competitive bidding but were quietly negotiated. And the public, unschooled in the arcane ways of public finance, paid little heed.

Take Massachusetts during the late 1980's and early 90's. For anyone wanting to do municipal finance business there, Mark Ferber of Lazard Freres was the one to see. He had both the political connections and the brainpower to get the job done. So great were Ferber's skills that even Merrill Lynch & Co., the nation's biggest broker at the time, wanted, and got, him. And how. Merrill paid a retainer to Lazard for Ferber to steer business to Merrill in a highly unusual fee-splitting contract that netted both firms millions of dollars. The arrangement was approved by top executives at both firms -and contained provisions keeping its existence a secret.

The contract was a meshing of Lazard's brains and Merrill's brawn: Lazard was the nation's pre-eminent financial adviser to municipalities and Merrill was the biggest seller of municipal bonds. A financial advisor is paid for his sound independent judgment to help local officials deal with the vagaries of Wall Street. By contrast, a municipal banker is on the opposite side of the table from the locality. The financial' advisor is supposed to do what he can in the long-term interest of his client the locality. The banker is supposed to do everything he can in the interests of his firm. These are two distinct functions that government agencies want to keep separate. But the contract blurred them. It secretly gave Ferber, who was paid for his independent judgment, a powerful financial incentive to compromise his independence and



refer business to Merrill. And the cities and state agencies, including the one cleaning up Boston Harbor, that did business with Ferber were never to know of this when they picked Merrill to sell bonds and handle other complicated financial matters.

This contract, in force from 1989 to early 1993, brought in more than \$6 million in fees that the two firms split, and some \$2.6 million in retainer payments from Merrill to Lazard. And millions more flowed directly to Merrill from Ferber's clients. The arrangement, which became public last summer, is now the subject of an investigation by the Securities and Exchange Commission, to see if it violated anti-fraud provisions of the nation's securities laws by failing to disclose important information to clients. In Boston, the Massachusetts Inspector General, the state's top investigator, issued a blistering report calling the contract a "quid pro quo" that may cost taxpayers millions of dollars. The arrangement is simply "outrageous," said an SEC commissioner in the Boston press. "The entering of an undisclosed contract by an independent investment adviser violates everything an investment adviser is supposed to be. I hire an investment adviser to give me prudent objective advice and they have a financial incentive to skew the business to a particular party? That's troubling, and if I were a client, I'd have a fit."

Another Lazard Freres story sheds much light on how Wall Street wins business from state and local governments around the country. One of Lazard's crowning achievement's in the municipal bond world was winning the managing-underwriter mandate for the December 1992 \$1.8 billion offering of New Jersey general-obligation bonds. That deal brought Lazard some \$10 million in fees and profits and propelled it to the top spot in New Jersey's hotly contested underwriting race. The deal began the way that municipal bond offerings often do, with an

underwriter broaching the idea with state officials. In the fall of 1990, Lazard proposed the idea to the treasurer's office in New Jersey. But state treasurer Douglas Berman opposed the plan.

Even though the bonds would make money available for capital spending in the short term, Mr. Berman believed the plan was far too burdensome because it would increase the state's debt by some \$650 million in the long term. Mr. Berman testified against the Lazard proposal in budget hearings before the New Jersey state legislature in 1991. After Mr. Berman resigned as treasurer in January 1992, Gov. Florio appointed Sam Crane, his chief-of-staff's brother-in-law, to the job. Mr. Crane, a former budget director for the New Jersey legislature, didn't oppose the plan.

As if the fees Lazard earned from its management of the underwriting weren't enough, state treasury officials were directed by Robert DeCotiis, Gov. Florio's chief counsel, to let Lazard temporarily reinvest the \$1.8 billion in proceeds in U.S. Treasury securities, according to people familiar with the matter. It was an odd break with past practice. New Jersey's Division of Investment, which manages a \$44 billion portfolio, had always reinvested bond proceeds itself through a competitive bidding process.

In this case, Roland Machold, the director of the Division of Investment, and Robert Lurie, New Jersey's director of public finance, both wrote memos to Mr. Crane recommending that the proceeds from this offering be invested through a competitive bidding process, rather than giving Lazard a monopoly. They argued that New Jersey would otherwise have no way of knowing whether it was getting the best possible return. Their argument failed. According to the *Wag Street Journal*, Lazard officials insisted they had to have the monopoly on investment of proceeds because this was exceedingly complex and required their expertise.

That is precisely the argument Lazard made in Kentucky in 1992 when they argued against the state's proposal that the reinvestment of \$250 million in bond sale proceeds be put out for competitive bids. In their long memo critical of Lazard, Kentucky finance-department officials said they discovered that in one instance the prices Lazard charged for the investment were higher "by as much as nineteen thirty-seconds" of a percentage point, or about \$1 million, than a quote received from PaineWebber Group Inc. Indeed, ripoffs in the investment and reinvestment world are common, as investment banks take advantage of unsuspecting local officials. The lack of knowledge among local officials has made them ripe for picking off and many bankers -- including all of Wall Street's most venerable firms -- have been doing so for years.

One example, when Mound, Minnesota was looking for a safe place to invest \$2.5 million until it was needed to pay for new water meters and sanitary sewers, the town fathers of this fast-growing suburb 28 miles west of Minneapolis went for what appeared to be a sure thing: a mutual fund that invests in U.S. government securities. So, when the value of their investment plummeted to \$2 million, less than needed to pay for the new meters and sewers, the officials were astonished. And angry. They accuse Piper Jaffray Cos., sponsor of the fund, of misleading them about the nature of the investment. As reported in the Wall St. Journal, "We never would have invested in this if we thought there was a chance of losing a significant amount of money," said Curtis A. Pearson, an attorney for the city. "This was supposed to be a safe place to park our funds until we needed them. Now we have an immediate problem." Piper Jaffray brokers promoted the fund as a low-risk, plain-vanilla investment in triple-A-rated government securities. The truth is that the fund was over invested in what are known as derivatives -- securities that are created by the bankers,

derived, from other securities. In this case the derivative was a piece of a US government bond -- not a \$5000 piece or a \$10000 piece, but a piece that was designed to generate excess returns when interest rates fell. An okay bet if you know you are taking it. Maybe an okay gamble to the unknowing if you happen to be right and interest rates fall. A bad bet -- maybe even theft -- if interest rates fall and you never told your customers what they were buying.

In 1993, the Minnesota legislature last year banned municipalities from investing in derivatives with one exception-mutual funds like the one Piper runs. That exception was the result of heavy lobbying by Piper. Which itself raises all sorts of questions. Was the exemption to allow Piper room for theft? That was its effect. The argument at the time was that the local firm would never abuse its own "unlike those boys from New York" and needed to be taken care of. It sure was.

Public officials are, of course, not the only ones whose ignorance or inattention is exploited by the bankers. While the sagas in the public world occur all too often (repurchase agreement scandals in the early eighties, tax-exempt bonds to fund McDonalds soon thereafter, phony investments in the latter part of the decade), most do not extend their reach to the private sector. The world of derivatives is an exception. It is all too easy to be beguiled by a smooth talking salesman who insists that what he is about to sell you is tailor made for a problem you didn't know you had but sure want no part of. Gibson Greetings sued Bankers Trust over similar investments. The suit says that in the fall of 1992, "recognizing its opportunity for gain at the expense of an unknowing customer and ignoring its obligations as Gibson's advisor and banker," Bankers Trust began selling increasingly complex derivatives to Gibson over the next 16 months. The company alleges that the bank

and its securities affiliate "knowingly and deliberately did not reveal the material risks and misrepresented the nature of the transactions and thereby deceived and defrauded" the company. "Bankers Trust and BT Securities repeatedly and intentionally falsely advised Gibson that by entering into proposed transactions, its risks and exposure would be substantially reduced," the suit alleges. "In reality, Gibson's aggregate risks stemming from these modifications dramatically increased... Bankers Trust failed to ensure that Gibson understood the nature of and risks inherent in these derivatives transactions."

Derivatives are not new. Yet it is important to remember that in the 1980's and 90's their widespread use was new. As an early 1990's Business Week story pointed out, "The first treatise on futures contracts, options, hedging and so forth-all the paraphernalia of markets in contingent claims (derivatives)-was Joseph de la Vega's Confusion de Confusiones. Published in Amsterdam in 1688, it was intended for the edification of members of Amsterdam's Portuguese Jewish community who were actively trading shares of the Dutch East India Company after 1650. As that book shows, the 'rocket scientists' of today are not quite as original as they have led their employers to believe. Nor are derivatives as dangerous as their detractors would have you believe, but they are complex." And the complexity leads municipalities to forget the rule of caveat emptor. They believe the salesman has a fiduciary responsibility to protect the client. The banker is a salesman, but to the locality he is also a financial advisor.

Bankers and financial advisors. Two conflicting roles or so one would think. Yet, many an investment bank acts as a financial advisory firm. The opportunities for "you scratch my back and I'll scratch yours" are legion. The issues facing participants are similar to the case cited above: political connections and business favoritism involving alleged illegal payoffs,

influence peddling, conflicts of interest, and questionable sales practices. Anyone who suspects that there are plenty of other scandals hidden under state capitol rotundas around the country is probably right. This is a matter of dollars and cents. And not very many taxpayers know what is going on. I don't know of any politicians who have run on the platform, "If elected, I promise to make sure to divide up the patronage the right way! To the victor go the spoils!"

But then again, some local officials have their own set of interesting standards. Louisiana, for instance, seems to encourage the payment of fees for no work, and no value added. You can get paid just for existing. If you are a minority firm, that is.

Senator Mary L. Landrieu, the Louisiana State Treasurer in the early 1990's, had by 1995 spent more than eight years attacking the good-old-boy network that allowed politicians to steer lucrative municipal finance business, often at taxpayer expense, to their families and friends. Her record is impressive. No longer are tax-free bonds issued by cities and towns here for no reason other than to generate fat fees for a coterie of local lawyers and bankers. No longer are small-town banks propped up by cheap deposits courtesy of the state. And no longer does Louisiana borrow money without professional oversight and without competitive bids from dealers selling its bonds. In a state known for its elastic ethics and political chicanery, these actions have brought Ms. Landrieu praise and enmity.

But what is notable for us is her attack on a secret arrangement in which two prominent Wall Street firms, the First Boston Corporation and Lazard Freres & Company, say they had to give about \$240, 000 - half their fees from a bond deal-to a black-owned bond house that did no work but whose owner had the connections to deliver black votes for then Gov. Edwin

W. Edwards. The two Wall Street firms gave First Commonwealth Securities a local black-owned firm about \$240,000 - 50 percent of the fees they earned from selling bonds in a \$600 million bond offering - even though First Commonwealth sold no bonds. To have earned those fees, First Commonwealth would have had to have sold \$57 million in bonds according to the bond fee schedule.

It is unusual for a firm to do no work in return for fees. Indeed the other firms that received fees for this bond offering-including 11 other women- or black-owned firms-all sold bonds. Those 11 minority owned firms sold \$51 million in bonds earning an average of \$19,000 a firm-far less than First Commonwealth was paid. First Boston and Lazard say they made the payment to First Commonwealth in order to get picked by the state to sell bonds-and on that score they get little disagreement even from the man who heads First Commonwealth. "First Boston and Lazard received a preference for having black participation and they got the benefit of a bargain with me," said Norbert A. Simmons, who headed First Commonwealth in an interview, with the New York Times. He readily conceded that his firm has no employees and no capital for bond underwriting. Mr. Simmons said he could help large firms meet their affirmative action goals and get government business especially at a time when governments across the country are trying to give more municipal finance business to minority- and women owned bond houses. "These kinds of arrangements happen all the time," Mr. Simmons said. "They are the rule not the exception. There is no mystery about what I do and how I do it."

Both Lazard and First Boston say they paid Mr. Simmons' firm at the suggestion of some members of the bond commission, many of whom are state legislators allied with Governor Edwards. The firms indicated that they were told they had to pay Mr. Simmons as a way to

do business. But members of other minority-owned firms which are generally small participants in the municipal bond business have been appalled at this controversy fearing it tarnishes their reputation. First Commonwealth is a storefront brokerage operation. It is not a capital intensive. It is not talent intensive. You have to bring something to the table other than blackness and that is all that Simmons brings.

It is a great business. Do no work at all. Just be black. And get paid. At whose expense. Whose do you think? It may be the Wall Street firms that appear to pay, but it is all of us in the long run. For the Wall Street firms can pass these costs on -- in the form of interest rates, fees, or reduced liquidity. And when that happens -- you've got it -- we each pay.

The prominent role of minority businesses has had all sorts of strange effects in the municipal finance world. Take Denver Airport. Part of the initial baggage system mess occurred when Denver's city council refused to award the job of operating the system to BAE the only company that really knows anything about it. Leaders were worried that the Dallas outfit wouldn't hire enough minorities and women though the firm insisted it would. In the wake of political infighting over who should get the lucrative contract it went to an outsider Aircraft Service International of Miami which has had to race to fathom the system in a few months. Then too the eagerness of Denver's leaders to retain control and ensure minority participation in all phases of construction led them to put city officials in command overseeing hundreds of contracts rather than hand off the duties to a general contractor who might have provided tighter management. Notes an insider: It was raw greed. Everyone wanted a piece of the contract monies. The city lost control at the outset and the project was destined to run amuck.



"The architects of power in the United States must create a force that can be felt but not seen. Power remains strong when it remains in the dark; exposed to the sunlight it begins to evaporate."

-- Samuel P. Huntington

The tax-exempt thefts also exist in places we never would suspect -- our charities. America's nonprofit economy today has become a huge, virtually unregulated industry. Within it, almost anything and anybody qualifies for tax-exempt status: Auto racing promoters. Collection agencies. Country clubs. Criminals. A half-billion-dollar defense research corporation. Investment houses. Mail-order colleges. A polo museum. Retail stores. Professional surfers. An association of Druids. Foreign real estate investors. Space explorers. Even a chili appreciation society.

The National Football League, that bastion of free enterprise and million-dollar quarterbacks, doesn't look like a nonprofit organization. Then again, it doesn't act like one, either. The NFL spends less than 1 percent of its \$35 million budget on charitable activities, pays its commissioner \$1.5 million a year, and spends another \$1.5 million to lease seven floors of a Park Avenue office tower. Or take the Motion Picture Academy of Arts and Sciences, which spent \$6 million to put on the dazzling Oscars show.

Many nonprofits operate just like for-profit businesses. They make huge profits, pay handsome salaries, build office towers, invest billions of dollars in stocks and bonds, employ lobbyists, and use political action committees to influence legislation. And increasingly they

compete with taxpaying businesses. Executives at some large nonprofit businesses make more than \$1 million a year. Of twenty-five thousand salaries of executives of big nonprofit organizations examined in a study by the Philadelphia Inquirer, nearly half were at least \$100,000 a year. Many also received such perks as free housing, maid service, luxury cars and chauffeurs, and no-interest loans.

Nonprofit hospitals, which originally were exempted from taxes because of their charity care, now devote an average of 6 percent of expenditures to caring for the poor. Meanwhile, more than \$1 billion in hospital profits have been shifted to commercial spinoffs-hotels, restaurants, health spas, laundries, marinas, parking garages. Private, nonprofit colleges and universities have more than doubled their tuition in the last decade, even though their income from investments was doubling and tripling in the 1980s. Some schools-including MIT, Cal Tech, and Penn State's main campus-now spend more on research than on teaching; these schools collect millions of dollars for work done under contract to commercial companies. This income is shielded from taxes, and the companies get a tax write-off.

Don't be misled by the word nonprofit. It does not mean these groups cannot earn a profit on their services. They make plenty of profit-although they don't call it that. Under the federal tax code, nonprofit businesses may accumulate net income, so long as they don't distribute it as dividends or stock. Where does the money go then? In many cases, to expand their empires. That means to build new buildings, expand services, acquire competitors, increase executive salaries, and hire high-priced consultants, among other things. As they've expanded, many large nonprofit organizations have moved beyond their core mission into commercial businesses that have little, if anything, to do with their exempt purpose. Under the tax code,

nonprofits are allowed to operate commercial subsidiaries-so long as they pay taxes on that income, and so long as those activities don't overshadow their exempt mission.

One commercial nonprofit is the Hazelden Foundation in Center City, Minnesota. Hazelden, best known as a drug and alcohol rehabilitation center, gets 95 percent of its funds from patient fees, publishing, and investments. Forty percent of Hazelden's \$42 million in operating revenue in 1990 came from providing treatment. The other 60 percent came from its booming publishing business.

As large nonprofit organizations have matured, many have shed their traditional reliance on public contributions in favor of charging for their services. In 1991, about three-quarters of the revenues reported to the IRS by large nonprofits came from selling services-such things as books and educational and health services. Public contributions, dues, and government grants accounted for the remaining one-quarter of their income.

A prominent retailer brings in \$17 million a year selling expensive strings of pearls, faux tortoise rattan tables, and other unusual gifts through twelve million catalogs mailed each year. The profit margin on goods sold is huge-sixty-five cents on every \$1 taken in. If shoppers pay with credit cards, they can call a toll-free number seven days a week from 8 A.M. to mid night. Or they can visit one of the retailer's outlets. What makes this retailer different from other trendy merchandisers? It is a nonprofit, tax-exempt museum. And it gets a break of up to \$1 million a year on postage for its catalogs-subsidized by the United States government and, ultimately, the taxpayers.

Museums and other cultural institutions increasingly have gone commercial over the last decade as they try to raise money for their programs. The giant Metropolitan Museum of Art in New York now has a chain of thirteen retail outlets from California to Connecticut, many in malls. The museum also mails out millions of catalogs each year. In 1991, the Metropolitan Museum reported \$45.5 million in gross profits on \$87 million in merchandise and food sales. Those sales were nearly ten times what it collected in admissions. Out of all its revenues-\$183 million-the museum declared \$296,191 as "unrelated business income" and subject to federal income tax and paid \$61,810 in tax. When a museum opens a store outside the museum, for-profit competitors cry foul. When the museum opens a store in a mall, why shouldn't they should be treated by the law like any private retailers that choose to open a store 1,000 miles from home? Museum or merchandiser? At times, it's tough to tell.

When it comes to special-interest politics, nonprofit groups play the game as well as anyone. And they do it the old-fashioned way: with money, especially PAC money. Take the National Cattlemen's Association, a tax-exempt trade group for ranchers, based in Englewood, Colorado. It is one of hundreds of nonprofit groups that lobby Congress every year. You thought nonprofit organizations weren't allowed to politick? Wrong. Under the tax code and election laws, only charities-not other nonprofits-are prohibited from participating in political activities. But even charities can set up separate nonprofit organizations under a different section of the tax code to lobby Congress and form political action committees.

The cattlemen figured out years ago how to play the game. Their nonprofit association divides its efforts among lobbying, promotion, and professional activities. Like other trade groups, it spends heavily to gain access to lawmakers, particularly those who regulate the cattlemen's business. Between May 1987 and February 1990, the Cattlemen's Association

distributed honoraria and speaking fees totaling \$16,000 to sixteen members of Congress, thirteen of whom sat on key agriculture and interior committees, campaign finance records show.

Between January 1989 and June 1992, the cattlemen's PAC contributed \$564,104 to Washington legislators. Contributions were tilted toward members of agriculture committees. What do ranchers want from Congress? For starters, there's the federal lands grazing program, a taxpayer-subsidized arrangement in which livestock owners get to graze their cattle on government lands at very cheap rates. In 1991, the Bureau of Land Management awarded more than thirty thousand grazing permits. Ranchers paid \$1.97 a month for each head of cattle-about one-fourth the grazing charge for private land.

According to the General Accounting Office, a relatively small group of wealthy investors and big corporations controls nearly half of the public lands under permit. A June 1992 report by the congressional agency said that five hundred individuals and corporations-or about 2 percent of all permit-holders-controlled seventy-six million acres of public rangelands. Among the select five hundred: Metropolitan Life Insurance Company, Pacific Resources, Pacific Power & Light, Texaco, and a number of millionaire rancher - investors. estimates that the government could be getting an additional \$75 million to \$100 million annually. But attempts to raise grazing fees to market levels to give federal welfare cowboys a good dose of free enterprise have not been supported.

Sound too good to be true? It gets even better.

Tax-exempt hospitals no longer have to provide charity care. If an uninsured worker or homeless person needs elective surgery, yet has no money, the hospital may turn away the patient without fear of losing its tax-exempt status. That has been the government's official policy since 1969, when the IRS changed its definition of charity, in part as a result of extensive hospital lobbying. Today, many nonprofit hospitals have accumulated huge surpluses. Most of this money has gone to grow the business. Consider some findings from the Philadelphia Inquirer examination of nonprofits I mentioned earlier:

Hospitals have moved more than \$3 billion into tax-exempt foundations and holding companies, where they have financed acquisitions, paid big salaries, and underwritten investments in for-profit businesses. One effect of these transfers is to make the hospitals appear less wealthy than they really are. Officials say the funds are used to buy equipment and replace old buildings. But little seems to flow back to the hospitals. In 1990, hospital foundations in Pennsylvania plowed back just 5 percent of their money, an analysis of tax returns of fifty-two hospital foundations shows. Thirty-nine percent of the money went for foundations' administrative overhead and salaries; 56 percent went into stocks, bonds, and certificates of deposit.

More than \$40 billion was used to build hospital towers, offices, and parking garages. At the time of this expansion, the 1980s, hospital use was declining by 13 percent. Patients are paying for this overbuilding: Between 1984 and 1988, the portion of patient bills that covers hospital capital costs increased on average from \$313 to \$523.

Billions of dollars were used to expand hospitals' corporate networks. Lutheran General Health Care System, a \$600 million conglomerate near Chicago, diversified widely in the 1980s, operating sixty-five subsidiaries, including a nation wide chain of drug and alcohol rehabilitation centers. This aggressive strategy later backfired, forcing officials to reduce the value of their holdings by \$103 million.

At least \$1 billion has been invested in commercial spinoffs. Examples from the 250 hospital IRS forms that The Inquirer examined include auto-leasing companies, book publishers, hotels, laundries, pharmacies, restaurants, parking lots, travel agencies, a duck hunting lodge, and, in the case of the Mayo Clinic, an airport management company.

The University of Notre Dame collects more than \$1 million a game from NBC to broadcast its home football games. The National Collegiate Athletic Association hauls in more than \$70 million for its member colleges from CBS Sports for televising the men's basketball championship for three weeks. The College Football Association negotiated a \$300 million package for its members with ABC in 1990. All this commercial revenue is off the tax rolls. The colleges don't pay a penny in taxes on it. To most Americans, it's no secret that big-time college sports are big business. But the IRS doesn't see it that way. As a result, you help subsidize these lucrative games in several ways.

College sports programs are conducted under a broad grant of tax-exemption. In essence, Congress and IRS ruled that college sports are not businesses or entertainment, but educational activities. As a result, hundreds of millions of dollars of income from television

broadcasts, advertising, royalties, licensing fees, and ticket sales are swept off the tax books each year. And into the universities' till.

Take Notre Dame. In 1990, university officials signed an unprecedented agreement with NBC to broadcast its six home football games. The five-year deal was reported to be worth \$35 million, or about \$1.2 million a game. Perennial football powers such as Penn State, Michigan, Miami, and Florida State routinely pick up millions of dollars from football broadcasts. Income from year-end bowl games, also tax-exempt, adds \$50 million more to these schools. Critics say it would be one thing if the profits from these events were used to lower tuition or pay teachers' salaries or were used for some other truly educational activity. But by and large, they are not. Usually, the money helps to underwrite other sports programs or to pay big salaries and bonuses for coaches.

It hasn't always been this way. Once, for-profit and nonprofit groups had very different missions and operated in very different ways. For-profit companies built markets and made money. Their managers took risks and were well paid-or fired-for their performance. The purpose of not-for-profit groups was to provide important community services that would otherwise fall to government. Charities and nonprofits relied on contributions from the public and used the money to provide free services-what most Americans think of as charity. The tax exemption was granted in recognition of these services.

Today, many large nonprofits are indistinguishable from for profit companies. They make millions of dollars in profits. They have millions of dollars in stocks, bonds, and other investments. And instead of relying on donations, they charge for their services, just like any other business, or are reimbursed by the government. Often they provide little or no charity.



The non -- profits get their way. The politicians get their way. But what about the people the non -- profits were supposed to take care of? Are they seeing the benefits of the tax give -- away? Private foundations have become great warehouses of untaxed wealth. Most foundations give away only the minimum required by law, 5 percent of their assets each year, while earning much more on investments. With \$163 billion in assets, they are operated like private banks, with elite, self-perpetuating boards of directors. Where they invest their money and how they vote their stock give these boards great economic power. Power to serve themselves and their political allies. Power that is rarely used to benefit the citizenry.

