

# Econ Update

Vol. 3, No. 7

Economics in Argumentation

Reason Foundation

March, 1989

by Julian L. Simon

## Why do we still think babies create poverty?

Why do we still believe that population growth slows economic development?

For 30 years our institutions have misanalyzed such world development problems as starving children, illiteracy, pollution, supplies of natural resources and slow growth. The World Bank, the State Department's Aid to International Development (AID), The United Nations Fund for Population Activities (UNFPA) and the environmental organizations have asserted that the cause is population growth — the population "explosion" or "bomb" or "plague."

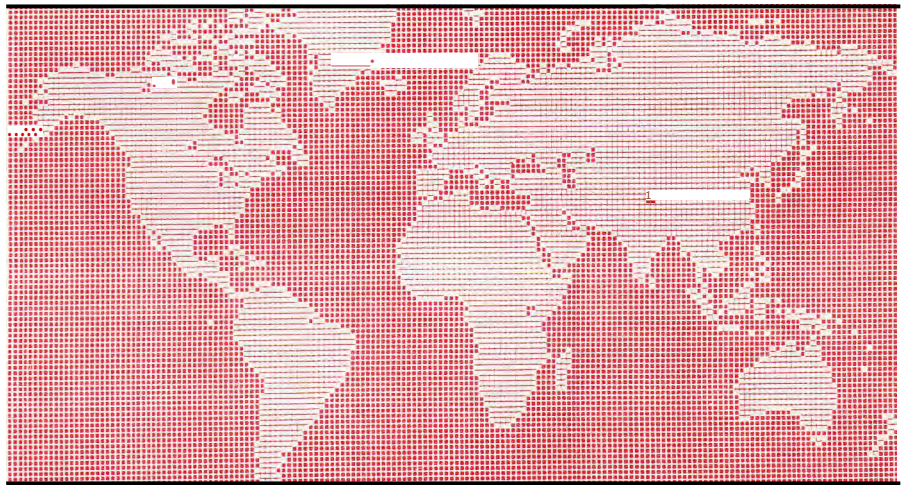
But for almost as long, there has been a body of statistical evidence that contradicts this conventional wisdom about the effects of population policy toward less-developed countries.

This error has cost dearly. It has directed our attention away from the factor that we now know is central in a country's economic development, its economic and political system.

Furthermore, misplaced belief that population growth slows economic development has been the basis for inhumane programs of coercion and the denial of personal liberty in one of the most valued choices a family can make — the number of children that it wishes to bear and raise.

One of the reasons this idea stays in currency is that in an ideologically divided world, the population bogey has been the rare sweet issue everyone could agree upon. I ran into this

Continued on page 3



### Newsmagazine face-off

## Whose future?

*"The next age of man" v. "endangered earth"*

*Time* and *The Economist* offer starkly different visions of the future. One is a bright and challenging future of progress, achievement, high technology, and economic growth; the other is a darker future of worldwide famine and environmental disaster. Which is most likely to come true?

Two leading newsmagazines, *Time* and *The Economist* launched the new year with special surveys of the future. *Time* outlined a pessimistic future of probable environmental disaster, with articles calling for major

new national (and international) programs to deal with pending ecological crises. For young people perusing *Time's* dismal scenarios, the future looks bleak.

In contrast, *The Economist's* 14-page survey "The next ages of man" is upbeat and optimistic. Authored by retiring editor Norman Macrae, this survey sketches an exciting future built on steady technological progress, and a new worldwide awakening to the folly of central planning.

An economic growth rate of only three and a half percent per year doubles the size of an economy every

Continued on page 7

# Return of a doomsday dropout

## *The problem with pessimism*

Environmentalist Eric Zencey warns of the "seduction in apocalyptic thinking." If we become convinced that ecological doom is unavoidable, then of course we are less likely to think about and plan for the future. Without hope for the future, we focus on the present.

According to Zencey, the ecological doomsday scenario keeps repeating that "things can't go on like this," and points to a soon-to-come breaking point. Doomsday, this scenario goes, will be brought about by industrial pollution, overpopulation, or greenhouse warming and worldwide deforestation (if not by nuclear war).

Zencey was taught the apocalyptic vision in college: that man had abused the earth for three or four thousand years, that the modern industrial state was unsustainable, that population growth had passed earth's "carrying capacity," and that the future would bring "a dramatic change, a momentous upheaval out of which would come a new society that [was] wise to the lessons of ecology." In geology class, Zencey learned "along with 400 other underclassmen in the darkened lecture hall" that the world would run out of oil by the year 2000.

Believing that things cannot continue, however, doesn't keep them from continuing. Time keeps on flowing (like they say, "in two days tomorrow will be yesterday"). After years of waiting for doomsday, Zencey gradually relinquished his pessimism:

"I began to change my way of thinking when my daughter was

born... there came a growing sense that life endures, and a realization that my own life was actually happening, not held in suspension until the day that my beliefs would be vindicated. There grew within me a suspicion that life *might* go on like this forever... I began projecting myself ahead ten, 20, 30 years. What would it be like when my daughter left for college?"