As taxpayers we pay for the localities' largess and the non-profits' non-charity. Yet we have forgotten that each give-away is supposed to be in return for social benefits. This is an outgrowth of our loss of a sense of consequence to our public lives. Living in places where nothing is connected properly, we have forgotten that connections are important.

There is a solution to the municipal bond mess -- return to its original purpose. Forget about tax-exemption. This form of subsidy is inefficient, costly to the Federal government, and too easily corrupted. Instead the governors of each state should be authorized to endorse local borrowings with the endorsement bringing a 2% direct subsidy in interest cost from the Federal government. Because the governors will have to sign off, there will be some high level, but local, check on the ability of localities to abuse the system and on the ability of bankers to talk localities into doing so. If the subsidy amounts were pledged collectively to bondholders (that is if one entity has a payment shortfall all the entities in the state will contribute from their federal subsidies), the credit quality of these endorsed local borrowings

would be raised to nearly the highest grade and borrowing costs would be lower. Of course such a system would eliminate the opportunities for hanky-panky that I and so many others on Wall Street presently profit from... oh well, it was a nice life, if unfair.

The solution to non-profits and charities is similar -- make them give back the money we give them in the form of services. Establish time limits for the dissolution of all of their funds. Do not allow them to develop large and growing endowments free from taxation. If they want to turn themselves into an investment company -- fine, but you and I don't need to pay for the concept or its associated perks.

To a certain degree, we have forgotten how to think. Doesn't this show in our failure to bring these issues into the political arena? There is a direct connection between suburban sprawl and the spiraling cost of government, and most Americans don't see it yet, including many in government. Likewise, there is a connection between disregard for the public realm, for public life in general, and the breakdown of public safety. These issues will not enter the public discourse until something of a paradigm shift occurs in American society. Enough people move to one side of a raft and suddenly the whole thing flips over.

# Part Four

## What Is Going On Here?

"I don't think they play at all fairly," Alice began , in rather a complaining tone, "and they all quarrel so dreadfully one can't hear oneself speak -- and they don't seem to have any rules in particular; at least, if there are, nobody attends to them."

Lewis Carroll , Alice's Adventures in Wonderland

Interviewer: "Mr. Sutton, tell me, why did you rob banks?"

Willie Sutton: "Because that's where the money is."

'The public demands certainties, but there are no certainties.' - H. L. Mencken

"The truth must not only be the truth; it must also be told." Malcolm X

As the past few chapters have amply illustrated, the mechanisms by which we have been governed and govern ourselves are losing their responsiveness to the problems of our time. In the simplest sense our manner of thinking has failed us. Our new world is complex and overloaded with information. The world in which we live today changes faster than many of us can cope with in our daily lives and certainly faster than our institutions are prepared to cope. As complexity and the quantity of information expands, our ability to deal with the complexity and information gets called into question. Who reading this has not at one time or another felt overwhelmed by some set of new ideas or by the sheer quantity of information available in choosing a stereo, a car, or a computer -- choosing medical insurance and a pension plan?

The information explosion has outrun the nation's competence to make sense of the deluge of data in forms ranging from the offerings of the mass media to the esoteric products of universities and think tanks. On one hand, problems, opportunities, and the environments in which they appear are becoming more complex. On the other hand, to survive this explosion of complexity, people cultivate specialties. They want to be experts at something. Yet the sheer volume of the data amassed makes almost inevitable the reduction of our focus to what is in the end a very narrow endeavor. If we are to retain any kind of perspective on the role of humankind in the future, we must sometimes stand back and view the landscape, not merely a tree. In our focus on individual trees we allow others to steal what is rightfully ours and our children's. All for want of a better way of thought -- a new mechanic of thinking.

How did conditions get to be like this?

- ? The world has become far more complex than it was when our governmental institutions were first developed.
- ? There is a distinct limit to the quantity of discrete pieces of information each of us is equipped to deal with at any one time.
- ? If we are capable of dealing with complexity through an abbreviated simplification we will choose to do so.
- ? We opt to simplify by labeling, accepting symbols instead of seeking greater understanding through synthesis.
- ? We find it hard to deal with second order effects and impossible to deal with multiple order effects.

Information is power, a world currency upon which fortunes are made and lost. And we are in a frenzy to acquire it, firm in the belief that more information means more power.

But just the opposite is proving to be the case. The glut has begun to obscure the radical distinctions between data and information, between facts and knowledge. Our perception channels are short-circuiting. We have a limited capacity to transmit and process images, which means that our perception of the world is inevitably distorted in that it is selective; we cannot notice everything. And the more images with which we are confronted, the more distorted is our view of the world.

"All the notions we thought solid, all the values of civilized life, all that made for stability in international relations, and that made for regularity in the economy... in a word, all that tended happily to limit the uncertainty of the morrow, all that gave nations and individuals some confidence in the morrow... all this seems badly compromised. I have consulted all the

augurs I could find, of every species, and I have heard only vague words, contradictory prophecies, curiously feeble assurances. Never has humanity combined so much power with so much disorder, so much anxiety with so many playthings, so much knowledge with so much uncertainty." Paul Valery

"It's disquieting to hear that computers will provide us with more information. Perhaps you feel you're already bombarded with too much information. But what people really intend when they speak of information is meaning, not facts. Undoubtedly we're bombarded with too many facts-isolated bits of data without a context... To assign meaning always requires more information to organize what we already have, and computers have a talent for this organization. Computers can take large numbers of facts and convert them into comparisons, spreadsheets, graphs. In short, they can help us to assign meanings. More meaning, and fewer facts. That's the idea, anyway. " Michael Crichton

While storage, and retrieval capacities of electronic hardware are rapidly growing, there hasn't been a corresponding gain in human capacity. Better information processing can speed the flow of data, but is of little help in reading the printout, deciding what to do about it, or finding a higher meaning. Meaning requires time-consuming thought, and the pace of modern life works against affording us the time to think. Too much attention has been focused on computers and hardware and too little on the people who actually use information in order to make sense of the world and do useful things for each other. In our television commercials, information leaps around offices on laser beams of colored light. This is the kind of information that engineers are rightly proud of: pulses and signals zipping along through optical fibers, rather indifferent to the meaning of it all. What constitutes information to one person may be data to another. If it doesn't make sense to you, it doesn't

qualify for the appellation. In their landmark treatise in 1949, *The Mathematical Theory of Communication*, authors Claude Shannon and Warren Weaver define information as "that which reduces uncertainty."

The differences between data and information become more critical as the world economy moves toward information-dependent economies. Information drives the education field, the media, consulting and service companies, postal services, lawyers, accountants, writers, certain government employees, as well as those in data communications and storage. Many countries already have a majority of their work forces engaged in occupations that are primarily information-processing. The move to an information-based society has been so swift that we have yet to come to terms with the implications. Understanding lags behind production. However, to use information productively, i.e., toward some valued end or purpose, people must know what they are doing and why.

A brief story borrowed from Richard Saul Worman makes the point:

"I remember watching Larry Bird steal a pass in a Boston Celtics Houston Rockets game. He dribbles down the court, he slides around one defender, he fakes-out another, and he flips the ball behind his back to Kevin McHale, who dives towards the basket and scores. There is pandemonium in the Boston Garden. . . The coach and former player Tommy Heinsohn is at the mike . . . He shouts: 'The computer mind of Larry Bird! He's three steps ahead . . . He out-thinks you!' The computer mind of Larry Bird? The computer is hailed as the paragon of intelligence. Bird's extraordinary feat of



human information processing is so good, ergo: he must have a mind like a computer. "

"The problem is not that we think so highly of computers but that we've come to think rather less of humans. We simply don't recognize what Bird is doing from an information-processing point of view. The beauty of Bird's performance on the court derives from his seamless integration of: new data (where he is, where other players are and might be going), old knowledge (what he knows from playing basketball all those years) and clear goals (scoring).

Note the critical role played by goals in sorting the information.

The surfeit of information, the cries for "more," the demands of our complex society, leave each of us and our experts at a loss. We are adrift without the goals necessary to sort the information deluge. Henry Aaron once asked: "What is an ordinary member of the tribe to do when the witch doctors disagree?" In my view what to do is to assert that there is a primary goal -- to increase the quality of life. Using this value as a filter, each of us -- and the decision makers who claim to act for us has a base from which to view the world.

The setting of priorities is critical. The word "triage" comes to mind a word referring originally to life and death choices and meaning selection or choice according to quality. Yet, if that quality cannot be perceived, how, in a world of limited resources, how is the triage supposed to occur? To perceive quality is to see patterns that underlay manifest events and

happenings. It means perceiving the forest through the trees. Well-developed individuals have a penchant for seeing connections between things, for relating things and events one to another. Humanistic psychologist Abraham Maslow said that the healthy mind sees things whole; overspecialization and fragmentation are signs of psychic malfunction. The ability to see unifying patterns is the sign of a healthy well-developed personality. Quality of life and its improvement must be the unifying pattern connecting the actions of those to whom we have entrusted the decisions of governing.

People often do not realize that their decision agendas are usually unconscious. Thus, the first step of the process is making it conscious. Each of us responds, not to the world, but to our image of the world. This mind-set includes attitudes about every situation in our lives and every person we come across. In many cases, these mind-sets have been built up, slowly, from childhood and may not have much to do with actual reality. A bigot, for instance, has a derogatory mind-set about a certain ethnic group of people. The mind-set is so powerful that it can actually influence people to ignore reality. Bigots have been known to "forget," for example, that someone they knew was of the offending race or culture, and let a slur slip out. "Sorry; I didn't mean YOU."

Flexibility of perspective is critical. You simultaneously focus on questions that matter to you, and keep your awareness open for the unexpected. Like a hunter, alerted to the presence of prey by the snap of a broken twig, you learn to pick out a key piece of vital information in the dizzying flood of words, images, sounds, and numbers that most of us swim in. Most of us have built up a set of strict filters to keep from drowning. We pay attention only to what we think we need to know. Being a planner, therefore, means becoming aware of one's filter and continually readjusting it to let in more data about the world, but without becoming

overwhelmed. It's all part of a process of self-reflection: understanding yourself and your biases, identifying what matters to you, and perceiving where to put your attention. It takes persistent work and honesty to penetrate our internal mental defenses. To ensure the success of our efforts, we need a clear understanding of the relationship between our own concerns and the wider world around us.

When people play with mental models of the world, they are actually creating a new language among themselves that expresses the knowledge they have acquired. And here we come to the most important aspect of institutional learning, whether it be achieved through teaching or through play as we have defined it: the institutional learning process is a process of language development. As the implicit knowledge of each learner becomes explicit, his or her mental model becomes a building block of the institutional model. How much and how fast this model changes will depend on the culture and structure of the organization. Teams that have to cope with rigid procedures and information systems will learn more slowly than those with flexible, open communication channels. Autocratic institutions will learn faster or not at all the ability of one or a few leaders being a risky institutional bet.

We've used new media technology to engage and capture attention while we've worried less about engaging and capturing the mind. Media have become tools for individual transmission rather than tools for collaborative action. We use media technology to share an experience rather than create a shared experience. The difference is not subtle. It's the difference between passivity and participation, talking and conversation. It's also the reason so many people feel so lonely despite their technical links to so many media networks. The ability to express oneself is not enough.

The problem is that the idea of actually understanding a message has no place in the "more data, means more information, means better choices" model of the world.. That symbols can be spread by media from one mind to another is undeniable. Whether these symbols are actually understood by the receiver is less certain. No~ matter how gross the perceptual bias, no matter how skewed the personal senses, understanding the message, sharing the thought, remains at the heart of communication.

David Gerlenter in his *Muse in the Machine* argues that understanding and effective communication are based on our concluding that the target of our intended communication has enough of a similar emotional reaction to the communication as we-do. He calls this the "induced emotion" definition of understanding. In this context, symbols are dangerous, for indeed we may succeed through symbols in communicating emotional content but fail miserably in communicating the essence of substance upon which a decision might depend. Gerlenter explains that we have a "degree of mental focus" from low to high, from sharp to not, that affects our cognition of the whole, or our Gestalt of a situation. When focused, we use logic and see patterns based on abstractions. When less focused , concrete items may stand out, abstract patterns dissipate, and we function at a less goal directed level. If our mental maps and memory are always present, then in his view "playing with mental models [abstractions] is the interruption, and traffic with memory is continuous.... Thinking is remembering... Emotion is content transcending abstraction."

One way to illustrate this is to think of our information overload as a vast smorgasbord of different cuisines. The analogy is startlingly apt. Some foods are hot, spicy, and exciting; others are cool and bland. There are all kinds of flavors and textures-crunchy, prickly, moist,

juicy, dry, crumbly, flaky, sharp, tangy. There are natural foods and synthetic concoctions that require you to add water, stir, and pop into the microwave. Some cuisines are stick-to-your-ribs heavy; others will leave you hungry in an hour. These options all shape the way we perceive the experience of eating. People who grow up in Paris have a different concept of snacking than suburban mall hoppers who love McDonald's French fries. People who like microwave cooking see food differently from gourmet chefs who insist on fresh ingredients. People who constantly eat out view dining differently from people who cook their own meals. Of course, some people can't abide certain cuisines. Some people eat the same things over and over again. It's a matter of different tastes. Despite this incredibly rich array of offerings and an equally rich vocabulary to describe them, many people are dissatisfied. The food doesn't always taste quite right; they get indigestion. An hour after eating, they're hungry again. They eat food with little nutritional value. Yes, food technology does shape perceptual biases: different foods appeal to different senses.

Historically, the driving ethic of a new medium in the marketplace is the opportunity to express yourself -- but technology that enables you to express yourself doesn't mean that other people understand you any better. Media technologies work to reinforce the bias of media as the transmission of individual expression rather than a mechanism to create understanding between sender and receiver. When Henry David Thoreau was told that the invention of the telephone would enable a gentleman in Maine to talk to a gentleman in Texas, he replied, "That's nice-but what will they have to talk about?" Thoreau's query was relevant for that moment, but it has been more than adequately answered in the fullness of time.

To say something new, important, or not obvious is to risk being misunderstood. In conversation, we depend on feedback to signal understanding or misunderstanding, and we use that feedback to establish mutual intelligibility. If the bandwidth of the conversation is too low, correcting the misunderstandings is too difficult. If the organizational setup precludes discussion, or if the mean time between encounters is too low (i.e., there's little chance of bumping into people in the hallways or the cafeteria), then participants will have few opportunities to fix the misunderstandings that occur during more formal meetings. One has to design environments that can quickly heal misunderstandings even as they help spawn new ideas.

When the country was in its infancy, those in charge of governing tended to either know one another or to be drawn from the same background and cultural milieu. The result was that implicit understandings were common to the entire group doing the governing. Their initial domain was small. The New England town meeting perhaps best epitomizes the close working knowledge the governing had of the governed. Change as the fabric of an American life was well off into a distant future.

The institutions that the Founders gave us were if anything biased against change. It was made far more easy to kill a proposal than to pass it. Each level of change if more all encompassing in scope had its own set of barriers. Our institutions thus had a conservative nature that was only upset in times of war or distinct national emergency. Abraham Lincoln made the first set of sweeping changes to this institutional bias, but his changes did not survive reconstruction. It took the Depression to allow a mandate for change to be implemented. Government since then has been more active, but active in a pattern established at this time of structural change.

Daniel Boorstin suggests that "consumption communities!" developed in the late nineteenth century as a creation of advertising. They consisted of people with a feeling of shared well-being, shared risks, common interests, and common concerns, which came from consuming the same kinds of goods. National advertising of name brands promised the consumer a community seal of approval, the security of buying or doing what other respectable people across the country were doing. Advertisements promised that in the judgment of experts the product was the best to be had and invited the consumer to join others in enjoying the benefits. According to Boorstin, "The peculiar importance of American consumption communities made it easier to assimilate, to 'Americanize,' the many millions who arrived here in the century after the Civil War. Joining consumption communities became a characteristic American mode of acculturation." Just as new immigrants were assimilated into American culture, so too were millions of American farmers, factory workers, and others as advertising exposed a wide variety of people to the same ideas, images, and products. As Americans became ever more mobile, they moved within the new national markets and expected to find familiar products wherever they went.

The industrial revolution transformed the country from a land of excess demand to one of oversupply. No longer did consumers have one choice of bread, sold by the local baker; now they could buy any of a half -- dozen kinds sold by large corporations. In the increasingly crowded marketplace, innuendo began to squeeze out the very product information with which consumers might shop smarter. Until the beginning of the twentieth century people typically had a craft knowledge of most things they bought -- they understood how the product was made and how to judge its quality -- and advertising rarely outweighed it. But as the number of products and their technical sophistication grew, people could not maintain a

craft knowledge of most items. Most have neither the opportunity nor the expertise to inspect technically sophisticated goods coming from around the globe.

History moved us along from an age of individualized craft markets to the mass consumption communities described by Boorstin. The industrial revolution transformed the country from a land of excess demand to one of oversupply. No longer did consumers have one choice of bread, sold by the local baker; now they could buy any of a half -- dozen kinds sold by large corporations. In the increasingly crowded marketplace, innuendo began to squeeze out the very product information with which consumers might shop smarter. Until the beginning of the twentieth century people typically had a craft knowledge of most things they bought -- they understood how the product was made and how to judge its quality -- and advertising rarely outweighed it. But as the number of products and their technical sophistication grew, people could not maintain a craft knowledge of most items. Most have neither the opportunity nor the expertise to inspect technically sophisticated goods coming from around the globe.

As our consumption patterns changed, our demands on government changed as well. Mass production, where the consumer picks from what the producer supplies and distributes, became the pattern in our governing procedures. Rules, laws, regulations, bureaucracies all became ossified in the specification of particular procedures, specific policies, detailed analysis. You can have any color you want as long as it is black applies to the way our government functions today as much as it did to the buyer of a Model T. But, the information age has changed all that. In our consumption communities the new byword is individual demand. The customer and the producer can collaborate together. Individual needs are recognized. It is this standard that our government needs to adapt to.



In the information age, the ability to custom tailor a response completely transform the sales pitch. Instead of slapping a brochure on the client's desk, the widget salesperson slaps down a computer. A questionnaire flashes on the screen. The salesman skillfully asks questions and weaves the information into the questionnaire as the client responds. A profile of the client's needs is being built before his eyes. If the client wants to add a few comments or explain a few things in a bit more detail, the documedia questionnaire can expand accordingly. Instead of getting a pitch, the client has worked with the salesman to paint a portrait of his needs. At this point, the salesman taps a few keys and there, on the screen, appears a beautifully crafted sketch of a custom widget designed exactly according to the specifications embodied in the completed questionnaire. The customer can now see the desired widget. It looks almost exactly like what he needs, except for one or two details. Part of it needs to be made a little larger. How much? This much... no, that's too much... that's it exactly.

Many of the best industrial designers increasingly rely on customer input to help fashion the prototypes of their new products. Instead of designing for their clients, designers are now designing with their clients. Furniture companies, for instance, bring in their largest customers to work with their ergonomist's, chair designers, and interior-design people. Telecommunications companies work with their corporate clients to design office phone systems that make voice mail, call forwarding, and other local area network options easy to use. Investment bankers do the same with financial instruments. Our government needs to learn how to do this with policy making. When a goal governs, individual needs can be met within the confines of the goal. When a bureaucratic process governs, individuals are sacrificed for the sake of some meaningless expediency and a policy of no exceptions.

Change is not what it used to be. The status quo will no longer be the best way forward. The best way will be less comfortable and less easy but, no doubt, more interesting—a word we often use to signal an uncertain mix of danger and opportunity. If we wish to enjoy more of the opportunity and less of the risk, we need to understand the changes better. Those who know why changes come waste less effort in protecting themselves or in fighting the inevitable. Those who realize where changes are heading are better able to use those changes to their own advantage. The society which welcomes change can use that change instead of just reacting to it.

Some people, however, do not want to keep moving. Change for them means sacrificing the familiar, even if it is unpleasant, for the unknown, even when it might be better. Better the hole they know rather than the one not yet dug. Sadly for them a time of discontinuous change means that standing still is not an option, for the ground is shifting underneath them. For them, more than for the movers and the shakers, it is essential that they understand what is happening, that they begin to appreciate that to move and to change is essential, and that through change we learn and grow, although not always without pain.

Our public officials are no different from you or I in that they too have trouble in dealing with this mass explosion of information. To have to determine whether a community would be best served by competing cable television systems and among various water filtration methods while awarding teachers contracts and choosing a guardian for public pensions is a formidable task. Given that it is impossible for any one official to be expert on each and every issue which may come before him or her, it is not unreasonable to see such officials

turning to outside experts for help? But, what goes unspoken is that even turning to outside experts is not enough.

Given the multitude of decisions which need to be made, it is more difficult to revisit an old and made decision when there are so many pending new ones. Some problems are easy to ignore. If no harm appears to come from ignoring a problem, we tend to continue as before. This can be done unknowingly, as in the case of a disease whose symptoms are not recognized; or willingly, as we do so often with conditions such as obesity, smoking, or problems of business. Why would anyone ignore a recognized problem? You think the problem is smaller than it is, and therefore that it requires no attention.

The concept of "sunk costs are truly sunk" may be a correct rule for the maximization of monetary profits, but it is thus not an appropriate general principle of decision making. We do not treat our past commitments to others as of no account except insofar as they affect our future returns, as when breaking a commitment may affect others' trust in us and hence our ability to achieve other future benefits; and we do not treat the past efforts we have devoted to ongoing projects of work or of life as of no account (except insofar as this makes their continuance more likely to bring benefits than other freshly started projects would). Such projects help to define our sense of ourselves and of our lives

The standard conclusion in the economic literature that rational decision makers should ignore sunk costs because by-gones are by-gones and are not subject to retrospective modification by current acts is quite right if interpreted with care. But sunk costs do matter before they are incurred; in fact, they can make an enormous difference. They can even restore a role to costs sunk in the past if the decision maker can learn something about the

future from the history of costs sunk earlier. For example, a country that expropriates foreign investments, believing that foreigners can no longer do anything about them, is very likely to find those foreigners much more reluctant to sink capital in that country thereafter. The dependence of current and future cost-sinking decisions on the experience of the past is particularly important in a continuing process in which such outlays are required at regular intervals. There, sunk costs and the returns to them clearly do matter for current and future decisions, and cannot be left out of account in a rational decision process.

The ability to model reality in multiple modes-with text, image, conversation, sculpture, and so on-is an indispensable part of creativity and collaboration. Architects, graphic designers, industrial designers, and scientists can't trust alphanumeric arrays to capture the ideas and images crystallizing in their minds. The popular influence of architects like Frank Lloyd Wright and Michael Graves can be as much attributed to their facility as visual artists as the buildings they've made. While Mao said that "Power grows from the barrel of a gun," in architecture and design, influence grows from the point of a #2 pencil. "Every time there is a dispute," observes French sociologist Bruno Latour, "great pains are taken to find or sometimes to invent a new instrument of visualization, which will enhance the image, accelerate the readings. . . and conspire with the visual characteristics of things that lend themselves to diagrams on paper-coast lines, well-aligned cells, etc." When words and numbers fail us, we feel we have no choice but to turn to representations that give us another way of grasping reality. Maps and three-dimensional models are frequently the tools of choice.

In his intriguing book *The Image of the City*, urban designer Kevin Lynch asked dozens of Boston residents to draw maps of their city. The landmarks they included or ignored

revealed a great deal about where they lived and how they felt about the city. Lynch discovered that people carried a mental map of the city inside their heads that they used to orient themselves and give directions to others. Research with Parisians by cognitive psychologists revealed that different age groups have different mental maps of -their cities and their neighborhoods. These maps are the metaphor for the way the residents view where they live. Mere words, mere addresses don't adequately capture the way they see their city. One of the great challenges of communication (and collaboration) is to convey these mental maps. How do you get others to see the world as you do?

For our officials the task is even more complex. The mental map of decision making, of problems, of resources, contains information of which the average citizen is unaware. Yet, if policy is to succeed, if it is to be embraced by the governed as well as the governors it must be understood. The surfeit of information drowns out the map. It is as if we each walked around with the phone book in our head instead of a mental map of the streets. Knowing the phone numbers of each of the residents and stores won't tell us where to go for a great cup of coffee. Our mental maps are not just the key to the physical world, but also the key to the world of decision making.

In the decision making world, we are poor map-makers. Again the problem is too much information. We all possess disturbing habits that block us from clearly seeing what occurs or from conveying our thoughts to others. As Richard Saul Worman phrased it in his book *Information Anxiety* "unless you are aware of them [these disturbing habits], they will sabotage understanding. They afflict our ability to see the things we have always seen but have never really seen. They obscure our path to learning, and by just recognizing them, we can disarm

their potential to mislead us." Remember our government officials are human. This list affects each of them perhaps even more than it affects each of us.

"The disease of familiarity. Familiarity breeds confusion. Those addicted are the experts in the world who, so bogged down by their own knowledge, regularly miss the key points as they try to explain what they know. You ask them the time, and they will tell you how to build a clock. We have all had teachers who we have said are extraordinarily bright, yet we cannot understand what they are saying. They fail to provide the doorknob or the threshold into each thought so you can grapple with the learning connections along the journey."

"Looking good is being good. The disease of looking good is confusing anesthetics with performance. A piece of information performs when it successfully communicates an idea, not when it is delivered in a pleasing manner. Information without communication is no information at all. It is an extremely common, insidious malady among graphic designers and architects to confuse looking good with being good. The cure obviously is to ask how something performs."

"The uh-huh syndrome. This occurs when our fear of looking stupid outweighs our desire to understand. The manifestations are involuntary head nodding and repeating uh-huh, uh-huh, pretending to a knowledge that we do not have. Rather than admit we don't understand the principle of quantum mechanics, we nod our heads as if we were intimately familiar with the

subject, desperately trying to give the impression that we understand terms or allusions that are in reality incomprehensible to us. This only prevents us from learning and exacerbates our suspicion that everyone else knows more than we do."

"Chinese-dinner memory dysfunction. This is characterized by total memory loss one hour after learning something. This has been caused by the educational system's emphasis on short-term memory. The cramming of unnecessary information about unnecessary subjects for unnecessary examinations to get unnecessary grades. The cure is very simple; the key to learning is remembering what you are interested in and that through interest comes understanding."

"Overload amnesia. This is a permutation of the Chinese-dinner memory dysfunction that occurs more specifically as a response to overloading yourself with data. When overtaxed, your memory will not only release the data that you were trying to retain, but may arbitrarily download other files as well. This is often experienced when trying to assimilate data over which you cannot control the flow-such as in a classroom, conference, or lecture. This is why after listening to a particularly ponderous speech, not only can you not remember a thing the speaker said, but you forget where you parked your car, too."

"The expert-opinion syndrome. There is a tendency to believe that the more expert opinions we get-be they legal, medical, automotive, or otherwise-the more informed we will be. But we tend to forget that expert opinion is by no means synonymous with objective opinion. Unfortunately, most experts come with a professional bias that makes obtaining truly objective information almost impossible. Take the second-opinion movement in medicine that is even being promoted by health-insurance programs, where patients are encouraged to consult more than one doctor before undergoing nonemergency surgery. Surgeons are trained to respond to problems by performing surgery, so it is likely that they will see surgery as the solution to a patient's problem."

The columnist George Will likes to quote a line that he says Cardinal Wolsey uttered about Henry VIII: "Be very, very careful what you put into that head, because you will never, ever



get it out." The relevance of that description is not limited to kings. Things we learn when young remain to almost all of us the deepest truths we know throughout life. Inertia governs when it comes to information. Even in the face of overwhelming evidence, we are hardly ever ready to accept that these early "truths" are, and always were, falsehoods.

What occurs is that each of us when faced with an overwhelming quantity of information from which to base an important decision adopts some form of heuristic a rule of thumb, a symbol for processing the information. For most of our politicians the convenient heuristic has become "what the media says goes." As Americans we believe in facts, but not in facticity. We do not know that facts are factitious, as their name suggests. It is in this belief in facts, in the total credibility of what is done or seen, in this pragmatic evidence of things and an accompanying contempt for what may be called appearances or the play of appearances - a face does not deceive, behavior does not deceive, a scientific process does not deceive, nothing deceives, nothing is ambivalent (and at bottom this is true: nothing deceives, there are no lies, there is only simulation, which is precisely the facticity of facts) that we remain a utopian society, with a religion of the fait accompli, with a belief in deductive reasoning, with a hope that things can be as plain and straightforward as they seem. All other societies contain within them some heresy or other, some dissidence, some kind of suspicion of reality, the superstitious belief in a force of evil and the possible control of that force by magic, a belief in the power of appearances. Here, there is no dissidence, no suspicion. The emperor has no clothes; the facts are there before us. They may be "facts" solely created for our individual consumption, but no matter. Facts are facts. And we can believe everything we read or see on CNN.

The proposition that there is no such thing as objective reality means that we who lack the tools, expertise and confidence to judge most information must delicately weigh results against motives before we believe anything. We are left adrift in doubt, losing our grip on one of our most potent tools. "As dupes we know what as liars we tend to blur," Sissela Bok wrote in her book, *Lying*. "That information can be more or less adequate; that even where no clear lines are drawn, rules and distinctions may, in fact, be made; and that truthfulness can be required even where full 'truth' is out of reach."

We live in a rich symbolic world, partly cultural and partly of our own individual creation, and we thereby escape or expand the limits of our situations, not simply through fantasies but in actions, with the meanings these have. We impute to actions and events utilities coordinate with what they symbolize, and we strive to realize (or avoid) them as we would strive for what they stand for.

Beliefs affect actions insofar as they embody expectations about what the results of these actions will or would be. After an action is done, these expectations will (seem to) be borne out or not, to varying degrees, and these results then will modify the beliefs embodying those expectations. Beliefs about the world feed forward into actions and the (perceived) results of these actions, along with other perceived facts, feed back, positively or negatively, upon the beliefs.

Many people hold on to outdated beliefs that get in their way. The following is a brief sample of them:

In this world it is each person for himself, with the strongest and most resourceful earning rightful privileges. An "invisible hand" harmonizes individual and social interests, so that when each does well for himself he also benefits his society. The best way to help the poor and the destitute is for the rich to get still richer, since wealth will inevitably trickle down to benefit the downtrodden and uplift them to decent status. (As John Kennedy said, "A rising tide lifts all boats.") Science can solve all problems and reveal all that can be known about humanity and the world. Facts alone are what count; values, preferences, and aspirations are merely subjective and therefore inconsequential. The way to uncover facts is to specialize and learn as much about a few things as possible, leaving other specialists to concern themselves with all the rest.

Our government seems to hold tight to these same beliefs. And they do get in the way. For our world is changing. Our information load increases. Our resources are constrained. And the only filter we seem to have today is one of money.

It is not that people value money more, but that they value everything else so much less -- not that they are more greedy, but that they have no other values to keep greed in check. When there are no values, money counts. And because money counts, our spirit of service suffers. Government service used to be just that -- a means of serving. But not so in a society where only money matters. When the spirit of service suffers, what we get from government suffers.

We need to make the pursuit of an increasing quality of life the driving force behind our government's decision making. Without driving forces, there is no way to begin thinking

through a decision. They are a device for honing your initial judgment, for helping you decide which factors will be significant and which factors will not.

Driving forces are the elements that move the plot of a story, that determine the story's outcome. In a mystery story, the motive is a driving force; indeed, much national detective work consists of figuring out a credible driving force for an otherwise unexplainable murder. In adventure stories, one driving force is the quest that propels the journey. Another is the opposition—a villain, force of nature, or opposing tribe that resists the hero's quest. In *Romeo and Juliet*, the romantic love of the two young principals is one driving force. Another is the concept of filial responsibility which binds them. The third is the rivalry between the families. Without all three forces, there would be no story.

Our government has no driving force. Idle pursuit of process has replaced the notion of a goal.

## Part Five

# Dangerous Filters

Our lives give us filters through which to view the world. When the social pressures of others begin to dictate the terms of those filters, our very sense of cognition is altered. This chapter discusses the role of three of these socially dictated filters -- the media, our sense of community, and our pursuit of money.

We live in an age of symbol manipulation, by television, popular music, press releases, movies, MTV, fax, VCR, newspapers, and so on. We hear the term "virtual reality" and wonder what it means; perhaps we really don't want to know the answer. The longer the symbols are manipulated the more they are accepted as reality. Quickly we stick labels on all that is. Labels that stick once and for all. By these labels we recognize everything but no longer see anything. We know the labels on all the bottles but never taste the wine. A child does not draw primarily what he sees on his retina but what he knows to be in front of him. But he makes a pattern of those elements, much as the ritual artist makes a pattern of the received forms of an icon, and so the drawing comes alive. The trained drawer acquires a mass of schemata by which he can produce a schema of an animal, a flower, or a house quickly upon paper. This serves as a support for the representation of his memory images, and he gradually modifies the schema until it corresponds to that which he would express. It is not schemata that are the problem--there are "w" birds in Van Gogh's skies, and Leonardo used schemata--the problem is failure to make patterns. However, the world as it is seen on the retina is not schematic, it is pattern. But this is the same thinking that sees hand, not the line and shadow of a hand--it can be useful, but not when you want to make a decision.

Decisions by labels eliminate all vestiges of the individuals affected by them. The famous are well aware of this. For example, when Walter Gropius came to America to take over the

design program at Harvard, he found, somewhat to his surprise, that he had also come to take over the direction of architecture in the United States. "Every so often I feel a strong urge to shake off this growing crust so that the man behind the tag and the label may become visible again." Decisions based on labels tend not to work for everyone just for most. And if you are in the "others," well...

It is not so much in the operation of institutions as in the freeing of technologies and images that the glorious form of American reality is to be found: in the immoral dynamic of images, in the orgy of goods and services, an orgy of power and useless energy (yet who can say where useful energy ends?), in which the spirit of advertising is more to the fore than Tocqueville's public spirit. Everything is in the credits. Now that society has been definitively turned into an enterprise, everything is in the synopsis of performance and enterprise, and its leaders must produce all the signs of the advertising look. Consumption and its pursuit seem to now define our lives.

Look at the changes in the world of the arts. I will leave aside such late twentieth century literary feats such as Bret Easton Ellis, and turn instead to the world of fine art. Good art has always been valued and, as a commodity, it had been sought after at least since the seventeenth century. But the insistence that it be not merely good but authentic, that it be not merely attributable but documented, took hold only in the middle of the eighteenth century and became widespread at the end of the nineteenth.

With reproductions so readily available, the death knell of the individual object and of originality itself rings like catechism through the turgid pages of contemporary criticism. We have now lived with mechanical reproduction, or photography, for over 150 years. But the

result of photography's success is not that the art object has lost its value, but that its value has been hugely enhanced. The argument that ease of reproductions will kill off the "real thing" makes as much sense as to say that with the advent of film and television, theater must cease to exist and actors themselves, those living, physical entities, must cease to be the object of anyone's affection. Recordings, by the same logic, must empty concert halls; televised sports events must empty the stadiums. But the universal experience of modern times gives the lie to this prediction. If anything, the ability to reproduce an object a million fold has caused the original to seem more holy than ever. The excitement of standing in front of the Mona Lisa itself, seeing it perhaps through the eye of a camera, with a blizzard of bulbs flashing around you, is very like the excitement of meeting a real celebrity, previously known secondhand, but now encountered in the flesh

It is no great exaggeration to say that in the past decade the art world has been transformed into a massive, glorified autograph market. The only honest way to admire a work of art, at least at the initial stages of our experiencing it, is to disregard its date, provenance, and authorship and to admit that, in theory, a forgery could be better and more interesting than the authentic object. This view does not deny that an imitation by definition lacks originality and that originality can be a part of art's excellence. Nor can we deny the satisfaction that we humans, sentimental as we are, take in the knowledge that the divine Michelangelo once touched that sheet of paper. But we must admit that this is very different from objectively admiring the visible object before our eyes. It is the aesthetics of autograph collecting, not the aesthetics of art. Modern technology has altered the situation by making available to almost everyone reproductions -- postcards, CD's, videos, books, computer bulletin board prints. You name it.



In the same manner, laughter on American television has taken the place of the chorus in Greek tragedy. It is unrelenting; the news, the stock-exchange reports, and the weather forecast are about the only things spared. But so obsessive is it that you go on hearing it behind the voice of Reagan or the Marines disaster in Beirut. Even behind the advertisements. It is the monster from Alien prowling around in all the corridors of the spaceship. It is the sarcastic exhilaration of a puritan culture. In other countries, the business of laughing is left to the viewers. Here, their laughter is put on the screen, integrated into the show. It is the screen that is laughing and having a good time. You are simply left alone with your consternation at the deterioration of life around you.

Walk down any residential street in an American small town and you will see the ghastly effects of the home improvement industry. The object of the industry is not really to improve houses but to sell vast quantities of merchandise. It accomplishes this by persuading homeowners that they can beautify and add value to their houses and save money by doing the work themselves. This is appealing in theory, but in practice it is a joke, because most homeowners are not competent building contractors. They may be good fathers and mothers, able optometrists, winning Little League coaches, and loyal friends, but they are apt to be bungling carpenters. Carpentry is an exacting set of skills. Even at the professional level it has been debased as a consequence of mass production, and the number of incompetent building contractors is disturbing. At the amateur level, it is worse. In fact, the home improvement industry actively promotes the idea that skill is not important. All that matters is buying the right tools and building materials. The tools will do the work, and the materials-such as factory-made drop-ceiling kits-will eliminate thinking. All the homeowner need do is lay out some money at the building supply store, and then take the stuff home Saturday morning. The job itself is a snap. All this is based on two contemporary myths: (1)

the idea that shopping is a substitute for design, and (2) the idea that it's possible to get something for nothing, in this case skillful work without skill. The result, of course, is a lot of botched jobs. Worse, when one clod on Elm Street rebuilds his front steps ineptly, his neighbors have to suffer the consequences too, for they have to see his bad work every time they walk out of the house.

One of the reasons that we value work and leisure that permit us to think and act creatively and meet challenging standards of achievement is that these characteristics of our activities feed into another thing we value control. We want to be autonomous. We want to be able to make our own decisions, to be able to determine our own destinies, to be responsible for the important things in our lives. We resist having to submit to the authority of others. At the workplace, we can forget that we have a boss if our own activities permit us to use our judgment and discretion. And one of the wonderful things about our hobbies is that, usually, there is no one telling us what to do or when to do it.

Yet government is not a hobby. Making public decisions should not be treated like refinishing your house. We each know too little. And our experts... well, they may know a lot about their little bit of the world, but not enough about the world itself.

"What-is sprang from What-is-not," said Lao-tzu, around 500 B.C. "it is in the spaces where there is nothing, that the usefulness of the room lies .... The more the folk know what is going on, the harder it becomes to govern them." He was saying most people are not centered enough most of the time to make positive use of information; only a few can be trusted to act from deepest intuition. Walt Whitman writing after the Civil War phrased the same thought, "I will not gloss over the appalling dangers of universal suffrage in the United

States. For know you not, dear, earnest reader, that the people of our land may all read and write, and may all possess the right to vote-and yet the main things may be entirely lacking?"

## Role of the Media

At the center of our changing and paradoxical world stands the press. It is the day-to-day broker of political and social psychology, conveying the information and images needed for the successful exercise of privilege and priority. With its images of what the whole world is watching, with its promise of nonideological practicality and problem solving, it gives cues as to how others are reacting and offers a means of manipulating the sociability of others to one's advantage and of trading one's future well-being for a short-lived present benefit. An alternative reality is covered in the media, reacted to by the public, and dealt with by government as if it were the same as the reality we experience in everyday life at home or on the job.

Journalists need officials' events and information to make news stories. Officials need journalists' attention to gain public support for their projects and careers. The two engage in barter: Information, access, and events are given in exchange for news coverage, and vice versa. The trade leaves everyone involved seemingly better off. Officials get publicity, journalists get the raw materials of news, and the public learns what officials and institutions are up to. But, contrary to the way we usually speak of it, the news isn't simply a report of what happened yesterday. It's a story, with characters, action, plot, point of view, dramatic closure. Moreover, it's a story about crisis and emergency response -- about the waxing and waning of urgent danger to the community, and about the actions of responsible officials to cope. Thus, officials in search of publicity and journalists in search of news don't converge on just any sort of news event. They enact, select, and narrate events in the image of the genre's overarching drama of urgent public danger.

Some years back Daniel Boorstin wrote a satirical study of contemporary American life in which he talked about pseudoevents. According to Boorstin a pseudoevent is a happening that (1) is not spontaneous but comes about because someone planned planted incited it; (2) is planted primarily for the purpose of being reported or reproduced; (3) has an ambiguous relation to the underlying reality of the subject so that press and public may speculate freely about what it really means: and (4) is usually intended to be a self-fulfilling prophecy -- e. g. the restaurant mentioned as popular in some fabricated item in a gossip column actually becomes popular. Typical pseudoevents are the press release the interview and the celebration designed to call attention to a person or a business enterprise. It is worth noting that the two critical elements to the founding of fascism were pseudoevents -- Mussolini's march on Rome and Hitler's burning of the Reichstag, both of which led to the leader being named to a formal position of power and both of which had no reality other than being staged. Of course some pseudoevents, perhaps the sounding of trumpets by Joshua for example, serve as deflection for the actual event really taking place (might that trumpet blast have been a signal to start fires to destroy tunnels under Jericho's walls?).

Turn on the television pick up a newspaper and the construction of reality is going on right there before your eyes. And if you look closely especially if you look closely at the way a given event is interpreted in several different media you cannot fail to notice that many different realities are being constructed. The general rule is: the larger the audience the simpler the story. Thus, everyone who takes his information about the events of the time from social media of communications -- anything from the satellite news to gossip over the back fence gets fiction. Forget about the objective reporter who only gives the facts. Some of those fictions are produced by people who have gone to immense trouble to get close to the raw

material out of which their stories are created ; have made every effort to understand the circumstances surrounding the event and to feel their way into the reality of the people who experienced it and have harvested much passion and intellect in making the material mean something. And although the myth of objectivity pervades all kinds of journalism the best of it is produced by reporters who let their feelings their interpretations and their subjective biases be present and visible. In the mass media particularly on network television the public is more likely to get postmodern creativity frosted with modern objectivity.

Researchers have stressed that even when producers and viewers do not intend it as a source of information, TV transmits messages about the world and society. Even when people recognize that the material they are viewing is fictional, its messages and images gradually shape expectations and beliefs about the real world. The more television individuals watch, the more they believe and accept its messages about society. Over a wide range of topics, dozens of studies have shown that the 'facts' of the world of television tend to 'creep into' the attitude and value systems of those who are heavy consumers of it, and it does this in a quiet, insidious manner. Voters are not mindless recipients of media messages. Just because the press says something or portrays an issue in a particular light, it does not mean that the voters will always see things in precisely that way. The power of words, however, should not be underestimated. - Experiments have shown that preferences can be affected simply by changing the way in which situations are framed. The need to simplify is magnified by the journalistic tendency to report the news through the actions of individual leaders.

The public officials and media journalists involved are more or less aware of the falseness of what they're up to. However, disclosing that falseness would undermine the benefits they're

seeking from the news process. Officials are looking for public approval and support. Telling the audience that they're playacting for the press wouldn't exactly further that goal. Journalists present themselves to the public as objective observers and reporters of the real world. Disclosing the fact that they're covering fabrications as news events would destroy the trust they're trying to establish. Thus, both newsmaker and news worker generally withhold any information or comment that would alert the audience to the real nature of the transaction between them.

Officials and journalists are pretending that the events they're enacting and narrating are bone-tide actions taken on the merits in the normal context of the newsmakers' jobs, whereas in fact, most news events and stories are performances. By tradition, news is found in particular events rather than the undenyng forces in society that create them. The event is the tip of the iceberg—a small and unrepresentative manifestation of a vastly more intricate reality. The news is also what is new and out of the ordinary. But novelty, however interesting or compelling it may be, is by definition atypical and thus is a weak basis for judging trends that are powerful and lasting. And then there is the unrelenting pressure of the news cycle. The press must re-create reality every twenty-four hours, giving the journalist little time to reflect back or think ahead.

The process of persuasion resembles what some have called learning without involvement. In this situation, attitudes and motivation are weak, but people do absorb some information. People learn the message, and since they are uninvolved, they do not resist it. Thus, when required to make a choice, they make a decision compatible with their new understanding. This process contrasts with the situation where people have strong attitudes. In such instances, their psychological defenses are at work, new information is tested against

existing beliefs, and affected by those beliefs. Their decisions depend more on their prior opinions than on the new information. In this case, the individual is largely in control. Whereas in the case of learning without involvement, power rests primarily with the communicator. And our media communicators transmit a bias composed of drama and crises.

For most people, the knowledge base for understanding or discussing most economic issues is inadequate. This economic illiteracy has the potential to misshape public opinion on economic issues and to lead to economic policies that have negative or perverse effects on the economy. Reporters' preference for government action also is clear in the media's treatment of regulation. Newscasts seem to assume that government officials and bureaucrats had the information, ability, and tools to regulate economic matters effectively. The message seems to be: If there is a problem, government regulations can fix it. That the opposite may be reality is illustrative of a media community that may simply not understand economic matters and in its illiteracy may be spinning a web of confusion for all of us.

Take, for example, the past decade's news coverage of the Gramm-Rudman-Hollings program to eliminate the federal deficit. In the hundreds upon hundreds of stories that ran on the subject, presidents, congressmen, public finance experts, and others were portrayed as saying and doing all the right things with respect to the vast and growing gap between what the federal government takes in and what it spends. They acknowledged the mind-boggling size of the deficit and the enormity of the problem it poses. They committed themselves to eliminating the deficit. They created and applied the elaborate Gramm-Rudman-Hollings procedure to reduce the deficit to zero over a multi-year period. When the effort faltered, the stories showed officials discussing alternatives and taking



steps. To judge from the clips, in short, the deficit was a problem on its way to being solved despite difficulties.

In the budgeting offices of the executive branch departments, at the Office of Management and Budget, and in scores of committees and subcommittees on the Hill, however, a different story was unfolding. In these far-flung venues, via a multistage process stretching throughout the year, hundreds of major decisions were taken to spend at levels that, in the aggregate, grew much faster than revenues over the 1982-1992 decade. As a result, over the period in which the Gramm-Rudman-Hollings program was supposed to be cuffing the deficit back to zero, the deficit not only didn't go away, it grew.

The vast majority of these deficit-generating actions went uncovered in the media. The press rarely reports the routine, obscure, seemingly undefinitive actions by which the federal government spends \$1 billion per year. Even the self-described newspaper of record, the New York Times, ignored most of the major annual authorization and appropriation votes. Moreover, of the relatively few stories that did cover the actions that built the deficit, most treated them as good news. The events were written up, not as drops in the bucket of the national debt, but as benefits conferred by a bountiful government.

When Congress voted to expand the deficit by cuffing taxes and increasing spending during the Gramm-Rudman-Hollings decade, the news accounts focused on the desirable aspects of these steps—the economic benefits being handed out, the political support the policies enjoyed, the career progress being made by the measures' sponsors. The effect on the deficit was either ignored or covered perfunctorily as a subsidiary issue, a matter of secondary importance.

By the same token, news stories about proposals or actions to cut the deficit by reducing specific spending streams or raising specific taxes focused on the steps' negative aspects—the dislocations they would cause, the political opposition they were arousing, the social callousness of the conservatives supporting the moves. The stories ignored or played down the positive effect on the deficit such steps would have. In other words, during the decade in which the federal deficit exploded to meltdown proportions, there were lots of news stories about government's taking steps to reduce the deficit, there were plenty of news stories about government's providing the people with the bounties of various tax cuts and spending programs, but there were no news stories about government adding to the deficit even though that was what was happening.

Thus, the fiscal actions government took in this period and the news reports the press ran about them amounted to a charade. The public's power to tax and spend was exercised in a way designed to create a misleading impression of advantage and benevolence. In some cases real benefits were handed out amid much fanfare and credit claiming, while the costs were carefully concealed. In other cases benefits were simulated, while a prior and controlling refusal to impose the requisite costs, a refusal that rendered the benefits illusory, was concealed. In no case were actions taken and reported in their real-world context in which there is no free lunch, benefits come with a price tag attached, and policy is made by striking a balance between anticipated costs and anticipated benefits. In all cases actions were taken and reported in an artificial, journalistic context in which costs and benefits exist in isolation from one another and in which, given proper self-scripting and stage management by newsmakers, all the news is capable of being good news.

The spending taxing mess is a dramatic case, but it is not unusual. To the contrary, this line of news coverage illustrates a process that takes place more or less every time a news story is put together. The central fact about the interaction between news media and the people they cover is that the people being covered know the media are watching and behave accordingly. As a result, the actions the media cover as news aren't spontaneous events but self-conscious efforts to create favorable impressions.