Interestingly, while absorbing doomsday teaching in geology, Zencey did hear the characteristically upbeat view economists have of the future. In an economics class his professor argued that the world would never run out of oil: "the last barrel would be too expensive to use, and would probably be bought at auction for display in a museum; but by then the market would have discovered alternatives."

The "market discovery" process that Zencey refers to is what fuels economists' optimism about our ability to cope with the future. Economists have observed time and again the way impending shortages create rising prices, and how rising prices quickly signal entrepreneurs to research, discover, and develop alternatives. Changing prices alter the behavior of millions, smoothly adjusting their actions to changing environmental conditions. As oil becomes scarce, solar power will become comparatively less expensive. Innovators will pour their energies into better and cheaper solar power.

But as other *Econ Update* articles emphasize, the market process can only be engaged when property

rights are clearly defined. And unfortunately, the world's rivers, lakes and oceans, and much of its wildlife and wilderness are still unowned or publicly owned — and are, in either case, inadequately protected. **EU**

(Eric Zencey comments are from 'Apocalypse now? Ecology and the peril of doomsday visions,' originally in *North American Review*, and reprinted in the *January/February, 1989 issue of the Utne Reader*.)

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*Econ Update* is published nine times a year by Economics in Argumentation, an educational program of the Reason Foundation. To subscribe to *Econ Update*, send \$12.00 to the Reason Foundation, 2716 Ocean Park Blvd., Suite 1062, Santa Monica, CA 90405. (213) 392-0443. To subscribe to *Reason* magazine, send \$15.95 to Reason, Box 3724, Escondido, CA 92025. (619) 485-9623 or 566-6947.

perverted amity at a discussion of population economics in India last winter attended by many employees of international agencies. In four days, there was not a single mention of the role of the economic system, whether market-directed or state-controlled. And when I suggested that the subject should at least be aired, I was met by silence in the formal meeting, and I was told informally that the issue simply is outside the scope of attention. "It's like talking religion," one said.

Nevertheless, by 1985 we know that unlike religion — which is a matter of personal preference and not of science — there is objective evidence that a free enterprise system works better than does a planned economy.

As we shall see, among comparable populations, such as those of North and South Korea, East and West Germany, or China and Taiwan (or China and Hong Kong or Singapore), the part with the enterprise system has obviously produced greater economic well-being.

Moreover, population growth under an enterprise system poses less of a problem in the short run, and brings many more benefits in the long run, than under conditions of government planning of the economy.

There are about a dozen competent statistical studies opposing the population-explosion theorists. They begin in 1967 with an analysis by Nobel laureate economist Simon Kuznets covering the few countries for which data are available over the past century, and analyses by Kuznets and Richard Easterlin of the data covering many countries since World War II.

The basic method is to gather data on each country's rate of population growth and its rate of economic growth, and then to examine whether — looking at all the data in the sample together — the countries with high population growth rates have economic growth rates lower than

average, and countries with low population growth have economic growth rates higher than average.

The studies agree that faster population growth is not associated with slower economic growth. On average, countries whose populations grew faster did not grow slower economically.

Of course, as countries develop economically, the fertility rates tend to fall. But it is economic level that influences the rate of population growth, not the reverse. Costs and benefits of having children change with the shift from rural to urban liv-

ing along with increases in education and shifts in attitudes — this being the famous "demographic transition."

The examples of Taiwan, South Korea, Singapore and Hong Kong have already been cited. Countries with high population growth and high economic growth include Thailand, Malaysia, Ecuador, Jordan, Brazil, Mexico, Syria, Panama, Taiwan, South Korea, Singapore and Hong Kong.

Typically, Thailand's population more than doubled from 20 million to 43 million between 1950 and 1977,

Continued next page

*Talking about overpopulation*

## Too many mouths?

After a graphic description of life in a shantytown on the outskirts of Mexico City, *Time's* Endangered Earth issue explains: "Mexico City has been struck . . . by a population bomb." Not so, argue a growing number of development economists, including Hernando de Soto in his recently published book *The Other Path*. DeSoto traces the origins of Latin American shantytowns to dense government regulations that protect established businesses (and bureaucrats), and exclude the poor from the legal economy (see reviews of DeSoto's book in recent issues of *Forbes* and *Fortune*).

Did a population bomb explode in Hong Kong? Or Singapore? Or Taipei? Maybe, but population growth in these cities exploded into stunning increases in productivity, education, and prosperity. Prosperity eludes Latin American cities because the people are not free to produce, and are not free to make use of the productivity-multiplying tools (investment) available from the developed world.

The now-wealthy Pacific Rim countries, which only a generation ago were poorer than most Latin American countries, welcomed foreign investment, just as foreign investment was welcomed in the U.S. in the 1800s (and allowed its underdeveloped agricultural economy to rapidly industrialize).