For their part the news media are aware that newsmakers are performing, but they nonetheless treat newsmakers' fabrications as authentic actions, covering or ignoring these performances as they see fit. They rarely go beyond the performance to unmask the plays and players or to describe events with reference to the self-conscious, self-serving effort at work backstage. Thus, both parties deny the manipulative nature of their roles in making the news, insisting instead that their actions are authentic, un-self-conscious, and taken on the merits.

Of course the media lacks an explicit habeas corpus standard -- a term, meaning "having the body," i.e. the state cannot prosecute a crime unless the body, which is evidence of the crime, is produced. If the media could not declare that a problem exists without producing evidence of the problem, many of the so called crises would just fade away -- but so too might the networks and many of our most popular magazines.

The news story tells its yarn in a voice that pretends not to be telling a yarn, merely reciting a list of facts. In fact, of course, what it tells is a story; the pose of objectivity is just a means of encouraging the reader to attend to and accept the story. The voice intensifies meaning, reinforces the particular story's construction of events, screens out discrepant,

story-undercutting material, and invites the reader to get involved in the text. That pose, however, has consequences that go far beyond those intended.

In real life, when we speak with others about events we have witnessed or experiences we have been through, we do not confine ourselves to facts or to objectively verifiable statements. We make whatever kinds of statements we think necessary to convey our experience as we understand it. Some of those statements may be objective and factual in nature. Others may not be. Often the facts are unclear or their significance is ambiguous, and in such cases we switch voices, as it were, drop any pretense to objectivity, and start talking about the uncertainties and ambiguities or broader meanings we're aware of, regardless of whether this means slipping out of our reportorial voice.

In other words, we take responsibility for our meaning and (if any) our irony. If we come to a situation in which we can't be sure the reader will have the information he needs to decode and construe our ironies, we provide those cues. Stepping out of the ironic pose, we do what it takes to communicate experience and meaning successfully. The news story can't or won't do this. It stays in its objective voice even when that becomes counterproductive from the point of view of successfully conveying information and understanding to the reader.

One could say that the news form is so rigid, and the news organization using and defining it so bureaucratized, that working journalists are denied the expository flexibility they need to insure that the meaning of the news story doesn't get out of sync with what they observed of and understood about the event. One could say that the working journalist is so desensitized to his intellectual responsibility to the reader, or so sensitized to the intellectual demands being made by the newsmaker, that he or she willingly tolerates a substantial discrepancy

between what the story means and what actually took place as he or she understood it. Or one could say that the news organization is so intensely focused on the advertising sales-supporting effort to turn out a news product giving readers the impression that the whole world is watching, and so comparatively indifferent to the reader satisfaction-supporting effort to give its own best understanding of the event at hand, that it willingly sacrifices the latter to the former.

However one puts it, newsmakers know that the news story can almost always be counted on to stay in its ironically objective voice, and they aggressively take advantage of this fact. The news genre's refusal to shift voices implies that if a newsmaker pretends to an action and the media cover it, they'll cover the action more or less on the newsmaker's terms. They won't drop their accustomed posture of objectivity, accept responsibility for the meaning their words are conveying, and start telling a story that diverges substantially from the newsmaker's performance. Thus, the genre's objective voice turns news into a stage on which the newsmaker may strut his stuff, secure in the knowledge that backstage realities will stay backstage.

Each story conveys a very different view of reality and represents a special way of seeing. From a problematic situation that is vague, ambiguous, and indeterminate (or rich and complex, depending on one's frame of mind), each story selects and names different features and relations that become the things of the story-what the story is about. Things are selected for attention and named in such a way as to fit the frame constructed for the situation. Together, the two processes construct a problem out of what is seen otherwise as a vague and indeterminate reality. They carry out the essential problem-setting functions.

They select for attention a few salient features and relations from what would otherwise be an overwhelmingly complex reality. They give these elements a coherent organization,

The stories we choose to tell can describe what is wrong with the present situation in such a way as to set the direction for its future transformation. Through the processes of naming and framing, such stories can leap from data to recommendations, from "is" to "ought," from fact to values. Through the generative metaphor of a story -- a process by which a familiar constellation of ideas is carried over to a new situation, the familiar and the unfamiliar come to be seen in new ways. One thing is seen as another. A situation may begin by seeming complex, uncertain, and indeterminate. However, if we can once see it in terms of a normative dualism such as health/disease, nature/artifice, or wholeness/fragmentation, then we shall know in what direction to move. Indeed, the diagnosis and the prescription will seem obvious.

Media politics not only sacrifices public to private, it also often ends up weakening its private beneficiaries. It is a politics of decline and ruin. People and groups routinely ride media bandwagons to short-term advantages that bring with them longer term costs and disabilities and count on a fresh round of future media-won benefits to offset the costs when the bill comes due for payment.

The politics media stories make possible has its moments. Some problems and issues that lend themselves to headline treatment are inscribed on the public agenda. Officials are forced to exercise leadership. Events build toward a climactic burst of public action in which crises are managed, problems are addressed, scandals are set right, rights are vindicated, malefactors are brought to justice, and the needs of the people are served.

In all areas of life we encounter a kind of distancing from the real and the material a derealization. Communication technologies replace direct contact with the environment. The mass media create their own world, a hyperreality where the gap between image and reality is erased because everything is mediated, filtered through commentators, news bureaus, images, standardized analyses, talk shows, and events that are chosen and staged for the occasion. The media coverage of an event becomes the event's simulation, a complicated game that for all parties becomes more real than the reality itself. We never gain access to the raw reality, because reality itself is spun into the entire information society's web of images, messages, signs, and mediations. Substance disappears. The picture becomes a simulation, a picture without precedent object, model, or ideal -- a picture that meets no requirement for truth, individuality, or utopian hope. In terms of government what emerges is a pattern of quick to mandate and slow to evaluate, of appeasing public concerns rather than acting on their merits. Programs are set into motion without regard to cost -- which often has not been realistically projected.

Journalistic bias would be a minor concern if the press's stories were inconsequential.

They could be dismissed as interesting diversions in the melodrama of life. But these stories sometimes have substantial effects. When Clinton is claimed to be dead in the water because he is "perceived as too slick," the message works its way into the public's consciousness. The effort to stage persuasive images of crises and emergency responses soon leads people farther and farther afield of reality. Fictional events soon come to be in the saddle, reason and truth take a holiday, and a lot of stupid, unfair, self-destructive things end up taking place.

Now, fiction is not imagination. It is what anticipates imagination by giving it the form of reality. Walter Lippmann wrote, "For the most part, we do not first see, and then define, we define first and then see." And the perverse effects of the media affect what and how we see.

A schema is a cognitive structure that a person uses when processing new information and retrieving old information. It is a mental framework the individual constructs from past experiences that helps make sense of a new situation. Schemas are a way of coping with complexity. The world would be a buzzing confusion of unfamiliar information if we had no way of deciphering it. Schemas help us to understand new information, provide us with a framework within which to organize and store it, enable us to derive added meaning from the new situation by filling in missing information, and provide guidance in selecting a suitable response to what we have just seen. When a child has a fit, we recognize it as a temper tantrum, and not as a sign of some deep emotional disturbance. We are able to identify it because the combination of new information (the child's behavior) and our past experiences (we have seen this pattern before in children) tells us what it is.

Schemas are powerful. People who "see" the same activity but apply a different schema to it "see" different things. For example, by changing the way you look at things, you can release your innate ability -to draw them. In her book *Drawing on -the Right Side of the Brain*, Betty Edwards demonstrated that anyone could draw anything. The key was to see that the subject of a drawing was not an apple or a chair; the subject was a pattern in light and shade. The drawings by Edwards's students were not merely accurate, they were alive and full of spirit when they learned to see this way, all her students, not just a chosen few, "got



it." Edwards showed how to change the paradigm of what a drawing and its subject were. What made the transformation possible was being told a hand is a pattern in light and shade; a drawing is a pattern in light and shade. All you have to do is look at the pattern and draw. Drawing on the Right Side of the Brain teaches that to draw a picture that looks like the thing you are drawing, you don't draw what you what the thing looks like but instead draw the patterns of light and color that you actually see. "Drawing is not really very difficult," Edwards wrote "Seeing is the problem, or, to be more specific, shifting to a particular way of seeing."

The media give us a schema of crises. Government responds. Problems requiring long-term solutions are handled in the spirit of emergency. We all suffer.

## Our Sense of Community Has Changed

The history of cities is embedded in the ways their elements are juxtaposed. the structures of art and regulation that govern urban amalgamation. Questions both of what goes with what and what yields to what are at the basis of urban form-making. Traditional cities have adjudicated such questions via relations to central places, social order has long been legible in urban form. In the new, recombinant city, however, the legibility of these orders has been dramatically manipulated. often completely obscured. Here, anything seems to go with anything-hierarchies are both reinforced and concealed. at once fixed and despatialized. Value is still a function of location but the invisible hand has learned a new geometry. As phone and modem render the street irrelevant, other dimensions become preeminent. Main Street is now the space between airports. the fiber-optic cables linking the fax machines of the multinational corporations farflung offices. an invisible worldwide skein of economic relations. Liberated from its centers and its edges by advances in communication and mobility and by a new world order bent on a single citizenship of consumption, the new city threatens an unimagined sameness even as it multiplies the illusory choices of the TV system.

Two characteristics mark our new community. The first is the dissipation of all stable relations to local physical and cultural geography, the loosening of ties to any specific space. Globalized capital. electronic means of production. and uniform mass culture abhor the indurate, undisciplined differentiation of traditional cities. The new city replaces the anomaly and delight of such places. With a universal particular, a generic urbanity is inflected only by applique. Here, locality is efficiently acknowledged by the inclusion of the beignets at the

airport lounge in New Orleans. This place is fully ageographic: it can be inserted equally in an open field or in the heart of town, the inward-looking atrium hotel is as apt to the featureless greensward as it is to teeming unreclaimed downtowns. With its components reduced to a repetitive minimum, space is deparicularized. Obsessed with the point of production and the point of sale, the new city is little more than a swarm of urban bits jettisoning a physical view of the whole, sacrificing the idea of the city as the site of community and human connection.

A second characteristic of this new community is its obsession with security, with rising levels of manipulation and surveillance over its citizenry and with a proliferation of new modes of segregation. The methods are both technological and physical. The former consist of invasive policing technologies-domesticated versions of the electronic battlefield"-and a growing multitude of daily connections to the computer grid, ranging from encounters with the auto teller to the full-blown regulatory environment of the electronic workplace. The physical means are varied: parallel, middle-class suburban cities growing on the fringes of old centers abandoned to the poor: enclaved cities for the rich, gentrification; the globe-girdling cocoon that envelops the business traveler as he or she encounters the same airport, hotel, and office building from Denver to Dubai; the lacework of overhead and underground circulation systems imposed in Minneapolis to permit shoppers and office workers to circulate in climate-regulated security through threatening urban territory.

A century ago, major technological changes occurred that transformed and benefited urban growth: electricity, the internal combustion engine, subways, indoor plumbing and sanitation systems, elevators, and steel structured buildings. A century later, new technologies have emerged that are not captives of urban places, but rather lend themselves to applications

allowing economic activity to occur most anywhere-satellite communications, microprocessors, robotics, lasers, fiber optics, microcomputers, and integrated circuitry. In the 1970s and 1980s, some cities made the successful transition from a manufacturing to a service economy only to discover that new technologies had reshaped not only office work but also the location decisions of service firms and industries.

Technology reinforces the idea that local communities are archaic, even while making their image more available. In the nineteenth century, the railroad and photograph lost the immediacy and depth of a foreground view of place, although they made distant places more accessible. Today, simultaneous exchanges by electronic media tie together even the smallest places, but they destroy the social distance that made experiencing them so distinctive. In brief, as markets have been globalized, place has been diminished. At the same time places have also become more differentiated. New patterns of regional specialization reflect the selective location of highly skilled and highly valued economic activities-finance, corporate leadership, and research and development-in zones that offer amenities. These concentrations enable places to capitalize on their initial advantage. By the same token, areas that begin to lose business investment become even less attractive. They utterly fail to develop high-status production and consumption. The same country, -and the same region, can easily be divided between these two paths of development.

The basic problem derives from a simple imbalance between investment and employment: capital moves, the community doesn't. For many people who are enthusiastic about the next economic transformation, imbalance and dislocation are a painful but necessary part of the transition. But for those who worry about the present, and find the future still uncertain, dichotomous landscapes pose a major problem. Not only do they embody alternative

economic and political strategies; these strategies also carry a burden of existential choice. The only tissue of the city is that of the freeways, a vehicular tissue, the extraordinary spectacle of these thousands of cars moving at the same speed, in both directions, headlights full on in broad daylight, on the Ventura Freeway, coming from nowhere, going nowhere: an immense collective act, rolling along, ceaselessly unrolling, without aggression, without objectives - transferential sociality, doubtless the only kind in a hyperreal, technological, soft-mobile era, exhausting itself in surfaces, networks, and soft technologies. No verticality or underground, no intimacy or sense of belonging, no streets or facades, no center or monuments: a fantastic space, a spectral and discontinuous succession of all the various functions, of all signs with no hierarchical ordering - an extravaganza of indifference, extravaganza of undifferentiated surfaces - the power of pure open space, the kind you find in the deserts. The power of the desert form: it is the erasure of traces in the desert, of the signified of signs in the cities, of any psychology in bodies. An animal and metaphysical fascination - the direct fascination of space, the immanent fascination of dryness and sterility.

Today the concept "landscape" is almost less likely to refer to a genre of painting than to a sociological image. When we hear people speak about the urban or the suburban landscape, we picture either the density of production and transportation in city life-human society swallowed up by skyscrapers, bridges, and freeways or small-scale outcropping in the hinterland of shopping malls, ranch houses, and office parks. Similarly, the smokestacks and red-brick chimneys of an earlier industrial landscape evoke a way of life, its rhythms, and such is the power of this built environment-its abstract social controls. The struggle to impose the factory owners' idea of discipline created the familiar landscape of industrial capitalism, with the time-sheet, the timekeeper, the informers, and the fines. The

postindustrial landscape in modern Vancouver or Silicon Valley is also evocative. Its image of ecology, leisure, and livability feeds off the consumption preferences of professionals in a service economy, even though those preferences conceal an underbelly of business and personal strain, female minority workers jammed into assembly jobs, and mounting suburban blight.

Shopping centers have replaced political meetings and civic gatherings as arenas of public life. Despite private ownership and service to paying customers, they are perceived as a fairly democratic form of development. Moreover, they are believed to open the downtown by creating a sense of place. Downtown developers derive a theme from former economic uses—the harbor, the marketplace, the factory—and offer consumers the opportunity to combine shopping with touristic voyeurism into the city's past. The ambiance of authenticity is important to establish the critical mass of shoppers vital to retail competition. In some downtowns where a high density of business services creates demand, even an artificial sense of place enhances consumption. In other cities, however, the downtown is still too tied to industrial uses to encourage the multiplicity of uses of a consumption space. In the process of revitalizing the waterfront, old piers and Main Streets were turned into emporia of mass consumption. Beneath the image of locality these places project, they are really marketplaces for goods that are not locally produced. Gourmet foods and croissant shops were at least initially imported, and the chains of retail clothing stores that fill these urban shopping centers sell mainly imported apparel. Tourist items are nearly always made outside the country. Even products like Samuel Adams beer, which is associated with Boston, and Vermont butter are either produced out of state (the beer in Pittsburgh) or with out-of-state materials (milk for the butter from dairies outside Vermont). Projects like Faneuil Hall are, moreover, developed by national firms and financed by New York money center banks. Like

the high-class shopping street, these shopping centers unify international investment, production, and consumption.

In France and Italy as well as the United States, a return to fresh goods from freezing and other, technologically advanced means of food preservation was perceived as part of the pursuit of culinary authenticity. Because consumers were willing to pay for this special taste, both regional production and national distribution systems changed. Paul Bocuse himself said on a visit to the United States in the 1980s, "When I first came here in 1967 you could not find fresh chervil or tarragon anywhere, and now you can buy ingredients like that in the supermarket." The pursuit of local sources of supply, moreover, enhanced the cultural value of regional cooking traditions. Most of these traditions had died out during the period of mass industrialization from 1880 to 1940, when new food production technologies were developed and imposed, and national networks standardized procedures of food distribution. But new sources of supply in the 1980s not only reflected the revitalization of small-scale regional agriculture. They also relied on both the expansion of imports and local farmers' willingness to try new agricultural techniques.

Since the 1940s, the basic cultural meanings and social relations of an industrial economy—the position of blue-collar and many white-collar workers in a firm, the web of labor union, household, and community, and the quality of such basic commodities as steel, television and even computers have been transformed from the durable into disposable. This is what flexibility, at its harshest, implies. We do not find coherent values in the landscapes of consumption growing around us.

Institutions like the shopping mall, the department store, and the museum foster a multiplicity of uses that removes the distinctions between mercantile display and public exhibition. The surrounding environment—the city, the corporate suburb, and the fantasy center—supports a multiplicity of uses between nature and culture, market and pleasure, work and leisure, which hides the key role of centralized economic power. People like to consume; they seek their social identity through shopping, comparing goods, and talking about consumption. They find drama, history, and variety in new spaces of consumption. However, as their lives grow more distant from the activities of material production, they lose interest in values that developed during the industrial age: economic equity, labor organization, social justice.

At the same time, the decision to cheapen labor and cut back on industrial capacity in the United States makes it harder for men and women to increase their market-based consumption. The socialization of desire toward an unattainable standard of consumption leads to a broader question, that of the depleting moral legacy of the economic system. On the one hand, the positional goods that used to confer social status (e.g., the big house on a lake) are no longer available in infinite supply. On the other hand, when such goods are commercialized—that is, freely available for sale in a market—they lose much of their ability to position people in the social structure. Social status is immanent not in the economic value of goods but in the cultural value of getting them or the cultural value of the social group that has already got them. This recalls Edith Wharton's description of "in" restaurants on the Riviera: they are desirable not because they serve good food, but because they attract an upper-class clientele.



An increasingly reflexive mode of consumption demands a more self-conscious mode of production. Because investors need to get a competitive edge by means of product differentiation, they enhance the social status of design. Similarly, designers, artists, and architects emphasize individualism and ingenuity to get an edge on the competition for both patronage and museum-conferred posterity. This double ring of competition often leads designers to seek artistic solutions-like postmodernism- rather than devise new solutions to technical problems. Self-conscious production hides the social control made possible by a concentration of economic power. The appeal of imaginary landscapes, from the hotels in Palm Beach to Michael Graves's hotels at Disney World, is that they offer a retreat from the real world of power. They appeal to the child who delights in visual consumption. and to the adult who revels in high speed.

Speed creates pure objects. It is itself a pure object, since it cancels out the ground and territorial reference-points, since it runs ahead of time to annul time itself, since it moves more quickly than its own cause and obliterates that cause by outstripping it. Speed is the triumph of effect over cause, the triumph of instantaneousness over time as depth, the triumph of the surface and pure objectality over the profundity of desire. Speed creates a space of initiation, which may be lethal; its only rule is to leave no trace behind. It is a triumph of forgetting over memory, much like a second marriage is a triumph of hope over experience.

The irony of community is missing here, as is the playfulness of social life. The charm to be found in social graces and in the theater of social relations is all transferred outward into the advertising of life and lifestyles. This is a society that is endlessly concerned to vindicate itself, perpetually seeking to justify its own existence. Everything has to be made public:

what you are worth, what you earn, how you live there is no place here for interplay of a subtler nature. The society's 'look' is a self-publicizing one.

Privacy is becoming the new status symbol in a society that is increasingly crowded. As homeowners perceive a breakdown in the social order and must live closer to their neighbors, they are turning inward. In urban areas, fences go up around front lawns to keep the homeless from defecating on them. New walled suburban developments have gates and guard houses. In our transient society, people are judged by the care taken of their lawns—a neatly kept front lawn indicates that the family's life is in order. In many American homes, family members use the side or back door nearest the garage or the driveway, and the front door is used by guests. Children and dogs are supposed to keep off the grass. Peer pressure is brought to bear on those who do not keep their lawns up to the standard of the neighborhood. Often, neighbors are willing to approach the homeowner with a badly kept yard to remind him to mow it, to complain about the number of dandelions, to offer to loan the necessary equipment, or even to pitch in and do the work if the homeowner is incapacitated. If all else fails, the homeowner may be reported to the local authorities, who will take responsibility for mowing the lawn.

Those who don't flee wall themselves in. Everywhere in the world international frontiers are being fortified to keep the barbarians out. But even in the inner cities archipelagos of safety are being constructed, and these will be defended to the last. There have long been bunkers for the fortunate in the great cities of America, Africa and Asia, guarded by high walls topped with barbed wire. Sometimes whole city districts can only be entered with a special pass. Barriers, electronic cameras and trained dogs control access, machine-gun installations on watch-towers secure the surroundings. The parallel with the concentration camp is obvious,

only here it is the outside world that is regarded by the inmates as a potential extermination zone. The privileged few pay a high price for the luxury of total isolation: they have become prisoners of their own safety.

As the privileged few retreat behind physical walls, the less privileged many retreat behind psychological walls -- taking on the identity not of an individual but of a group. Group identity appeals to people who fear they cannot succeed as individuals, and by diverting their energies it all but ensures that they will not succeed as individuals. What becomes most important is the act of speaking, not what is being said. The lack of merit in a public argument is less important than the nature of the spokesman whose group can thus be "recognized." The majority suffer so that the minority whatever minority -- can feel the surging self-esteem of recognition.

Group politics can lead to absurdities. For example, when the District of Columbia was in the final stages of completing its subway system, the Metro, some of the stations were ready to receive physically normal passengers many months before they would be ready to accommodate the handicapped. Officials apologized and offered interim solutions, including unlimited free taxi rides for any handicapped people who requested them. This was on its face a far better deal than actual use of the system, and if the handicapped had been smart, they would have proposed that it be made permanent. It was cheaper, it was safer, and it was bound to be more convenient because it would be door to door. But no. The handicapped insisted on keeping the system closed to everyone until it was fully accessible to them. Of course the handicapped are right to insist on having an opportunity to do everything that everyone else can, including commute to work. But it flies in the face of reality to insist that they ought always to be able to do everything in exactly the same way as

everyone else. That the concept of "separate but equal" was a public failure should not condemn new efforts at "separate but better."

In another early 1990's example, we learn from the Times that for fifteen years the New York Police Department been hiring people who fail to meet even minimal physical fitness requirements. In some cases the city has issued guns and badges to recruits whose physical fitness is worse than 99 percent of others their age and gender. And even more outrageous a number of officers currently on the force do not have the hand strength to pull the trigger of their service revolver. Call it the p.c. NYPD. Or take the lack of public toilets in New York. They exist fine in Paris. But in New York, advocates of the disabled argued that it was discriminatory to have toilets on the street which could not accommodate a wheelchair. If it can accommodate a wheelchair, it can accommodate prostitution. So much for public toilets. Once again quality of life is reduced for the majority by the assertion of some "equal right" that the society as a whole cannot afford.

Either democracy is the affirmative action vision writ large, a society is democratic because all groups are proportionally represented in all its parts, from university faculties to death row or it is democratic because all are equal in the eyes of the state, free to excel and succeed regardless of what group they were born into. Both cannot be true. And standing bewildered between them, we feel, quite accurately, that we have lost our bearings. Everywhere we see signs that the majority of Americans have begun to feel that this confusion isn't an appropriate state of affairs. They have begun to sense that our culture's muddled redefinition of democracy, its partial substitution of group representation for individual rights, represents a wrong turn. And in reaction they have turned away. Our filter of community, defining ourselves as part of a greater whole is failing apart.

## Money Isn't Everything

The media give us stories of crises but they also give us more than that. Our sense of community is eroded by the very stories that cause us to retreat into our walled cities or walled versions of the "group." Our way of seeing has become blinded by the almighty dollar. We accept expressions of the quality of our lives in terms of possessions, artifacts, and money. Once we start using the language of the market to describe our nonmarket, social activities, it becomes easier and easier for us to trade off market, economic goods against nonmarket, social ones. When we ask ourselves whether we can "afford" to spend an evening with friends instead of finishing a legal brief or cultivating a new client, we are implicitly putting a price on our friendship. How else, after all, can we begin to answer the question?

When teaching economics, the single concept that is most difficult to convey is the concept of opportunity cost. The opportunity cost of some action is the gain that we would realize by doing something else. If working on a legal brief at night instead of being with friends would have gotten us a \$500 bonus, then that \$500 bonus forgone is the opportunity cost of our decision to be with friends. What the concept of opportunity cost does is put a literal price on everything we do. We could always work a little harder or a little longer. The "cost" for not doing so might be promotion, partnership in the firm, or even keeping our job at all. When we think in terms of opportunity costs, the impetus is always there for us to keep working. Lurking in the back of our minds is the likelihood that if we don't, surely some one else will.

The reason, I suspect, that economists have so much trouble teaching their students about opportunity costs is that the students don't naturally put a price on everything they do, and

are inclined to resist the encouragement to do so. It reflects not a lack of understanding but a lack of agreement with the economists' way of looking at the world. Economists don't see it this way, because they regard opportunity costs simply as makers of fact. If you could earn a bonus by working on a brief, then, as a matter of fact, your night with friends cost \$500.

But opportunity costs are not makers of fact. While there is no doubt that a price can be put on everything, I believe it is very much up for debate whether a price should be put on everything. Indeed, I believe that there are severe consequences to becoming accustomed to thinking about our lives in terms of opportunity costs-to pricing all of our activities. The "opportunity cost" of thinking in terms of opportunity costs will be paid in the degradation of many forms of civilized, communal, social life. It will be paid in the degradation of all kinds of value except market value, the degradation of all kinds of goods except market goods, the degradation of all kinds of games except market games. This price for unlimited freedom is too steep a price to pay.

People assume that their friends, their lovers, their parents, their siblings, their doctors, and their teachers will act with good will, doing, insofar as possible, what is best for them. As a result, they ask no guarantees and write no contracts. People trust that part of what it means to be a spouse, a lover, a parent, a sister, a doctor, or a teacher ensures that the people close to them will behave honorably, truthfully, courageously, and dutifully in social interactions.

As social relations become commercialized, however, this assumption grows more and more suspect. Increasingly, people feel the need to have things written down in contracts. Increasingly, they feel the need to be able to hold others legally accountable-whether

doctors, lawyers, teachers, or even friends or lovers-to have a club to wield to make sure that they are getting what they pay for out of trust.

When people are doing the right things for the right reasons we can trust that they will continue to do them. We can let down our guard, relax our vigilance as consumers. When people are doing the right things for the wrong reasons, trust is wholly unjustified. The people must be watched. Mechanisms of supervision and contract enforcement must be developed. And of course the supervisors and enforcers can't be trusted either, and must also be supervised. What a relief it is, after a hard day guarding your back in the marketplace against any and all adversaries who are trying to take what is yours, to be able to come home to your haven in a heartless world, kick off your shoes, let down your guard and relax. It's a relief indeed, but for trust to be justified, the intentions associated with genuine love must be present.

We live in a society in which people make legal or contractual commitments to one another, and our ability to enforce those commitments is good enough that most people honor most contracts most of the time. If our system of legal constraints works, it is only because a critical mass of people has not yet decided to disregard laws and contracts. And people need not totally disregard laws in order to subvert them. They can also subvert laws by honoring them to the letter, but ignoring their spirit, and thus twisting them to serve their own, individual interests.

Even if we could enforce all laws and contracts, there would be big trouble if we had to depend exclusively on them to get people to act appropriately. You simply can't put everything in a contract. To a large extent, the smooth functioning of the economic and

social system depends not on contracts but on a measure of good will. As evidence of the limited value of contracts, consider that one of the most effective devices workers have for exerting control over management involves not going on strike but honoring their contracts to the letter. Such job actions known as working to rule -- paralyze productivity. For as soon as anything unanticipated in the contract comes up (as it inevitably will), workers substitute contractual obligation for judgment and do nothing. We count on workers to enter into agreements with their employers in good faith, to understand the point of their work activity, and to use their discretion in pursuing that point when unforeseen difficulties arise. Our system of legal and contractual constraint works precisely because, for most workers, it does not have to be applied.

When making economic decisions, people will presumably choose the alternative that best serves their interests. But before they can do this, they must make another choice. They must first choose to frame their decision as an economic one, that is based on self-interest, as against, say, a moral one, that is based on concern for what is right. We want people to choose to frame their decisions on the basis of what is right. Such decisions are what we hope for and expect from our friends, our family, and our lovers. They are what we look for in people who possess the virtues of character that we value. But can we count on people to ignore or submerge their economic interests and act in this way? And what do we do when they don't?

This difference in our response to dissatisfaction in the material as opposed to the social domain points up a tension that many of us experience between market and nonmarket approaches to the things we value. The rules of the game in the market are different from the rules of the game outside it. If we frame love as a market commodity, then exit is an



appropriate response to dissatisfaction. If we don't frame love as a market commodity then exit is inappropriate. And we can't have it both ways, for if one of the things we value about love is the loyalty and commitment it entails, treating it as a market commodity deprives it of this value.

I've had a fantasy that the people with whom we engage in commercial transactions regard their work not as a job but as a kind of calling. It's a reflection of a desire to be able to trust someone, to put yourself in someone else's hands and know that that person's principal objective is to do right by you. I really would like to have the same confidence in my stereo dealer that I do in my doctor, for somewhat similar reasons. There is a need for trust in both cases, stemming from the absolute impossibility of knowing enough to make fully informed and intelligent decisions on our own. While there is plenty we can do to make ourselves educated consumers of stereos, medical services, or anything else—we can't make ourselves sufficiently well informed about everything that the need for trust goes away.

Caveat emptor—let the buyer beware—has always been the rule of the marketplace. This rule may once have been adequate when the kinds of things people bought in the marketplace lacked the complexity and seemingly infinite variety that they have now. But nowadays, being wary mostly succeeds in making life a nightmare. It makes each transaction a contest, a confrontation. It leaves us feeling all the time that we've probably been taken. It makes acquisition a full-time job.

Those who enthuse about the efficiency and productivity of the marketplace don't place much importance on trust. We can economize on trust; we don't need trust if we've got competition. Competition will drive the dishonest merchants out of the market, for no one will

buy from them. But we need more than competition to make trust unnecessary. We also need information. People need to know enough about the things they're buying to know when they're being cheated.

When economists formulate their theoretical accounts of the operation of the market, they typically assume that people have the needed information. They assume that people know the differences between slightly different products and between different brands of the same product. They assume that people know about the prices at which the same product sells in different stores. It's only when people have all this information that they can take advantage of market competition to get the best products at the best prices and drive the cheaters out. "Our best customer is an educated customer," store advertisements sometimes say, as a way of suggesting that if we really knew all there was to know about the products being sold, it would be clear to us that this store provided the best merchandise at the best prices.

It costs money-lots of money-to police the marketplace, and, as abuses proliferate, the costs of policing rise. And these costs don't buy us any products. We don't usually factor them into the cost of buying and consuming, but that's because we don't pay for them in the restaurant or the department store. We pay for them in our taxes. If we could figure out what we have to pay as a society to keep our merchants behaving honestly (recent estimates are that fraud and abuse in retail trade costs us over one trillion dollars a year, excluding the cost of enforcement of regulations), and add these costs to the costs of the products we buy, the market might not look so efficient after all.

And if instead of relying on the government to keep abuses petty, we rely on our own self-education and vigilant consumption, we again introduce a very substantial, though

largely hidden, cost. It takes time-lots of time-to be a knowledgeable, vigilant consumer. When we don't have that time we end up feeling vulnerable and unprotected in everyday commercial transactions.

When we are looking for big-ticket items, we comparison shop, get the advice of friends, consult consumer magazines, and the like. But none of us has either the time or the stomach for this kind of vigilance in all transactions. So we let many things slide, knowing or suspecting that we will be cheated out of nickels and dimes with some regularity. The alternative vigilance in all domains-would essentially require us to give up eating in restaurants, buying processed foods, and doing many other things that we find pleasurable or convenient.

Life has become all so complex and varied that no one can be a watchdog in all things. and few people can be watchdogs in any. Caveat emptor might work when buyers and sellers have roughly equal information about the quality and price of goods and services offered in the market. And there may have been a time before our technological era when buyers and sellers did have approximately equal information. But that then is long gone. Just as we don't expect to have to be fully knowledgeable consumers of medical services in order to be treated properly by our doctors, we can't expect to be fully knowledgeable consumers of anything else. Whether we like it or not, we are at the mercy of the experts, those who try to sell us things, and those who purport to represent our interests in governing us.

But what happens when people don't have all the information they need? Then market competitor doesn't work. It does us no good that one product is better than another, or one brand is cheaper than another, unless we know it. And now, more than ever before, knowing it

is impossible. Too much variety. Too much complexity. So now, more than ever before, the economists' assumption that people have complete information is suspect. Values and standards that were internal to certain social practices and institutions and unique to them have slowly been replaced by external economic standards that are meant to be common to all practices. Increasingly, we have come to use the amount of money society is willing to pay people as the primary indication of the value society places on what those people do. As economic activity comes increasingly to be dominated by competition for positional goods, decisions about all aspects of life come increasingly to have an economic component. This happens whether people like it or not-whether they want it to or not.

This economizing of social relations can have profound effects it can undermine the strength of the social relations themselves. It's hard to keep social relations going if people don't have time for one another. The strength of our concern for the public good may derive in part from the range and depth of our personal, social relations. It is from these relations, after all, that we learn much of what it means to approach domains of life from a noneconomic perspective. As these relations diminish, for lack of time, moral concern may diminish with them.

A general decrease in sociability is likely to change even the economic incentives to be a good citizen. Suppose that the good turns an individual does are motivated only by the expectation that they will one day be reciprocated, and nothing more. If you don't overuse the common, neither will I. If you don't dump toxic wastes in my stream, I won't dump them in yours. As an individual's network of social relations shrinks, the likelihood of reciprocation shrinks with it. Therefore, each decrease in social connectedness brings a corresponding decrease in the possibility of concerted action to solve the various commons problems each of us faces.

Since many of our social activities are increasingly taking on an economic aspect, some economists have suggested that we should take these domains out of the economic closet and treat them explicitly as part of economic life. We should enlarge the consumer's potential market basket to include not just stereos, vacations, and dinners out but time spent chatting with friends as well. Even if we don't literally put dollar values on the time people spend with friends, there ought to be some way to estimate the dollar value equivalents of social activities, perhaps by examining how many things that do have dollar value people are willing to trade for time spent with friends. Making this move has the virtue of revealing costs and benefits that may previously have been hidden from economic analysis. But making this move is also a major step in the direction of economic imperialism because it makes explicit the commercialization of social relations.

In the economic world, people get what they pay for. Certainly, they get nothing more, and vigilance is required to see that they don't get less. Business is business, after all. So what happens when the social world gets commercialized? Presumably, people start getting only what they pay for in social relations as well as in economic ones. In the economic world, people are prepared to operate on this assumption. Products come with explicit guarantees, services are provided in accordance with detailed and specific contracts. People enter into exchanges with their eyes open, expecting, and guarding against, the worst. They are not so prepared in the social world, or at least have not been until recently.

There is a self-fulfilling character to the commercialization of social relations. 'The more we treat such relations as economic goods, to be purchased with care, the more they become economic goods about which we must be careful. The more an assumption of self-interest, rather than commitment, on the part of others governs social relations, the truer that

assumption becomes. As one noted critic said, "the more that is in contracts, the less can be expected without them; the more you write it down, the less is taken, or expected, on trust." We replace the view that the people close to us love us and are deeply concerned for our welfare with the view that they are out only for themselves. And we change our actions accordingly.

We can't count on people's inherent honesty, government protection, or consumer education to solve the problems of deception and abuse that face us in the marketplace. In the absence of either a sense of responsibility toward customers or a set of enforceable government regulations and sanctions, abuse and dishonesty can only escalate. Every day, someone will come up with a new way to wring extra profit out of each sale by misleading the people who buy. Every day, someone will come up with a new way to wring extra money-out of each rule or regulation by misleading the people who are subject to it. Others will follow suit, either to get some of a good thing themselves or merely to keep up with the competition. Our wrong-headed way of thinking only promises us more problems, and greater headaches.

The solution is to change the way we think.

# Part Six

## A Different Framework

## Architecture as Metaphor

Democracy is based on the noble and clear idea that people are capable of governing themselves-which means that they are capable of understanding what is happening and making rational decisions about it. But it is becoming extremely difficult to understand what is happening. Although the main ingredients of understanding-stories and information-are present in abundance they do not come together in ways that lead the masses to wise engagement with their world. It is frequently said that we are living in the information age meaning that our time has, among its other delights an unprecedented amount of information. We also have of course an unprecedented range of activity concerned with gathering information sorting it, filing it, recording it, buying and selling it, transmitting it, and otherwise pushing it about.

The dilemma of democracy is that while governance issues grow ever more complex and information more copious the systems of mass communication make it ever more possible for political operators (left right and center) to distort this complexity -- to reduce it down to simple stories most people can understand without too much trouble and can believe as long as they don't take in too much information. Information overwhelms us and it overwhelms our beliefs.

Science may benefit from analytical thinking, but management and government are based on the art of synthesis. In the Western world, predominantly monotheist over the past two millennia, the search for the one truth has been the driving issue in discovery and innovation. In the East, the concentration has been on what is done and for whom, rather than on what is believed, no matter when. Western thinking is analytical, whereas Eastern thinking is synthetic. By the middle of the twentieth century, the Western concern for truth gradually



ceased to be an asset and turned into a liability. As societies move through time, discoveries are made, new functions and sociopolitical arrangements are instituted alongside the old, and the complexion of how natural resources are harnessed undergoes change. The results are frequently laid at the doorstep of man's cultural enterprise. New institutions emerge, requiring expression through architecture; some severely tax or transcend traditional practice. For example, the modern auto oriented city presents institutional arrangements and rituals of movement that are materially different from those of cities of earlier times. In our age, the personal computer was the beginning of the end for the old world view.

The computer allows everyone from secretaries to senior executives to work directly with technology and take advantage of the many benefits it could bring. Standard software packages that support PC hardware make the technology easy to use. The personal computer gives people direct access to technology tools and a level of data such as never before seen. In this sea of data, old views, old frames for seeing the world just don't work. The quantity of what we are faced with overwhelms and the day-to-day workings of the world demand something else. Our ability to perceive is clouded by the manifold objects and facts we are asked to see.

You cannot perceive anything without a map. The standard forms of communications we use can be seen as maps. They enable us to get beyond our own ideas to those of others. They enable us to find new information. We trade our perceptions and ideas through the currency of maps. Theoretically, a map can be a language, a symbol, a stick, or a drawing in the sand. A map is anything that shows you the way from one point to another, from one level of understanding to another. A map depicts the route through information, be it a geographic locale or a philosophic treatise. A map provides people with the means to share in the

perceptions of others. It is a pattern made understandable; it is a rigorous, accountable form that follows implicit principles, rules, and measures. You can map ideas and concepts as well as physical places.

Maps enable us to exchange information, whether about Paris or building codes. Maps are virtually synonymous with reference information in that we use them to direct or influence the course we follow in life. The principles of photosynthesis are reference information or maps to a botanist but not to someone who doesn't own a plant. A TV program guide is reference information only to someone who watches television. Maps are the metaphoric means by which we can understand and act upon information from outside sources. A map by definition must perform, whether it is a multimillion dollar, four-color production of the National Weather Service or two cans of beer on a counter showing the relationship of a friend's new house to his old one.

The new framework I am suggesting is actually old -- the framework of architecture. (My thanks to my brother Jeff's friend Betsy Horan for suggesting this approach.) For an architect must address a whole and be familiar with all the pieces. Modern buildings are complex like our lives. Yet we hire an architect not because of the details of their engineering but because we like the plans -- we like the model we can see -- and the price is within budget. Architecture is goal focused -- what will please the client. Details and subsystems are subsumed beneath the goal. This model I believe can cure much of what is wrong with government today. We've had the engineering model for too long -- and sad experience showed what happens when the engineers meet up with raw marketing.

We might consider the architect sketching a prospective building. An architect works with materials to produce an intended object and discovers that the materials resist, more or less, his attempts to impose his intentions upon them. In this process, the architect's intentions evolve. Design moves inevitably produce some unintended effects, which the architect may see either as flaws to be corrected or as happy accidents that suggest new opportunities. In architecture, as with societal problem solving, something is being made under conditions of uncertainty and complexity, so that it is not initially clear what the problem is or what it would mean to solve it. The architect's conversation with materials takes the form of seeing/changing/seeing. As the process goes on, the architect sees what he has made, listens (more or less) to back talk from the materials, and thereby constructs new opportunities or problems. Rationality in design involves continual reflection -- on materials, seeing, changing, seeing, unintended effects, emergent intentions, and the form and character of the evolving object.

As the architect iteratively shapes the object being worked on, the problems he sees will reflect an appreciation of the possibilities and difficulties inherent in the materials. The problems set forth should be ones that can eventually be solved. Problem solving must take into account all of the constraints and possibilities inherent in the situation, including conflicts, complexities, and uncertainties. The formulation of a design task or problem is inadequate if it rests on a model that excludes important features of the situation. Typically, an object's design involves many different values and variables, which tend to be interdependent-some of them mutually incompatible. Their meanings vary with shifts in local or global context. Initially, the architect may not have names for them. Hence, the architect's changes cannot produce only intended effects. The architect's continuing inquiry must then incorporate the observed effects of the changes as the reformulation of both problem and

solutions in order to take fuller account of the observed complexity of the situation and its gradually discovered field of values and interests.

New problems are set, and policy inventions are made to solve those problems; situated controversies arise, and means are sometimes negotiated and/or invented to resolve those controversies. On the quality of that discourse-its communicative reliability, for example, its openness to inquiry-depend, in considerable measure, the adequacy of problem setting, the effectiveness of policy inventions, and the likelihood that controversy will eventuate not in stalemate or pendulum swings but in some form of pragmatic resolution.

How we deal with information overload -- with complexity -- is critical to understanding what is happening in the breakdown of our governmental processes. I am going to argue that while we may all possess the skills necessary to deal with this information load we fail to use that skill. We analyze the problem from the wrong framework and reach the wrong conclusions. Our model for dealing with complexity is science. We take complex problems apart -- focus on the parts we understand -- and assume that by adequately dealing with individual parts we have adequately addressed the whole. But what is missing is the Gestalt of the whole. Our world is too complex to be dealt with this way. Instead while we claim to be addressing the whole, we limit ourselves to some selected part. In our individual lives this may suffice, but in our collective lives it produces gross failures. Government ossifies the pieces and fails to address the whole.

The concept of finding our way through this maze of information data and complexity is intimately tied to what it is we see as we attempt the journey. I have this arcane belief that at all times all of our decisions already exist and must be only revealed or changed. In this

belief inertia is a powerful component as is one's willingness and ability for articulation of an already made decision. This belief of mine is based on a few basic ideas:

In life, I believe we have a virtual infrastructure of ideas and policies needs to be managed as if it were an actual landscape. That is in our minds we all perceive what scientists call "phase space" -- a landscape of possibilities (all possible states or phases in the scientific term). Underneath this landscape as if it were a video game lies a plane of measurement. In biology this concept is known as an epigenetic landscape. In biology, C.H. Waddington developed this concept into a dynamic model of embryonic development. In my conception it is the model for all of our decision making. The model imagines a ball that represents a decision rolling down through a curved landscape with hills and deep separated valleys; these correspond to different developmental paths for the decision at hand. Under the terrain there is a network of influences (resources, constraints, actions by others) that together determine the height of each of the hills and thus influence the ease whereby the ball, subjected to minor random disturbances, can be pushed over into a new pathway on its way through life.

We picture this landscape as if it were the landscape of a good three dimensional video game and at all times have an awareness of where we are. The landscape is composed of opportunities, resources, constraints, and obstacles ( much like a video game). Because we know where we are on or in this landscape at all times we have a decision about any question. To get to a different decision requires movement within this internal decision landscape.

Memory plays a crucial role in the actual execution of decisions. The image inherent in each decision has to be remembered so that the process of matching with familiar information can take place. A person can usually recall some general features along a familiar route, but he

cannot remember the specific image of each decision. In order to understand decision execution it is important to differentiate between recall and recognition. The capacity to recognize, that is, to remember in the presence of the object, is far superior to recalling. The process of executing decisions is largely based on recognition. Some recall, though, is necessary for the development of decisions in the first place. In executing a plan, it is assumed that a person continuously matches expected decision images with perceived images. Sometimes a mismatch occurs. Maybe a tree is missing, maybe a house has been repainted. Typically, the person will react with surprise. A mismatch forces a shift from an unconscious decision execution to a conscious decision-making process. A mismatch has something of an alarm effect. In the end the person may have to develop a new plan for a decision that has become a task. or he may have to adjust the image expectancy attached to the decision.

Sometimes, through either necessity or a lack of confidence in the outcome portrayed by new information, a line of argument is abandoned. This abandonment can result in the problem solver's backtracking through the problem space to a point that appears to be non-troublesome and promises to allow forward progress. In this process certain variables, or aspects of choice behavior, may be more likely to be incorporated than others about which only qualitative speculations can be made. The upshot is that the proposition and evaluation of policy alternatives can be determined to a significant degree by the technique, or medium, of expression and representation. Furthermore, there may also be a tendency to incorporate variables that are statistically relevant, although no really satisfactory nonstatistical explanation can be provided. This is tantamount to analog takeover, in that the use of the medium in its own terms far outstrips the message.

We could attempt a test of fit rather than match. The quest for truth has been dominated by an idea of a perfect match between cosmic reality and human understanding of it. The idea of a fit leads to a more pragmatic way of looking at things. A philosophical system a scientific theory a religion or even a personal identity does not have to be a precise mirror of ultimate reality as long as it works more or less well in its context. Consider the metaphor of a key and a lock: a key fits if it opens a lock but we know from our experience with burglars' tools and passkeys; that a number of different keys may work. This metaphor that suggests only one test-the key fits or it doesn't. But the fit concept goes far beyond that in directions that amplify our understanding of evolution and of what we mean in the postmodern world when we talk of truth.

Our hope for an outside event is a vision of a belief about the internal landscape but our articulation ability for such a description is limited and we lack the words to do so. Further, the actual articulation if it occurred or we had the words would then evoke an equivalent of the Heisenberg principle: to wit the act would risk changing the landscape and thus the basis of the decision itself: and if we have an awareness of this risk we take it into account. For example, within this landscape we might consider a Laffer curve between involvement and escape where the outside edges represent happiness and the inside middle represents unhappiness -- over involvement then becomes the equivalent of a moblus strip as a perceived inability to escape -- i.e. commitment. Commitment without involvement is imprisonment. Complexity thus directly raises the question of trust versus involvement on this curve.

The concept of a holographic memory form seems to match the notion of a decision landscape. The implications of this belief are what have led me to the assertion of the architectural model for policy making.

What happens if we view government policy making as architecture? Although government policies are not buildings or cities and policy makers are not architects, this chapter argues that architecture is an illuminating metaphor. Note that our modern cities are only possible because man learned to separate two components of buildings -- the outside appearance and the critical elements bearing load. This began with the flying buttresses of the Gothic and continues with the steel superstructure and glass curtain walls of the modern skyscraper. This same lesson could be learned by policy makers. The equivalent of the glass curtain wall can be the publicly perceived measure of a policy while its true load is borne by some external force -- the equivalent of the flying buttress -- or some purely internal unseen force -- the steel superstructure. Just as it is impossible to build beyond a twelve or so story height with only the apparent structure carrying the full load -- it is impossible to conceive of meaningful policy that the media and public can reduce to a sound bite that actually can carry the full load of its intentions.

Communication is the contractor to a decisionmaker's architect. A contractor simply follows the agreed-upon blueprints. The architect, on the other hand, not only has to oversee the blueprint drawings but work with the contractors, subcontractors, and clients to make sure that there's a shared understanding of what the project is all about. Using their clients and contractors as media for discovery, the best architects create environments that satisfy everyone-their own vision of building; the clients' image of a home; and the contractor's grasp of materials and building techniques.



Perfect information is always far from available. Therefore, when judgements have to be made, they are often obliged to be intuitive. Working hypotheses are the nutrition of good executives, sustaining them as they seek to suspend final judgement until necessarily obliged to close off options. The same feature is true of the best scientific thinking, which recognizes that the truth of any scientific proposition can never be completely demonstrated. emphasizing opportunistic thinking which 'is: a responding to opportunities, including the suddenly unexpected ones; developing ideas and judgments on the run, before there is the full evidence on which to base a sound decision; reaching conclusions from readily available information, with only minimal search for more; consistently applying the same opportunistic search and conclusive style to all aspects of behavior.

In the-simplest building design situation, -there is a architect, an object to be designed, and an environment in which that object is to be used. The architect makes a representation of the object a drawing, model, or symbolic description-which will later be embodied in materials and put out into the larger environment. Such a representation is made under conditions of complexity and uncertainty. It is made within a virtual world (the architect's sketchpad or computer screen, for example) that stands for the real world in which the object will function, and within which the architect can make and test moves cheaply, at his own pace, and at relatively low risk.

The confusion and complexity surrounding actual decision making is often far greater than we like to admit. Many things are happening at once; practices, forms, and technologies are changing and poorly understood; preferences, identities, rules, and perceptions are indeterminate and changing; problems, solutions, opportunities, ideas, situations, people,

and outcomes are mixed together in ways that make their interpretation uncertain and their connections unclear; decisions at one time and place appear to have only a loose tie to decisions at others; solutions seem to have only modest connection to problems; policies are not implemented; decision makers seem to wander in and out of decision arenas and seem to say one thing while doing another. Decision histories are often difficult to describe. When (and even whether) a decision was made, who made it, with what intentions, and with what consequences are all often obscure. Many decisions are made by default, and decision processes often exercise problems without solving them. Decisions are made outside of an explicit decision process, and decision processes often fail to make decisions. The attention of participants is difficult to predict simply from the properties of the choice being considered. Participants fight for the right to participate, then don't exercise it. Decision makers ignore information they have, ask for more, then ignore the new information. Organizations buffer the process of decision making from the processes of implementation. Participants argue acrimoniously over policy, but once policy is implemented the same participants seem indifferent to its implementation.

Decision makers do not consider all consequences of their alternatives. They focus on some and ignore others. Relevant information about consequences is not sought, and available information is often not used. Instead of having a complete, consistent set of preferences, decision makers seem to have incomplete and inconsistent goals, not all of which are considered at the same time. The decision rules used by real decision makers seem to differ from the ones imagined by decision theory. Instead of considering expected values or risk as those terms are used in decision theory, they invent other criteria. Instead of calculating the best possible action, they search for an action that is good enough.

The architect makes his representation of the object within a held of constraints, acting from intentions implicit in his values and purposes. However, the architect's intentions, constraints, and objectives are not fully given at the outset, and they are not fixed. They emerge in the course of making the object, through a process of seeing, making design moves, and -seeing again. Working in some graphic or plastic medium, such as drawing, the architect sees what is there in a representation of a site or object, draws in relation to it, and sees what has been drawn. As the representation of the object takes shape and new qualities are recognized in it, new meanings are apprehended and new intentions are formed.

Detecting the intended and unintended consequences of his moves, the architect becomes aware of an evolving field of values, criteria, and constraints, which are always, to some extent, mutually incompatible. In this process, he sets new problems, constructs new possibilities for action, or formulates new dilemmas. For example, an architect may discover that her attempt to make the shapes of a building fit the complex contours of a site has produced an incoherent form. An engineers attempt to make a razor blade sharper may also make it more vulnerable to corrosion.

Given the framing of a new problem, opportunity, or dilemma, the architect makes an invention aimed at solving the problem, realizing the opportunity, or resolving the dilemma. For example, the architect may invent a way of imposing a geometry onto the contours of the screwy site. Such inventions must be embodied in the artifact through further design moves. Not infrequently, such moves raise new problems that require a second invention no less important than the first.

Modern crises occur, not because we are too stupid to avoid them, but because we are emotionally limited. We can only absorb a certain amount of information and consider a certain number of alternatives, because we automatically resist situations fraught with extreme conflict, anxiety and uncertainty. In research one finds virtually no cases of individuals who were unable to 'think' about major crises because of cognitive impairment or intellectual limitations. The problems aren't in people's heads, but in their hearts. Neither individuals nor organizations can sustain long enough the emotional pain that is required in order to learn and to change. Most of the belief systems that people found satisfactory in older and simpler times came into existence as stories that adequately arranged the information that was available at a certain point into coherent explanations of life but the accumulation of further information becomes a constant source of irritation: the information has to fit the story or the story has to change to fit the new information or the information has to be denied or repressed. We move every day into a world that makes greater demands on the intelligence of citizens while the energies of our communicators are focused directly on the creation and dissemination of idiotic stories about what is going on. Lacking absolutes we have to encounter one another as people with different information different stories different visions -- and trust the outcome. While governance becomes more complex politics becomes more simple minded. The public is beguiled with media images noble lies theatrical poses and half truths disguised as absolute verities. Never have there been such easy answers to such hard questions.

Corporations are foundering for the same reason the institutions of marriage, politics and organized religion are foundering: we- have lost trust in them. We don't trust senior management to keep our best interests at heart (we're not even sure senior management has a heart). We don't trust our co-workers when our backs are turned. We don't trust the

basic framework of our jobs to remain stable for more than a week at a time. And in the end, we don't even trust our own perceptions. Trust sounds simple; in fact, to the modern ear it sounds naive. We forget how complicated and elusive the feeling really is -- and how psychologically necessary. Human beings are built, physically, mentally, emotionally and spiritually, to need a baseline of consistency. When things are consistent over time, they are predictable, therefore stable, therefore trustworthy, When that consistency is disrupted by shifting value systems and overwhelming change, we grow disoriented, disorganized, wary.

We defend against that pain by paying selective attention, ignoring any data that contradict our comfy preconceived notions. The human mind was built for this technique: in most cases, we see what we want to see. We are perfectly capable of disregarding anything that doesn't match our assumptions. Even our memories are biased, because we store new information by attaching it to something we already know. If the new information is radically different from our past experience, some of us simply won't have enough mental diversity and flexibility to find it a storage place. We also defend ourselves emotionally by satisficing, making do with satisfactory but mediocre alternatives. Satisficing takes less energy-and carries fewer risks-than confronting the lions, tigers and bears that lurk in front of the best possible solution. In a crisis, people are most likely to choose the path of least resistance and greatest familiarity.

It would be quite erroneous to assume that for an unfamiliar task, a person works out a total plan and then executes it. Here the house-building analogy would not hold. The wayfinding protocol indicates people to have often only global and vague initial plans consisting merely of a few general decisions. These decisions at least allow for a start. The specific problems are then tackled as they present themselves. This approach makes good sense, given that

not all environmental factors are known or predictable and, consequently, the problem cannot be fully assessed. Even starting off with a vague idea, the person can pick up new information that helps clarify the problem. The development of a decision plan has, therefore, to be seen as an ongoing process that is designed for dealing with unforeseen problems whenever they occur. The definition of spatial orientation as being the ability of a person to determine where he is within a physical setting has to be extended to include an alternative ability that consists in determining what to do in order to reach a place. Instead of relying on a spatial representation of the physical environment to situate himself, the person may rely on a plan of action or a strategy to go somewhere.

Information has to be picked up; it also has to be interpreted. Seeing a door, for example, a person has to understand its basic function, that of communicating to another space, and he might also have to decide whether that particular door is intended for the public or-only for private use. The interpretation is-facilitated by a number of design cues the person has learned to associate with private or public doors. The act of interpreting the meaning as to accessibility also applies to space itself. Territories are spaces that individuals or groups claim as their own and over which they exercise control. In order not to intrude, a person has to pick up often subtle cues indicating the degree of personalization of the space. Private and semi private territories not only limit access, they also prescribe behaviors, and a misinterpretation can easily lead to antagonistic exchanges. There is a tension that emerges at the point of transition between the drawn and the built which every architect and every policy planner must consider.

We begin with some hypothesis or belief about the outcome or the decision we are about to make. As information is presented we compare our initial belief against the information. At

the early stages incongruities from a credible source will cause us to question our belief and perhaps change it. At all times we have some answer if the question were put to us at that instant. The range of potential answers include postponement of a decision and abstention. The longer the process unfolds the more attached we become to our then working hypothesis. It requires ever more powerful evidence to overturn our belief. Once the decision is made, we experience relief and do not want to revisit the process again.

Spatial orientation and wayfinding subsume an ensemble of complex mental processes. They allow people an idea of surrounding space, of their positions in that space and they allow purposeful movement within that space. People must reach a great number of destinations during a typical day, and they are normally quite aware of their positions in the surrounding space and in the larger environmental context. Not only are people quite efficient at these movements. but they execute them often in an automatic or semiautomatic fashion. When everything works according to plan, the mental operations required will pass unnoticed. However, the state of being disoriented, of being confused about one's position in a surrounding space and the actions necessary to get out of it, is a deeply felt experience.

Disorientation is a problem that has preoccupied mankind in the past and as the built environment has grown in size and complexity, it has intensified. Disorientation can provoke frustration and stress and may have disastrous consequences. Kevin Lynch takes a particularly strong stand in his *Image of the City*. He notes that to get completely lost is a rare occurrence but: "Let the mishap of disorientation occur and the sense of anxiety and even terror that accompanies it reveals to us how closely it is linked to our sense of balance and well being. The very word lost in our language means much more than simple geographical uncertainty: it carries a tone of utter disaster."

Architecture is a process of discovery and learning. In the course of seeing, moving, and seeing yet again , the architect discovers unanticipated patterns, relationships, and possibilities, which may inform further architecture. As he plays out webs of moves and discovered consequences, for example, an architect may learn about the nature of the problem implicit in a particular configuration of the features of the site, program, and constraints. An entire episode of architecture may function, then, as a source of learning that enables the architect to readdress the project at hand or tackle a new project more intelligently.

Projecting this relatively simple view of architecture onto the field of government policy making, we see a policy architect who constructs, in some relatively protected forum, a representation of a policy or program that will be sent out, upon its completion, into an actual policy environment. As the representation of the policy object takes shape, the policy architect's seeing/moving/seeing reveals new meanings, goals, and criteria, some of which are found to be mutually incompatible, requiring the framing of new problems, opportunities, or dilemmas.

As the policy object changes shape, a architect nuances how new meanings, constraints, and criteria emerge and, on the basis of these discoveries, successively resets the problem of the developing policy situation. Problem solving must be adequate to facts of the problematic situation that may be discovered as the unanticipated consequences of earlier moves are detected, and it must also take account of the multiple, partly incompatible requirements of which the architect becomes aware over time. Of course, the validity and import of the new information may not be fully apparent until subsequent steps have been taken making use of



the information. As the new information becomes available, it must be provisionally considered useful; otherwise the line of argument through which it was revealed would have to be abandoned. In other words, information about constraint conditions not so far considered may or may not be appropriate, but it will not be until the conclusion of subsequent operations that the value of the information can be fully assessed.

Policy architects invent modifications of the policy object in order to solve problems, exploit opportunities, or resolve dilemmas and these inventions may be more or less adequate to the problems they are intended to solve or the dilemmas they are intended to resolve. Moreover, these inventions may yield unintended consequences that the architect finds more or less desirable. The policy architect may learn from webs of moves, detected consequences, and appreciations derived from previous episodes of policy inquiry.

However, this simple picture of architecture leaves out critically important kinds of complexity, discontinuity, and uncertainty that are as important to policy design as they are to the design of material objects. Decision makers face serious limitations in attention, memory comprehension, and communication. Most students of individual decision making seem to allude to some more or less obvious biological constraints on human information processing, although the limits are rarely argued from a strict biological basis. In a similar way, students of organizational decision making assume some more or less obvious information constraints imposed by methods of organizing diverse individuals:

1. Problems of attention. Time and capabilities for attention are limited. Not everything can be attended to at once. Too many signals are received. Too many things are relevant to a decision. Because of those limitations, theories of decision making are often better

described as theories of attention or search than as theories of choice. They are concerned with the way in which scarce attention is allocated.

2. Problems of memory. The capabilities of individuals and organizations to store information is limited. Memories are faulty. Records are not kept. Histories are not recorded. Even more limited are individual and organizational abilities to retrieve information that has been stored. Previously learned lessons are not reliably retrieved at appropriate times. Knowledge stored in one part of an organization cannot be used easily by another part.

3. Problems of comprehension. Decision makers have limited capacities for comprehension. They have difficulty organizing, summarizing, and using information to form inferences about the causal connections of events and about relevant features of the world. They often have relevant information but fail to see its relevance. They make unwarranted inferences from information, or fail to connect different parts of the information available to them to form a coherent interpretation.

4. Problems of communication. There are limited capacities for communicating information, for sharing complex and specialized information. Division of labor facilitates mobilization and utilization of specialized talents, but it also encourages differentiation of knowledge, competence, and language. It is difficult to communicate across cultures, across generations, or across professional specialties. Different groups of people use different frameworks for simplifying the world.

One critical source of complexity is hidden in the deceptively simple phrase, "the architect." Contrary to the picture described above, architecture is a social process, and the architect is

characteristically a collection of actors, each with its own interests and intentions, its own slant on the object, its own image of a desirable future state, and its own names for the things and relations it takes to be important.

The design of a moderately complex building, for example, usually involves a collective that includes architects, clients, interior architects, mechanical engineers, developers, regulators, planners, and neighborhood groups. These actors may be free-standing individuals, or they may be organizations or interest groups within which are nested smaller groups or individuals, whose roles in the design process usually require them to work out more or less integrated positions and strategies of action.

Given the divergent interests and powers of the actors involved in it, the social process of architecture is inevitably political. Sometimes the actors are antagonists who contend with one another over the form the object will take and vie for control of the design process. Sometimes the actors form a coalition; working in concert, they constitute what we call a architecture system. At other times, they exert their influence on the evolving object in relatively disjointed ways. Nor infrequently they combine several modes of interaction or shift from one mode to another, moving through periods of cooperative inquiry, ambivalent contention, fragmentation, or outright antagonism.

Thus, the policy object was reshaped in form and meaning as a resultant, on the one hand, of the design moves invented by the various actors as they became aware of new problems and tried to solve them, and, on the other hand, of the other actors' responses to those moves. The shifting interaction of patterns of the policy design drama were reflected in shifting patterns of policy discourse. Speaking from their various action frames, often in

different professional, political, or cultural languages, the actors sought to explain, persuade, debate, bargain, inquire, or mobilize the support of the larger public that acted as gallery to the policy arena.

Architecture is a social process in two ways. First, the architect now becomes a architecture system, a coalition of actors, individual or institutional. Interactions within the architecture system may be, in varying degrees, cooperative or antagonistic. Second, the architecture system sends its object out into a larger environment where other actors see, interpret, and respond to it. The social design process now becomes a drama enacted in an arena-an image that captures policy design as well as the collective design of such artifacts as buildings or industrial products.

Social design is necessarily communicative. Because the actors shape the object through their more-or-less organized interactions, they must communicate with one another, sending and receiving messages in the form of words and actions. These messages include design moves and responses to the object in situations of use. Although vagueness and ambiguity may at times serve useful purposes-for example, by softening disagreement or deferring conflict the architects cannot effectively make something together unless their communications achieve at least minimal reliability. Communications work reliably only if participants are able to test the meanings of the messages they receive, and anticipate and test how others will interpret the meanings of their messages. Social design process is inevitably political. The architecture system is a coalition of actors who have their own interests, freedoms, and powers. If that coalition fragments, as the state actor fragmented in the later stages of the early retirement case, the architecture system becomes an array of antagonistic parties whose interactions no longer qualify as architecture. Architectural

structures consist of massive elements, like columns, beams, arches, and domes, and their own load, the so-called dead load, is most of the time the heaviest they must support. It depends on the volume of the element and the unit weight of its material. The evaluation of the dead load of a structure presents the engineer with a paradox: It cannot be computed until the structure is designed, but the structure cannot be designed until the dead load is computed and added to all the other loads. Only long practice will teach the engineer to make a good first guess of the size of a structural element, but you can be sure that the dead load will never be ignored because it is always there: it is a permanent load. Actually we include in the dead load the weight of whatever is always there, like the building partitions, which may be moved around but are always present, as well as the pipes, ducts, and the other components of the air-conditioning and plumbing systems.

With a government policy or program the dead load equivalent is the bureaucracy which is established to administer the program and the parasitic service culture which will spring up to use, access, and influence that bureaucracy. If the government program does not have adequate resources to deal with its own internal population and this external parasitic culture it cannot, in the long run, be expected to withstand the outside pressures of achieving its goal. The building exists for some function not just to stand like a memorial for all time. Similarly, the governmental program has a goal and a purpose -- not just to create jobs for its bureaucrats and parasites. Just as with a building, the dead load I'm describing cannot be computed until the program is up and running. But -- and this is a critical but -- unlike a building, with a governmental program once the dead load factors become more apparent resources can be fairly easily adjusted. In architecture this observation occurs but it only affects the next building except in the case of crisis. This seems to be even more generous

than how our government presently functions (is anyone making the observation after the fact?), but the possibility of change remains, nonetheless.

The gravity loads the structure must support in addition to its own dead load are called live loads and include the weight of the furniture, people, goods, fixtures, snow, etc. Since live loads vary greatly from one building to another and since they may change from day to day, even hour to hour, the evaluation of all their possible combinations, while perhaps feasible, would be enormously time-consuming and uncertain. To avoid these difficulties, live loads are mandated -prescribed-for the structural engineer by building codes issued by the building departments of countries, states, counties, and cities. These codes list the mandatory minimum live loads for each type of building and each kind of load.

Live loads in government programs are the goals. But while buildings are designed to handle live loads -- with governmental programs the power of naming seems to be invoked. If the Congress or a rule maker can describe the live load he wants borne so be it -- regardless of the capability of the system to bear the load and without the benefits of design.

Under loads that often change directions from upward to downward and back again, as may happen in bridges under moving traffic, beam stresses may change from tension to compression and back to tension, when the loads change the beam curvature from downward to upward and vice versa. When these changes occur millions of times, as in machine elements, steel- elements may break under low stresses because of a phenomenon called Fatigue.

Who among us would not describe our government as hopelessly fatigued? The inability to deal with the stresses and strains imposed by inadequate design and review is rampant. In modern life complexity tends to reveal itself through stress. Stress requires a style of imagining that sees psychological life in terms of material objects. This materialistic bias is the preferred stance of modern science, a stance also dedicated, ironically enough, to the belief that material objects are soulless. Despite this denial of soul, it is interesting how psychology, in its rush to be accepted as a science, has wholeheartedly, if not always wittingly, embraced this materialistic bias. When modern psychology talks about stress, it usually talks in terms like dynamics, coping mechanisms, hardiness, adaptation, or relaxation techniques.

Popular prescriptions for relieving stress include working out stress through exercise, as if relief lay in a harder body, or in monitoring brain waves through bio-feedback. The theme in these responses is that stress is a structural defect best corrected through controlling and relieving pressure. Although these various materialistic prescriptions might alleviate the physical symptoms of stress (tight neck, headaches, rock-hard shoulders), they do little to respond to the underlying psychological attitudes that create and sustain stress to begin with. They are simply too mechanical, too reductive. It's as if those who prescribe them believe we can relieve stress through purely physical means or through sheer force of will. But such ideas actually reinforce (more engineering talk) stress and can even create situations where the means meant to reduce stress actually increase it.

Most things people classify get a name or a label. Naming is a cognitive process that renders the world manageable. It is significant in this context that various cultures associate naming with religious and mythical ideas of original creation and of the transformation of

chaos into order -- for example the story of Genesis, in which creation is considered completed only after man has named its constituent parts. By the same token we often assume a phenomenon to be understood just because it has received a label. Naming creates an order and also renders the unknown familiar. Early American immigrants often used names of places and cities of their countries of origin to designate the new habitats and this without concern for physical resemblance. Similarly names are used to enhance and embellish. Park Avenue in New York, for example, is suspiciously lacking a usable park or even trees. Although naming is no doubt fundamental in coping with the environment, a certain form of knowledge does not lend itself to labels. This knowledge may be retained as images that are not necessarily visual in nature. The memory of a good bottle of wine is an appropriate example. Wines have been described in flowery words, but inevitably one has to taste it to know what the description means

Douglas Hofstadter writes of "the nearly trivial observation that members of a familiar perceptual- category automatically evoke the name of the category. Thus, when we see a staircase , no matter how big or small it is. no matter how twisted or straight, no matter how ornamented or plain, modern or old, dirty or clean, the label 'staircase' spontaneously jumps to center stage without any conscious effort at all. obviously, the same goes for telephones, mailboxes, milk shakes, butterflies, model airplanes, stretch pants, gossip magazines, women's shoes, musical instruments, beachballs, station wagons. grocery stores. and so on. This phenomenon, whereby an external physical stimulus indirectly activates the proper part of our memory permeates human life and language so thoroughly that most people have a hard time working up any interest in it, let alone astonishment, yet it is probably the most key of all mental mechanisms.



This is a particularly difficult problem for the government bureaucracy because of its near total embrace of labelling as a defining method in problem solving and its obsession with order and obedience. Dealing only with labels (never individuals) and claiming that "this decision was free from political pressure" are like the steel framework of the bureaucracy. And like any material framework in a building, it is capable of withstanding only so much stress. Unlike a building which is used and then adjusts to the individuals within it, our government bureaucracies assert the magic of their labels and then defy individuals to challenge them. The bureaucracy claims "objectivity" when it means wrongful simplification and inertia.

When claims of objectivity are internalized, we start to imagine ourselves as objects acting within a system designed to maintain order and ensure obedience. We then almost certainly begin to experience stress. Of course there are "too many things to do." Of course there is "too little time." Of course we start spending less time outside of the system, taking fewer vacations and worrying about things back at the system when we do, or working too much because we fear that without us things will get out of hand, pile up, overload, fall through the cracks, go haywire. And of course anxiety builds as we come to think that as mere object in a system we ourselves can almost certainly be replaced.

It is interesting to note how many of the usual remedies given for stress involve turning one's attention away from the alleged stress-inducing event (take a vacation, meditate, go to the gym, close your eyes and concentrate on relaxing, etc. ), all of which are examples of how objectivity uses its abstracting talents to avoid direct emotional involvement. In turn, order and obedience create an atmosphere of false stability that allows objectivity's lack of passion

to go unchallenged. But when things go out of whack, as they inevitably do, this quid pro quo becomes an engine of stress.

Redundance is a needed property of all languages. It is a safeguard that permits us to understand a sentence even if we miss some of the words. The degree of redundancy varies with the language. The safeguard of a language to prevent total failure in communication, even when partial failure occurs, is perfectly analogous to the amount of redundancy the architect puts into a structure to avoid total failure in case of local failures and varies with the -type of -structure. Structural redundancy essentially allows the loads to be carried in more than one way -- i e., through more than one path through the structure -- and must be considered a needed characteristic in any large structure or any structure whose failure may cause extensive damage or loss of life

Redundancy implies that a structure can carry loads by more than one mechanism-that is, that the forces on it can follow alternate paths to the ground. It guarantees that if one mechanism fails, loads can still be carried by other mechanisms. Consider, for example, a tower firmly supported on four legs The failure of one leg will severely cripple the tower, but the tower may still survive, although the remaining three legs are overloaded, because the rest of the structure will adapt itself to carrying the load by redistributing it to the remaining legs.

Today buckling is considered a very dangerous structural phenomenon because our strong materials allow us to design thin element, in compression (columns, struts. arches, and domes) that buckle without giving notice. Government reacts to unexpected change the only way it allows itself to react: it bears down and works even harder to be more objective and to

create new procedures to restore order. The only way to stop the engine is either to eliminate change, which seems unlikely, or to cut off the engine's fueling assumptions. If the program were designed with flexibility, and with redundancy, perhaps some of the strains and stresses could be better handled and the equivalent of a buckled bridge or a collapse building avoided.

While material objects usually start out as representations of things to be built, architecture carries over into the processes by which they are constructed, used, and managed. A building, for example, is redesigned when working drawings are converted to a physical structure on a site and again whenever owners or users appropriate it and adapt it to their needs. Competent architects, attentive to the life of the object in its environment, learn to expect and prepare for the possibility that, over time, new meanings will attach themselves to the object they have designed and that modifications will be made. This is the very process our government lacks.

In the virtual world of policy design, as in an architect's studio, the representation of a policy object is initially under the control of a architecture system. But when that representation becomes an object that moves out into the larger environment, it is acted upon and controlled by its users in ways the initial architects could not fully anticipate. Bureaucrats in local welfare, housing, or health organizations can easily transform the meanings of public regulations through judgments that reflect their own interests or conceptions of good policy. When the policy object takes on new meanings in use unanticipated by its architects, contention may rise to the surface. Seeing what users, managers, or regulators have made of the object they have designed, the initial architects may discover flaws in their design, which they seek actively to correct. But other actors, now operating as secondary architects,

may take exception to such efforts at correction, Then a full-fledged controversy may erupt as would-be architects struggle to gain control-of the object's form, meaning, and use. The architect is never in complete control of a policy environment. The success of their enterprise depends on other parties choosing to behave in certain ways. Just to this extent, the architects live in a world of distributed powers, which requires them to enter into a communicative relationship with their antagonists.

Just as old buildings may be put to new uses when new circumstances arise, so when the policy context shifts actors may discover new meanings in policy objects and invent new ways to use them. Shifts in the policy context may trigger controversy but may also help to create conditions favorable to its pragmatic resolution for example, by promoting a change in the identity or power relationships of actors in the arena, or by fostering new alliances, changing the availability of resources, or creating a sense of crisis that overrides preexisting disputes.

Institutions often try to control the processes by which meanings are constructed for events in the policy-making process, making strategic use of symbols not merely to confuse the weak but to establish an interpretive order that conforms to their systems of belief. The more powerful the actors are, the more they may be able to impose their beliefs and preferences on others, without taking into account their own contribution to creating the environment in which they find themselves. Once they see, for example, that the antagonism of other actors is possibly, at least in part, of the architects' own making , then they have a strong incentive not only to project themselves into the point of view of the others but to reflect on the interests, intentions, and beliefs that shaped their own prior actions.

This can be a very painful step. We usually find it convenient to see our environments as imposed upon us by external forces rather than as byproducts of actions of our own for which we must take responsibility. It is difficult to reflect on our own transactional responsibility for the world around us, especially when the world we have helped to create turns against us. It is much easier to consider how we might cope more effectively with the other's antagonism. Nevertheless, we have a rational interest not only in putting ourselves in other people's shoes, but in discovering and taking responsibility for the frames that shape our own contributions to an antagonistic environment.

Yet if we consider the consequences of our antagonism: the building may lack adequate flexibility, adequate redundancy, the ability to deal with its dead load -- we can resolve to focus on goals. Quoting from the Code Of Hammurabi:

"If a builder build a house for a man and do not make its construction firm and the house which he has built collapse and cause the death of the owner of the house, that builder shall be put to death. If it cause the death of the son of the owner of the house, they shall put to death a son of that builder. If it cause the death of a slave of the owner of the house, he shall give to the owner of the house a slave of equal value. If it destroy property, he shall restore whatever it destroyed, and because he did not make the house which he built firm and it collapsed, he shall rebuild the house which collapsed at his own expense. If a builder build a house for a man and do not make its construction meet the requirements and a wall fall in, that builder shall strengthen the wall at his own expense."

If a policy maker fails to design and construct a policy which can deliver the service it promises, either it must be redesigned immediately to accomplish its purposes, or perhaps the policy maker should be put to death. Now that would change governments' priorities fast.

# Part Seven

## Stopping the Theft

We are getting ripped off. I think by now I have made that clear. But there still is the ability to change. A book like this would not be complete without some set of suggestions of how to address the problems I have described. Indeed, that would not be fair. It is much easier to be a critic than to solve problems. I have not met anyone yet who is in favor of the types of theft I have described. But not in favor and a willingness to do something about the situation are often two separate courses of action. As I circulated drafts of this manuscript among colleagues I was frequently asked "but what about answers?."

What follows then is my perspective on what to do -- on how to stop the theft.

Change is required. Many changes. In our institutions. In our way of thinking. Perhaps in our way of life. "There will be justice in Athens only when the uninjured parties are as indignant as the injured parties."

Recall Judge Learned Hand's remark that mental habits "indirectly determine our institutions"

To ask for change I need to articulate goals. The goals are to be the foundation and frame of my building. To state them briefly:

Economic Security. Every American has the right to a basic level of food, clothing, housing, education, health care, and child care. The free market is not the most efficient allocator of resources, thus the public debate must include how much of a social safety net to provide.



This requires an active, effective government and the reform of major social-welfare programs. Whatever the costs of these programs, they pale in comparison to the known costs of poverty-crime, drug abuse, family violence, malnutrition, suicide, ignorance, and political apathy.

**Full Employment.** Every American has a right to a decent job, and the government has a responsibility to serve as the employer of last resort. No level of unemployment is acceptable. There is no shortage of essential public needs-pollution clean-up, environmental restoration, housing rehabilitation, rural health care, highway construction-that today's unemployed could be hired to address.

**Economic justice.** Reducing the extremes of rich and poor will require steep income taxes on those who earn immense sums and wealth taxes on those who can pay.

**Social Equality.** Equality of opportunity can be coupled with creating special opportunities for victims of discrimination. But money and idealism cannot just be thrown at inequality, it's clear that common sense and practical wisdom must allow for the development of "separate but better" programs for the disadvantaged in communities and workplaces.

**Sustainable Development.** Reorienting incentives and regulations to ensure greater use of renewable resources and lower levels of pollution may require curbing our ever increasing personal consumption and economic growth while being more open to changing lifestyles.

Democratic Participation. Dramatic changes in the political system may be needed including proportional representation, participatory citizen boards, government financing of elections, and the elimination of barriers to the use of recall, the initiative, referendums, and term limits. Our system of government in the twentieth century has emphasized the responsibility of the individual voter to be a self-mobilizing citizen, to follow closely the issues of politics, to read up on the candidates and their positions, to be familiar with government policies and proposals. The theory is that the people will simply discount all the various information presented to them appropriately, like handicapping a horse race, and make an educated guess of how much to bet on it. How they are supposed to do this has always been left unstated. In theory, smart citizens do not need to be informed, galvanized, or mobilized by mass organizations; only the uneducated and apathetic need third parties to stimulate their civic interest. The theory holds that politics should represent the aggregate views of the individual citizen. But for this ideal to work, Americans must believe in their government and believe in its goals. And the government must attempt to relate those goals to lives of each and every citizen.

Americans want to live in an economy that provides sustainable and widely shared growth in the standard of living. They are prepared to work hard and make sacrifices to that end if they see the connection between the effort and the result. People want high-quality public services -- schools that teach modern skills, retraining opportunities for workers who lose jobs, efficient transportation, health care for those who need it-but they also want to know what happens to the taxes they pay and see some evidence close to home that public efforts make a difference. Sincerity and good intentions, even when widely shared, are no guarantee of support; success in delivering services is.

Within society we may expect the abundance of choice to lead to the erosion of any one dominant set of values. No longer will we see some seeking to set or change the rules, while others, the majority, wait to keep the rules they set. "Anything (or almost anything) goes" will be the message of the next decade. It will be increasingly acceptable to do your own thing provided that thing does not interfere with the choices of too many others. NIMBY (Not In My Backyard) has always become the plea or bleat of those who seek, at the same time, to promote individual liberty and to defend their own islands of privacy, words once again heralding a change of tune.

Achievement and contentment in this society will have many different facets. It could be called a tolerant society, but it could also be a very fragmented society as an individualism rooted in personal achievement and material success replaces the mixture of institutional paternalism and dependency which we grew up in-good news for the strong but not for the weak. Choice, in the end, is only good news for all if everyone has enough to choose from, enough information and enough inner resources. To put it more paradoxically, a society dedicated to the enrichment and enhancement of the self will only survive and certainly will only prosper if its dominant ethic is the support and encouragement of others. Proper selfishness is rooted in unselfishness.

Perhaps Jonathan Rauch phrased it best in his *Demosclerosis*:

"In an overcrowded boat, you need some ground rules for deciding who goes overboard, or else you wind up with a melee that throws the weakest people into the sea or even capsizes the whole vessel. Similarly, in an environment where every program is 'necessary' and getting rid of anything is 'unfair', you need some principles for deciding what goes and what

stays. Because the paralysis of interests tends to turn government reactionary and maladaptive, the principles should be forward-looking and pro-adaptive. I suggest the following:

- Favor the poorest. Does a program serve the poorest of the poor? Then give it special consideration- not a safe conduct or an exemption from critical scrutiny, but a leg up.
- Favor the diffuse. Does a program serve a class of people- consumers, say, or the unemployed-who are too broad and diffuse to lobby? Then give it special consideration. (But be skeptical of lobbies that claim to represent the broad public interest; they are just as likely to be in business for themselves as is any other lobby. Self-styled consumer groups often advocate policies-overregulation, for instance-which are bad for consumers but good for consumer groups; same for many groups claiming to represent taxpayers or the planet or whatever.)
- Favor the young. Does a program primarily benefit children (a classic diffuse constituency, unable either to vote or to lobby)? Then give it special consideration. But, again, beware. Adults have been known to collect subsidies by claiming to speak for children.
- Favor investment over consumption. Does a program have a strong claim to be a long-term investment? Then give it special consideration. But be tough-minded and selective, because everyone calls his favorite program an 'investment.'

- ? Disfavor organized interests. Does a program benefit an identifiable group, profession, or region? Then it deserves, at best, suspicion.
  
- ? Don't do what markets can do. Does a program provide a service that markets could provide or beneficiaries could pay for? Then it's a good candidate for the trash can.
  
- ? Don't give without demanding. Does a program give something for nothing? Then take a dim view of it, unless it serves children or the poor. Instead, favor programs whose costs are covered in some substantial share by the people enjoying the benefits. The whole idea behind transfer-seeking is to capture benefits at cost to someone else, and so a good way to discourage transfer-seekers is to make them pay for more of what they get, either in money or in public service.
  
- ? Don't do things just because they seem nice. Is the main justification for a program sentimental? Does a program 'protect a way of life' (agriculture subsidies) or 'save a treasured institution' (Amtrak passenger-train subsidies, Small Business Administration subsidies) or just seem like a nice thing to do (arts subsidies)? That's not a reason to fund it. Chances are, either the program is subsidizing goods or services that would have been available anyway (there was no shortage of art in America before the National Endowment for the Arts came along), or else the program is fundamentally reactionary in character, keeping alive that which adaptation decrees should die.
  
- ? When in doubt, do without. Remember, saying yes to organized groups usually seems harmless in the short run, but the paralysis that you feed by saying -yes is devastating in

the long run. Even inexpensive subsidies become havens for thousands of beneficiaries, whose entrenchment compounds paralysis. Arts subsidies become the property of regional arts-council administrators and grant-wise artists, who join up to become a permanent national lobby. To break the debilitating cycle, one must behave like a disciplined dieter: never say yes to anything just because it's small.

- ? Always apply the scratch test. No matter what the program is, ask of it: If the program didn't already exist, would we start it from scratch? If the answer is no, whet the ax. By making room for adaptation and unloading an overburdened system, you make government likelier to work.

## Making Government Work

Generally, no social task should be assigned to an institution that is larger than necessary to do the job. What can be done by families should not be assigned to an intermediate group-school, etc. What can be done at the local level should not be passed on to the state or federal level, and so on. There are, of course, plenty of urgent tasks-that do require national and even international action. But to remove tasks to higher levels than is necessary weakens the constituent communities. If local people are deeply involved in a process, if they help to organize it, and if they have a perceived stake, especially an economic stake, in the outcome, then the process often has a better chance of success than if it is imposed by a distant bureaucracy or a powerful exploiter. This principle holds for duties of attending to the sick, troubled, delinquent, homeless, and new immigrants; and for public safety, public health and protection of the environment-from a neighborhood crimewatch to CPR to sorting the garbage. The government should step in only to the extent that other social subsystems fail, rather than seek to replace them.

Federalism is an age-old device for keeping the proper balance between big and small. Big in some things, small in others. It is never easy, because it means allowing the small to be independent while still being part of the larger whole, to be different but part of the same. Federalism is, therefore, fraught with difficulty because it is trying to combine those two opposites, to manage the paradox. Twin citizenship makes it possible. If there is the sense of belonging to something bigger as well as to our own smaller unit, we can see the sense in accepting some restrictions on our local independence, if it helps the larger whole. Sovereignty is not ceded but shared. The larger unit is not 'them' but also 'us'.

Successful economic revitalization is hard to carry out or even to comprehend on a national scale. Many of those concerned about the lagging American economy have urged the federal government to adopt an explicit industrial policy. Proponents usually envision a huge federal bank with a board allocating funds to industries and areas. Such grandiose notions founder on closer examination, however, in part because of the sheer size and diversity of the economy. Few would trust the federal government to allocate funds wisely or nonpolitically to development projects or programs. Washington cannot mobilize the community support, business-labor cooperation, or coordination that successful development requires.

Governors and mayors, however are closer to the scene. They have more ways to generate business, labor, and community support for development and put together an effective program to increase investment and jobs. The best chance of having a successful industrial policy in a country this size is to have a lot of communities, states and regions competing with each other to improve their own economic prospects. But that competition must be focused on quality of life and not on giant giveaway programs.

Each community needs a sound design that enhances its attractiveness and more fully develops its aesthetic qualities and values. Each will need to develop and maintain a basic infrastructure that moves people and goods in ways compatible with the natural environment. A community must provide basic services of quality that meet business and public needs. Finally, a successful community will need a range of attractions for its own people and visitors. Quality of life must be the overriding goal.



## Specific Steps:

- 1 . Move the level of control of government programs to the smallest possible unit.

If you were forming our government all over again, what would you do? You would start with towns. You get a town's logistics ironed out: basic stuff like streets, plumbing, lights, and law. Once you have a bunch of towns working reliably, you make a county. You keep the towns going while adding a layer of complexity that will take care of courts, jails, and schools in a whole district of towns. If the county apparatus were to disappear, the towns would still continue. Take a bunch of counties and add the layer of states. States collect taxes and subsume many of the responsibilities of governing from the county; without states, the towns would continue, although perhaps not as effectively or as complexly. Once you have a bunch of states, you can add a federal government. The federal layer subsumes some of the activities of the states, by setting their limits, and organizing work above the state level. If the feds went away, the thousands of local towns would still continue to do their local jobs-streets, plumbing and lights. But the work of towns subsumed by states and finally subsumed by a nation is made more powerful. That is, towns organized by this subsumption architecture can build, educate, rule, and prosper far more than they could individually.

The general principal is one being much discussed in Europe subsidiarity, which means is that decisions should be made at the lowest level of government possible, municipal or regional, with higher bodies intervening only when absolutely necessary. Subsidiarity is unfamiliar to most people, but not to the adherents of the Roman Catholic Church where it has long been an established part of traditional doctrine. First enunciated by Pope Leo XI,

but later recalled in the papal encyclical *Quadragesimo Anno* at the time of Mussolini, the principal of subsidiarity holds that "it is an injustice, a grave evil and a disturbance of right order for a large and higher organization to arrogate to itself functions which can be performed efficiently by smaller and lower bodies." The center would not direct or control so much as coordinate, advise, influence, and suggest. To steal people's decisions is wrong. The choice of word is deliberate because the sense of morality implied by it is crucial to its working. Subsidiarity means giving away power. No one does that willingly in organizations, yet federal organizations will not work unless those in the center not only have to let go of some of their power but actually want to do so, because only then will they trust the periphery.

Trust. Hmm.

In her *Reviving the American Dream* Alice Rivlin writes:

" the states, not the federal government, would take charge of accomplishing a 'productivity agenda' of reforms designed to revitalize the economy and raise incomes. These reforms would address needs such as education and skills training, child care, housing, infrastructure, and economic development. Once clearly in charge, the states would compete vigorously with each other to improve services and attract business by offering high-quality education, infrastructure, and other services... the following federal programs would be devolved to the states or gradually wither away: elementary and secondary education, job training, economic and community development, housing, most highways and other transportation, social services, and some pollution control programs. Some specific programs where federal action is needed would be retained, even expanded; for example,

higher education scholarships for low income students and federal support for scientific research, including research on learning. A few transportation functions-especially air traffic control-would remain federal. Devolving these functions would reduce federal spending by at least \$75 billion. Much more important, devolution would reduce future pressure on the federal deficit. Citizens and organizations concerned about better housing, training, and education would have to lobby in their state capitals, not Washington.

... an appealing strategy for implementing needed new domestic policies is 'dividing the job.' The federal government should do what it has proved it can do well: strengthen the nation's social insurance system. It should take on the dual task of controlling the growth of health costs and ensuring that everyone has health insurance. The states should take charge of the productivity agenda, especially education, training, infrastructure, and economic development, while the federal government should devolve its programs in these areas to the states.

.... the federal government is not well suited to take responsibility for improving education, training, and infrastructure or fostering economic development. These are functions of government that require experimentation, adaptation to local conditions, accountability of on-the-scene officials, and community participation and support. State and local governments are more likely than the federal government to carry out these functions successfully."

## 2. Raise Government Pay

No democracy or republic in the history of the world has paid its leaders according to how well those leaders governed. More the opposite. Overall, outright corruption might be the norm, and just plain stealing from the public till has probably enriched more politicians than has good, honest decision making. At present, we scream that we want our congressmen to ignore the special interests, and we want to take the special interest money away from them. Vote the Department of Theft (DPT) out of existence, we say -- but the DPT helps pay for the congressman's reelection. And what do we offer the congressman to be good instead? Absolutely nothing.

We could pay our leaders more when they do their jobs well. How radical is that? Call it bribery or anything you want, but what are the alternatives? Right now we pay the government the same way the communists paid everybody-you get the same every year, or a small raise, no matter how stupid or smart you've been. What a system! We have absolutely no mechanism for raising our leaders' salaries for good behavior. Instead, we presume the charlatans are lucky to get anything at all from us, and scream bloody murder every time Congress tries to vote themselves any pay raise at all. And our leaders are so grossly underpaid, it is a miracle all of them aren't robbing us blind purely out of spite. Somehow we have decided the people running the most powerful nation on earth, people with the power to make us and much of the rest of the world richer or incinerate the biosphere within a few hours, should be paid less than a twenty-three year old kid on Wall Street.

The cost to the American public from having their best business and financial minds unwilling to work in the public sector is incalculable. At a time when our manufacturing corporations are engaged in a battle to hold their own against foreign competition, one can

legitimately worry lest too much talent be diverted to investment advising, consulting, and other fields of business less vital to our national interests.

Many of the nation's most successful private citizens now avoid public service because of the extensive financial disclosure information required by the White House as a condition of high-ranking federal employment. Information provided in such instances is available to the public and the press frequently disseminates the material far and wide. Many Americans concerned with families and privacy have, as a result, turned down public service offers. Not that ethics regulations should be scrapped. They're designed, for instance, to prevent federal workers from being influenced by private sector contractors who promise postgovernment jobs and to halt the spin of the revolving door, the phenomenon of federal employees leaving the government for the private sector and its higher salaries, only to return to the government at a more senior position, and then again depart for still higher pay in industry or consulting. Clearly, it is in Uncle Sam's interest to find a middle ground. To be sure, a revolving door in Washington promotes instability and the notion that government jobs are available for personal aggrandizement. Yet such agencies as NASA, the Defense Department, and the Environmental Protection Agency are harmed by the strict regulations that scare away candidates for their senior positions. Overly strict regulations suggest that federal employees are not to be trusted, especially when only a handful of career and political executives seek to gain unfair personal advantage from their jobs. What's more, there is much to be gained from transferring knowledge and skills between the private and public sectors. Creating strict walls between government and industry, including federal contractors, denies both sides opportunities to share information and technology and sows distrust and animosity. This is an especially critical point for such technology driven agencies as the Pentagon, the Energy Department, and the National Institutes of Health. Government

has long been criticized for risk-avoidance behavior and organizational stagnation-both situations could be remedied through broader interaction with business, industry, and the rest of the private sector.

### 3. Fix the Rules of Congress.

Within the Congress, many rules allow complexity to govern unchecked. For example, we must stop tolerating non-germane amendments in the legislative process. Eliminate the ability of a bill to address more than one subject. Make our representatives vote on items one at a time, and only after an appropriate reading period.

To prevent ossification of worthy programs into bureaucratic fossils, Congress should mandate that all new programs have a sunset date not more than ten years after they are established. Renewal of programs should not be allowed except upon at least a two-thirds vote. Starting over is a wonderful therapeutic exercise and it can work for governmental programs as well as for individuals. In 1993 the governor of Michigan made a bold proposal - abolish the present method of funding education and start over again from scratch. The very idea brought new meaning to a discarded concept from the sixties and seventies -zero based budgeting. To really begin over again, not just as a paper exercise but in reality caused a true examination of what was needed and what was a luxury. The legislature had to make real choices. There was no status quo.

Our public officials' fear of trying the unknown the unproven is as bad a curse as the ossification of our worst programs. The risk that a small mistake will be pilloried in the press,

that a minor error can mean the end of a career - risks that are not present in the private sector are perhaps the most costly of our governmental mistakes. Once established a program seems to live forever and if it is a mistake, that concept cannot be admitted. Thus no action is better than taking the risk of an unproven action.

Our most general problem is the lack of any office or official to represent the interests of the majority or of our children. How is it that we are to ensure that these interests are fairly represented in the decision making process? Can we appoint a small officialdom with this as their charge? In the legislative branch can we impose on the Senate and its six-year terms by asking the one-third who have just been elected to stand as a committee charged with the long-term interest of the majority and the unborn?

Within the legislature why do we tolerate undo complexity in process? If the committee system were to be reexamined and started from scratch would we not have only as many or as few committees as there are cabinet positions and with similar functions (plus two or three internal committees charged with supervising the overall business and organization of each house)? Additional committees may be needed for capital uses, for redistributive policies, for the interests of the majority and the unborn or unrepresented, and for tax policy.

Consider granting the President the line-item veto. Consider creating a special committee to represent the interests of our children -- an interest whose voice is seldom heard through the pressures of "more, more, more" and "now, now, now."

Our government can no longer afford to be a collection of fiefdoms each pursuing an independent goal. Synthesis will require work; work that cannot occur if Congress is

occupying itself with its own day-to-day complexity. The rules of Congress are at the heart of this problem. The key to its solution is for the Congress to take a good part of a year off to study change. There is no pressing item of legislation that cannot wait an extra six months or a year. By law, the budget must be considered. Either chamber can declare that its approach to the budget will be to freeze it. Each cabinet department would be allocated the exact same amount as it received in the present fiscal year. For the first time in decades, Cabinet officers would be given the discretion to decide what to do with the funds. Congress would not intervene. Instead, it would focus on fixing the system.

#### 4. Make Elections Work

We need to revitalize public life so that the two-thirds of our citizens who now say they feel alienated or that the polity is not theirs will again be engaged in it. Campaign contributions to members of Congress and state legislatures, speaking fees, and bribes have become so pervasive that in many areas of public policy and on numerous occasions the public interest is ignored as legislators pay off their debts to special interests. Change the nature of campaigning in America. Limit the duration of campaigns. Limited duration should eliminate many of the promises and use of personalities in the campaigning. Direct funding of campaigns will eliminate influences and more importantly perceptions of influence.

To establish conditions under which elected officials will be able to respond to the public interest, to the genuine needs of all citizens, and to their own consciences requires that the role of private money in public life be reduced as much as possible. All candidates should receive some public support, as presidential candidates already do, as well as some access



to radio and TV. All paid political radio and television advertising would be illegal, just as we've done with cigarettes and liquor. -1 hat's where much of the money now goes. It will immediately reduce the cost of campaigns and eliminate the corrupt political commercials we're now forced to endure. Instead, the FCC will require television stations to provide free time for candidates. Both a cost ceiling and a time limit should be put on all campaigns.

If the campaign process is going to work, it must be organized for the press, not by the press. The campaign must be made more coherent, so that communication during the campaign is more instructive. The campaign could be improved by shortening the nominating phase. The challenge is to abridge the nominating process and at the same time to slow it down. As things stand now, the weeding-out process occurs too quickly, while the campaign lasts too long. Both are detrimental to effective communication between candidates and voters. The usual arguments made against a lengthy campaign are that it disrupts the policy process, discourages the candidacies of responsible officeholders, and wears out the voters. On the other hand, it has been claimed that a lengthy campaign enables the voters to learn about the choices they face.

The public acquires very little information about the candidates' politics during the nominating phase, and over the course of a long campaign, the voters get distracted from the performance of government, as lesser issues compete for their attention. A lengthy campaign also makes it difficult for the candidates to establish their agendas; their pledges quickly become old news. Ironically, today's nearly year-long campaign actually makes the candidates' politics less intelligible to voters than would a shorter one. A lengthy campaign has another degenerative effect on election communication. The tone of news coverage becomes increasingly negative as the campaign progresses through the primary election,

convention, and general election phases. As the campaign wears on, the press becomes increasingly critical of the candidates. The reasons are several, including a tendency for negative themes to become embedded in journalists' narratives of the campaign.

Election news is a story of triumph and defeat, and of the tactical and personal factors that separate the victors from the vanquished. Journalists reason from effect to cause. They observe what is happening in the race and then look to the candidates for explanations. Other possible reasons for the electorate's changing support, such as the activation of party loyalties or the intrusion of societal problems, get less attention. To the media, a change in a candidate's position, however slight, is a calculated attempt to manipulate the electorate. In a different schema—that of governing—flexibility and compromise are a vital part of the political process. Campaigns have historically served an educative function for candidates. As they travel the country, their ideas are tested against public opinion and regional problems. They learn which of their ideas are sound and which need adjustment if they are to garner the support necessary to make their programs work if and when the voters put them in office. The campaign would be a failure if the public's reactions did not feed back into the candidates' programs. Journalists understand this basic principle at some level, but their schema of elections and campaigns cannot easily accommodate it. The idea that candidates learn from their campaign experiences is not part of that schema. The feckless candidate who is so prominent in the news is largely the creation of the media's own limitations. Explanations based on the actions of leaders, though less sound than explanations based on new information, are more easily assembled and distributed. When the complexity of politics confronts the simplicity of news, it is the complexity that gives way.

A national primary is yet another approach to reform of the presidential selection process. Opinion polls have consistently indicated that most Americans would prefer a national primary to the present system—a response that stems as much from a desire for a shorter campaign as from an understanding of the implications of a national primary. An innovative solution to the problems associated with a national primary would be to hold the party convention before the primary. Similar systems are in effect in a few states, including New York and Colorado. The purpose of the convention would be to write a platform and to endorse (not nominate) a national ticket. The endorsed presidential and vice-presidential candidates would get the publicity attendant upon a national convention and would have the party's backing in a national primary.

## Wages

The traditional thought is that Americans don't mind huge incomes; they hope to have one themselves some day. This argument is used to justify limitless incomes, huge disparities in earnings and wealth, and low taxes. It assumes that the incentive created by large incomes is a driving force in the economy. I would contend that the degradation of our moral fiber from high incomes is even worse. It is far from clear that larger prizes have a positive effect on the performance of ambitious young executives. Working for organizations is not like playing golf. In contrast to competitors on the PGA tour, corporations are enterprises in which teamwork is important to success. Such cooperation is especially likely to suffer if colleagues are competing fiercely with one another. Vice presidents mesmerized by the hope of vast rewards may not only refrain from helping competitors but may even resort to petty stratagems to sabotage their leading rivals. Such concerns help to explain the reluctance of Japanese corporations to pay their chief executives anything like the amounts

common in America. The Japanese seem convinced that huge paychecks will not motivate subordinates but only undermine teamwork and destroy morale. That is why the gap between what their executives earn and the pay of other employees has been gradually narrowing over many years.

In the range of incomes between the poorest 1 percent and the 85th percentile, there are no big gaps. Up to the 85th percentile, any differences in income between one person and another person present themselves as a steady and gentle gradation. Each person within this range rubs elbows with others who are a little better or worse off than he or she is. Above the 85th percentile, everything changes. The gentle slope starts a precipitous incline,, until, at the highest percentile, our gentle hill, has become a nearly impossible vertical ascent. Why do income gradations, so proportionate one to the other below the 85th percentile, become so steep above it? Below the 86th percentile, incomes largely reflect the actual work people do. Above the 85th percentile, incomes start reflecting not income from jobs, but the return from property rents, interest from bonds, dividends from stocks, speculative gains. Thus these higher incomes represent something other than hard work.

It is widely and erroneously assumed that if you add an inducement to do something, an individual's motivation to do it will automatically increase. . Our intrinsic interest evaporates after rewards are introduced. . By rewarding people for something they had been doing voluntarily, they came to see themselves as doing it in order to get paid. As soon as the reward was no longer there, neither were they. This of course was the whole idea; to sap their intrinsic motivation. But that is what millions of us -well meaning parents, teachers, and managers -- are doing to the people we reward, whether we realize it or not; killing off their

interest in the very things we are urging them to do." The more you want what has been dangled in front of you, the more you may come to dislike whatever you have to do to get it."

The hunger for ever greater wealth may well be an addiction, but it's an addiction, fostered and nourished by the very structure of modern American economic life. Our society rewards and honors, above all else and above all others, wealth and those who accumulate it. This money, others have observed, makes for an empty symbol. "Money brings some happiness," notes playwright Neil Simon. "But after a certain point it just brings more money." To make matters worse, this constant grasping for more, most often by those who already have enough, simply makes no sense. What many people are beginning to realize is that now time is more precious than goods, that indeed we hardly have time to consume what we can already afford.

For some, money is simply the best way of keeping score in an ambiguous world. For a miserly few, it is an end in itself, quite apart from anything it buys in the marketplace. New appetites are constantly emerging under the stimulus of ingenious entrepreneurs and advertisers. Beyond possessions, money brings security and freedom from a host of petty worries. It often yields power, influence, and at least the illusion of popular esteem. It signals personal achievement and bolsters feelings of self-worth.

In the face of widespread poverty and deprivation, and with money to address these problems in such short supply, one cannot read about the soaring incomes of so many executives and professionals without wondering whether these vast earnings could be better used to help meet urgent human needs. The complexities of our modern economy cast doubt on whether theories drawn from a simpler age can justify the earnings of successful

professionals. With so many successful students flocking to management consulting organizations and corporate law firms, one has to ask whether money has become too dominant in shaping the career choices of talented undergraduates-and whether the nation is being poorly served as a result.

Setting a maximum wage of \$1 million each year will do wonders in changing the pursuit of cash in this country. It will change our ethics, change our greed, and I believe make us all better off. In 1932, on the floor of the United States Senate, Huey Long proposed that the tax laws "be so revamped that no one man should be allowed to have an income of more than one million dollars a year" and that no one person should inherit in a lifetime more than five million dollars without working for it. What is a man going to do with more than \$1,000,000? Long asked his Senate colleagues. "If we could distribute this surplus wealth, while leaving these rich people all the luxuries they can possibly use, what a different world this would be."

The plan Long proposed included a ceiling on the income and wealth of the very rich that would create a floor of decency for everyone else. One early version of the plan proposed a 1 percent tax on all individual wealth between \$1 million and \$2 million, with that tax rate progressively increasing until it reached 100 percent on all fortunes over \$100 million. The effect, said Long, would limit "the size of any one man's fortune to something like \$50, 000, 000" and allow "millionaires to have more than they can use for any luxury they can enjoy on earth." What To Do: Enact the Long Plan

## Social Welfare

Can we cure poverty? Maybe not but we can make a start. The Tyranny of Kindness describes what can be done about it. The basic tenets are simple. Poor people, especially welfare mothers and their children are increasingly and more desperately poor. When single mothers work, they need even more income because they now have to pay for transportation to work, appropriate workplace clothing, child care, and medical care. (Their jobs rarely provide medical insurance, and even those that did usually expected workers to pay a large part of the cost.) Taxes and social security aside, working mothers with two or more children typically spent \$15,000 a year. Hardly any got by on less than \$12,000. Work yielded only two significant material advantages: working mothers had better wardrobes, and they were more likely to own cars. Working mothers also spent more time with adults and less time with their children, but while some thought of this as a benefit, others saw it as a cost. If we allow for taxes and social security, welfare mothers almost all need a steady job paying at least \$7 an hour to make ends meet from work alone. Most would have to earn \$8 or \$9. Today's homeless mothers are never going to get jobs like that in the private sector. Unskilled single mothers currently earn about \$5 an hour. Job training raises a mother's chances of finding a job, but it seldom has much effect on her hourly wages. Even if an unskilled single mother works full time, her annual earnings are unlikely to exceed \$10,000. If the economy is in trouble, as it often is, she may earn even less. If we want unskilled single mothers to take paid jobs instead of caring for their children, we will have to make up the difference between what they can earn and what they need to make ends meet.

Charities that purport to represent poor people abuse the public trust in an endless quest for larger budgets, career advancements and political power. An entire mythology about welfare

and the people on it has been developed and strengthened to reinforce stereotypes that justify the expenditures of billions of tax dollars and preserve the status quo. Politicians and policy makers help to prop up the charities by dishing out government contracts and supportive legislation in covert quid pro quo arrangements. Still, at some point they must adapt to the challenge of structural changes in the economy that increase the proportion of people estranged from a dwindling job market, and accept that no amount of social workers can alter those dynamics or distribute essential goods to people who need them.

The only way to reverse the trend of the increasing povertization, particularly of poor families, is to increase their economic security through some form of guaranteed income. The money's all there-it's just being spent on an army of social welfare professionals whose interests are protected by the elected officials they help put into office and by the press that naively reports on all of it at face value. Such a program would replace dozens of current programs that may not do what we want them to do-alleviate or eliminate poverty. For instance, AFDC would be eliminated, so would food stamps and SSI (Supplemental Security Income to needy aged and disabled people), the conveniently named income tax credit would be subsumed, virtually all the feeding programs and the tax expenditures related to the donation boondoggle could go, and so on. The higher the guarantee is set, the more programs would be eliminated.

The more programs eliminated, the more redundant bureaucracies that flow from each would go, including some of those dependent on the contracting-out process. The more programs that are replaced with a guaranteed income, the lower the cost. It is even likely that at some point social security itself would be subsumed. According to Allan Sheahen author of *Guaranteed Income*, it would actually be "self-liquidating, meaning it would cost



nothing. As people's incomes increased, most of the money would be spent on consumer goods. That would stimulate the economy, creating new jobs, new taxpayers, and new income for the government to replace what was given out." In other words, the multiplier effect would have impact as well as the cashing out of inefficient, corrupt, or redundant programs.

Guaranteed income may seem like an exclusively redistributive strategy, but it is also an economic growth strategy predicated on democratic values. Let's face it, one of the reasons the United States introduced the Marshall Plan to rebuild parts of Europe and its counterpart in Japan was to create markets for U.S. goods, services, and technology. For a long time it worked-for all the countries involved. In any event, a socially responsible culture does not cause economic disaster. Giving to older, even wealthier citizens in the form of social security, or to dairy farmers in once supports, is no sweat. Do we stop giving to foreign nations or U.S. seniors or young widows with small children "for their own good?" Do we really even question it? Not on your life.

Similarly, if you want to hold the attention of the mass media, breaking the "more than a million" barrier is important. This is why many advocates for the homeless still tell reporters and blunders that several million Americans are homeless, even though no careful study has ever yielded an estimate that high. Many reporters who cover the homeless also continue to cite estimates above a million, partly because these estimates bolster their claim to prime time or front-page space. Richard White, the author of *Rude Awakenings*, describes the repetition of these inflated estimates as "lying for justice." If we concentrate on the people whose existence most worries the public, the "visible homeless" whose presence on the streets upsets the more prosperous classes, we find these are not necessarily the poorest or

the most deprived of our fellow citizens. If we look in jails, detox centers, mental hospitals, and foster homes, we can find hundreds of thousands of other Americans surviving without the physical or emotional support we normally associate with having a home. We do not count these people as homeless because they are out of sight. When people contemplate human misery, the cliché that equates out of sight with out of mind is all too accurate.

But to the many who live off of the homeless, out of mind is not good enough. They want your dollars -- tax dollars, charity dollars, it makes no difference. They do not want to house the homeless or give income to the poor -- they want to service them. Regardless, of whether the services are wanted, regardless of cost, regardless of effectiveness. Providing the service -- i.e. giving the charity or agency money is far more important than the quality of life of their clients.

Most Americans want the homeless off the streets, but no one wants them next door. One way to solve this so-called NIMBY (not in my back yard) problem is to locate cubicle hotels in currently nonresidential areas. Such areas cannot be too isolated or nobody will be able to get to them. But if we could recreate skid row in relatively accessible areas, the poorest of the poor would at least have a place where they could legitimately be. Advocacy groups seldom support this approach, which they rightly characterize as an effort to ghettoize the poor. But we should not let idealism become the enemy of more modest improvements. For people who now live in congregate shelters, a nice room in a residential neighborhood is a good ideal, but almost certainly not an attainable one. A cubicle in a nonresidential area is a far less inspiring ideal, but it is an attainable first step.

Few Americans believe their society has an obligation to feed and house everyone, regardless of how they behave. When people act selfishly, taking advantage of those around them, Americans are quite willing indeed eager-to see them suffer. But most of us do feel an obligation to help people who either cannot help themselves or are trying to do so and simply need an opportunity. Most Americans also know that some of the homeless fit this description, though they have no idea how large the proportion is. They badly want some way of distinguishing those who have a claim on society from those who do not. Offering everyone work is the most obvious test. It is not clear how many of the homeless would be willing to work four hours a day for a cubicle and three cheap meals. Unlike today's shelters, a cubicle hotel would give single adults a private space with a lock on the door, accessible at any time, where they could leave their possessions and get mail and telephone messages. Some would judge that worth four hours of work. Others would not. But even if some of the homeless refused such an offer, that would not be an argument against making it.

There are some obvious steps to be taken now -- all of which can be funded by dismantling the service bureaucracy.

- Rehabilitate dilapidated housing where it makes sense; build new housing where reason dictates.
- Restore welfare benefits to their previous levels, or, better yet, give people without paying jobs the same benefit of the doubt accorded to people on social security and the same benefit levels. Restore the value of the minimum wage. Better yet, institute a guaranteed income.

- ? Create meaningful public sector jobs in return for benefits. There is always a street or lot to be cleaned, kids to be watched, food to be prepared, etc. These jobs can both bolster the self esteem of those receiving benefits (and they do not need to be forty hour per week jobs, ten or fifteen hours will work fine) and raise the quality of life of all the rest of us. Offer workers who perform unusually well a chance at better public-sector jobs with somewhat higher wages. With luck, these jobs could serve as gateways to steady employment in the private sector, by certifying a worker's diligence.
  
- ? Make certain the checks or other means of payment come in regularly and safely for everyone.
  
- ? Reduce red tape to an absolute minimum. Guarantee productive choice as much as reproductive choice, so that women can enter and leave the wage market as they determine. Use every means available to lift the self-esteem of parents, especially mothers. Make sure the kids hear it.
  
- ? Put back police and firefighting services. Set up quality child-care services like those produced overnight during World War 1 11, when women's labor outside the home was needed, respected, and rewarded.
  
- ? Improve the schools. Make it cool to attend school. Make it fun. Insist that kids who can't read, can't graduate. Students should each be required to compile a bulging

portfolio of certificates of competence or achievement. There is no reason why driving, swimming, first-aid, word- processing, cooking, tax law, telephone and presentation skills, and any other practical life-skills should not be certificated and collected during this period of life.

- ? Encourage the best and brightest to stay or others to come by creating a livable environment with opportunity for advancement.
  
- ? Attempt to create a large flow of funds to impoverished areas for community economic development. A national investment bank, with the power to raise funds through government-guaranteed and tax-exempt bond issues, could channel funds from public pensions and from the growing socially responsible investment movement. It could serve as a lender of first resort to companies willing to locate or expand in areas of urgent national need. Funds could be used for housing and for small business development, with preference given to locally owned companies, women, racial-ethnic minorities, nonprofits, and worker owned businesses. With adequate financing and with technical assistance, these companies could prosper and provide needed jobs and retail outlets in impoverished communities.

### Thinking

"When ideas are neglected by those who ought to attend to them-that is to say, those who have been trained to think critically about ideas-they sometimes acquire an unchecked momentum and an irresistible power over the multitudes of men that may become too violent to be affected by rational criticism." Isaiah Berlin

We must change how we think about our governing institutions, our laws, and regulations. Who does what to who must take a back seat to the quest for improvements in our quality of life. The key point is not whether those who run our public services are elected, but whether they are producer- responsive or consumer-responsive. Services are not necessarily made to respond to the public by giving our citizens a democratic voice, and a distant and diffuse one at that, in their running; but by giving them choices, or by instituting mechanisms for publicly-approved standards and for redress when they are not attained.

Government must stop inserting itself where it is not needed. People can make perfectly good choices about how to spend their health care dollars if, given a chance. Most people won't scrimp on maintaining their health and certainly won't on their children's but they will be careful to get their money's worth. Yet most health insurance experts and politicians cling to the notion that people are too dumb to make the free market work for medical care. Individuals should be given a real choice. In other words if you don't use it you don't lose it. With equal tax treatment and medical IRA's we would see a process begin that would have tens of millions of individuals policing the health care market instead of government bureaucrats insurers and employers.

By the same token, the government must learn to be more open with problems that have few if any clear answers. Take the problem of pensions and Social Security. Pensions funded on a pay-as-you-go basis out of current taxation have been the dominant source of retirement income. Funding pensions in this way means in effect, that taxes paid by the present generation of workers are used to pay the pensions of the previous generation of workers. This carries over to the promised private pensions of the private sector. Of the 66,000

government guaranteed pension plans offered by 8,000 companies, a quarter are considered underfunded to the tune of \$53 billion. But with the ratio of old people to workers rising inexorably, experts doubt that tomorrow's taxpayers will be willing to pay for all the pensions that today's workers expect to receive. This leaves today's workers with an unwelcome choice. They can put more money of their own aside, privately, for retirement and so in effect contribute to two sets of pensions-their own, by saving; and their parents', through taxation. Or, they can gamble that the experts are worrying unnecessarily, and make no extra provision. But even that choice is more limited than it seems. What today's workers get in retirement depends ultimately on how big a slice of the pie tomorrow's society allots them-whether by transferring money in the form of higher taxes to fund state pensions, or by providing an economic and fiscal environment in which firms will pay the rising dividends on which private pensions depend. Agreeing on sensible ground rules now will make it less likely that future generations decide suddenly to give pensioners less than they expect. By the same token, the longer action is deferred, the more painful any changes will have to be.

We need to learn that incentives work better than commands. There are two ways to make people do what we want them to do: pass laws compelling them to act a certain way, or give people incentives to act the way we want. The first way requires detailed information about how people must act, a way to monitor their behavior, and an apparatus to punish those who attempt to evade the commands. Creating the right incentives, by contrast, takes advantage of the detailed information that already exists in each person's mind, requires little enforcement or monitoring, and is unlikely to produce evasive actions. A property rights strategy works through incentives; government intervention relies on commands.

Consequently, the property rights strategy is likely to produce better results, and fewer unintended consequences, than government intervention.

We must reform our system of legal liabilities. This includes the controversial notion of limiting both punitive damages and damages for mental and emotional distress. Defendants should be exempt from penalty unless culpability or negligence is proved beyond reasonable doubt. Further, courts, juries and regulatory agencies should be precluded from considering the availability of deep pockets to the defendant in liability cases. Judges and legislators have decided to hold manufacturers strictly liable for any damage from a product, even if no one knew it might be a problem and the product was produced decades ago. Asbestos and several drugs are in this category. Judges in several states have created implied contracts between employees and employers, so that ponderous legal procedures must be followed in dismissing employees. Hiring is such a risk that many firms prefer using temporaries or overtime. Federal judges extended liability for environmental damages to lenders who had nothing to do with the event in question -- e. g. if you lent money to someone who then spilled toxic substances, you were liable, regardless of your knowledge or actions. This has terrified the banks and frozen some types of lending

Plaintiffs who have been shown to have contributed to the damage at issue should not be compensated or their compensation should be reduced commensurately. To the extent that juries, courts, and regulatory agencies have departed from this standard and, as is often alleged, have been prepared to impose penalties upon a defendant in the absence of strong evidence of culpability and negligence, they have undermined economic efficiency in at least three ways. First they have distorted the prices of drugs, medical services, insurance, and other products by imposing on the suppliers of these items costs that more properly



represent an obligation of society as a whole, rather than of a particular industry, and this has undoubtedly caused some resource misallocation. In particular, they have reduced the supply of some of these products, sometimes asking total elimination of the provision of the items subject to the risk of heavy penalties and the high insurance costs that resulted. Second, they have introduced moral hazard by reducing the incentive for prospective victims to undertake reasonable risk-avoidance measures. Just as full insurance coverage reduces the incentive for the owner of valuable jewelry to undertake reasonable but costly burglary prevention steps, the prospective victim of risky products may be led to carelessness in the use by the prospect of generous damage awards.

It is a sad day for justice when it only makes sense to view the cost of litigation as bargaining leverage to force a settlement on terms favorable to the party that can litigate the matter to death without worrying about the cash flow. A prospective plaintiff should not be deprived of the opportunity to undertake a voluntary, but binding commitment not to sue if the product consumed by her turns out to cause damage, but he was fully informed at the pertinent time of all risks that were known (and reasonably knowable). Finally, any such changes in the rules have increased the incentives for renegeing litigation, with all of its associated wastes, and have stimulated the allocation of entrepreneurial resources into such activities and out of more productive endeavors. Although critics complained that democracy made the Athenians of old litigious, the system contained a device meant to promote restraint. If the plaintiff did not win a stated percentage of the jurors' votes he was required to pay a considerable fine to the state in public prosecutions, to the defendant in private ones. This must have served as a significant deterrent to the frivolous malevolent, and merely adventurous suits.

We need to reevaluate what is a scandal. The new appearance-of-conflict standard is dangerous, because the accuser's judgments play such a big role in creating the crime. To whom does there appear to be a conflict in these cases? Voters? Average citizens? Or is the relevant audience made up of political players like committee members, staffers, and journalists? If it is these last individuals who make up the audience, we have a special problem on our hands. Such individuals, after all, have personal incentives—from getting a good story to appearing on the nightly news—to claim mad shock early and often. In cases of this type, it is the scandal hunters who may have the most important conflict of interest.

The most demoralizing effect of the numerous scandals on our politics is to make us feel perpetually dirty. This is not a feeling that bedevils the entire citizenry. In their capacity as consumers, most people seem to have a boundless appetite for scandal news. In their capacity as citizens, they seem to be able to maintain the view that politics has crooks in it—always did, always will—without concluding that the republic is going to hell in a handbasket. Those who help set the public agenda show less equanimity: They have placed corruption at the very center of their political concerns and thus permitted scandals to dominate political discourse.

We need major thinking changes about our environment and government's role in protecting it. For example, rights to air, water, and wildlife can be defined and enforced. Historically, property rights held polluters accountable for the damage they caused. The peculiar nature of air, water, and wildlife, however, led to the adoption of statutory laws that preempted common law solutions in most situations. Rising prosperity, greater awareness of environmental issues, and technological innovations may be making a return to the property rights strategy possible. Pollution problems occur where rights are not defined and enforced.

When things are privately owned, the civil justice system keeps us from invading or damaging them. But when they are owned in common-like air, rivers and lakes, wildlife, and in some cases public lands, we are often driven by competition with others to exploit them quickly and with little regard for their future value. The result is often pollution, unsustainable rates of development, and endangerment of wildlife.

Ownership could then lead to better stewardship. We tend to take better care of things we own than of things we only rent or borrow. Ownership brings together the right to use something and the responsibility for changes in the value of the resource. Natural resources are no different from houses in this regard: If we fail to repair a leak in the roof of a house we own, we suffer a financial loss as the house's re-sale value falls. If, on the other hand, we rent the house, then the lost money comes out of the landlord's pocket, and so we have little incentive to make the necessary repairs. A good landlord sometimes can get his tenants to act with as much responsibility as is shown by some homeowners, but we have seen already that government is generally a poor landlord. Natural resources, therefore, are better cared for if they are owned by the people who use them.

We must reclaim our public spaces. Our quality of life has been adversely affected by the homeless. Only by prohibiting begging, bedding down, and distributing food to homeless people in train and bus stations, parks, and subways can we gain our public spaces back. On streets that have become a gamut of homeless panhandlers, this reclamation requires enforcement of the regulations banning loitering to beg that most municipalities still have on their books. This doesn't require locking the homeless up in prison but only moving them along or, if need be, jailing resisters for a day or two.

## Finding Hope

The key to our making progress is to begin. Hope lies in getting started. In his book, *Out of Control*, Kevin Kelly asserts that government should:

"Do simple things first. Learn to do them flawlessly. Add new layers of activity over the results of the simple tasks. Don't change the simple things. Make the new layer work as flawlessly as the simple. Repeat, ad infinitum."

How can we do this in our age of complexity?

When everything is connected to everything, everything happens at once. When everything happens at once, wide and fast moving problems simply route around any central authority. Therefore overall governance must arise from the most humble interdependent acts done locally in parallel, and not from a central command. A mob can steer itself, and in the territory of rapid, massive, and heterogeneous change, only a mob can steer. To get something from nothing, control must rest at the bottom within simplicity.

When the sum of the parts can add up to more than the parts, then that extra being (that something from nothing) is distributed among the parts. By distributing knowledge and decisions we truly gain control from the bottom up.

Order begets order. Success breeds success. Thus we must cultivate increasing returns. Each time you use an idea, a language, or a skill you strengthen it reinforce it, and make it more likely to be used again. Confidence builds confidence.

We must learn to honor our errors. A trick will only work for a while, until everyone else is doing it. To advance from the ordinary requires a new game, or a new territory. But the process of going outside the conventional method, game, or territory is indistinguishable from error. Even the most brilliant act of human genius, in the final analysis, is an act of trial and error. 'To be an error and to be cast out is a part of God's design,' wrote William Blake. Error, whether random or deliberate, must become an integral part of any process of creation. Evolution can be thought of as systematic error management.

Finally, I will quote an expression I overheard in Paris and which changed my life, "It is easier to act our way into a new way of thinking, than it is to think our way into a new way of acting."

So let's get started.