"Ultimately, no problem may be more threatening to the earth's environment than the proliferation of the human species," says *Time*. This assumes human beings reproduce like yeast cells. Yeast cells do indeed proliferate until transforming their environment so radically they die (which is, by the way, how beer is made). Human beings tend to slow their rate of "proliferation" as they grow wealthy — and many developed countries find their populations are actually dropping.

Julian Simon's analysis of population and natural resource issues offers strong economic evidence countering *Time's* panicked doomsday definition of the problem: "Swarms of people are running out of food and space."



## Why do we still think babies create poverty? continued

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around three percent growth yearly. And its rate of growth of income per person was around four percent over the same years. Of course there are counter-balancing examples of high population growth and low economic growth, such as many countries in Africa, where the political-economic system dominates the economic outcome just as it does in the countries with high economic growth.

In a review commissioned by the International Union for the Scientific Study of Populations, Ronald D. Lee summarized: "Dozens of studies, starting with Kuznets, have found no association between the population growth rate and per-capita income growth rate."

Yet not a single one of these studies is cited by the extensive World Bank

Report, which has been so widely publicized, or in such literature as the Worldwatch Institute's book by Lester Brown.

The research-wise reader may wonder whether population density is more important than population growth. But the data show that

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[O]ne crucial natural resource is becoming more scarce – human beings.

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higher density is associated with better rather than poorer economic results.

Check for yourself. fly over Hong Kong – just a few decades ago a place seemingly without prospects because of insoluble resource prob-

lems – and you will marvel at the astounding collection of modern high-rise apartments and office buildings. Take a ride on its excellent smooth-flowing highways for an hour, and you will realize that a very dense concentration of human beings – 40 times the density of China – does not

prevent comfortable existence and exciting economic expansion, as long as the economic system gives individuals the freedom to exercise their talents and to take advantage of opportunities.

The experience of Singapore demonstrates that Hong Kong is not unique. Its population density and its soaring per-person income over \$5,000 by 1982 are like Hong Kong's. Two such examples do not prove the case, of course. But these dramatic illustrations are backed by the evidence from the aggregate sample of countries.

Hong Kong is a special thrill for me because I first saw it in 1955 when I went ashore from a U.S. Navy destroyer. At the time I pitied the thousands who slept on the sidewalks or on small boats. It then seemed clear to me, as it must have to all, that it would be impossible for Hong Kong to surmount its problems – huge masses of impoverished people without jobs, total lack of exploitable natural resources, more refugees pouring across the border each day. But upon returning in 1983, I saw bustling crowds of healthy, vital people full of hope and energy. No cause for pity now.

And there is growing agreement with the viewpoint expressed here. Mine is certainly not a lone voice. [See box]

For example, Lord P.T. Bauer, development economist, says that rapid

Continued next page

A growing number of development experts agree with Julian Simon that population pressures are not the source of poverty in the third world, that most natural resources are actually becoming less scarce, and that free market policies offer solutions both to pollution in the developed world and to poverty in the underdeveloped world. The following sources are recommended:

Julian Simon & Herman Kahn, eds., *The Resourceful Earth: A Response to Global 2000* (Basil Blackwell, 1984, 585 pages). Twenty-five academics present powerful critiques of most anti-growth arguments, including deforestation, species extinction, overpopulation, global warming. (Laissez Faire Books #CU1526, \$10.95.)

Hernando de Soto, *The Other Path: The Invisible Revolution in the Third World* (Harper & Row, 1989). "The best way to understand Latin America's problems and issues is to read *The Other Path*. It is a new book which is sweeping Latin America." Bill Bradley, U.S. Senator. (Laissez Faire Books #PR5085, \$17.95.)

P.T. Bauer, *Reality and Rhetoric: Studies in the Economics of Development* (Harvard University Press, 1984). Also see Bauer's earlier *Dissent on Development* (Harvard University Press, 1972).

J.P. Powelson & R. Stock, *The Peasant Betrayed: Agriculture and Land Reform in the Third World* (Oelgeschlager, Gunn & Hain, 1987). Brief overviews of misguided agricultural policies in 17 third world countries.

P. Hill, *Development Economics on Trial: The Anthropological Case for a Prosecution* (Cambridge University Press, 1986).

R. Stroup & J. Baden, *Natural Resources: Bureaucratic Myths and Environmental Management* (Pacific Institute, 1983).

Herbert London, *Why are They Lying to our Children* (Stein & Day, 1984). "Generations of school children are being taught that their future and that of their world is bleak. This book, based on an important new study, is the antidote for mistaken, misguided, and misleading prophets of doom." — from the book jacket.



old ones were. Such has been the entire course of civilization.

Extraordinary as it seems, natural-resource scarcity — that is, the cost of raw materials, which is the relevant economic measure of scarcity — has tended to decrease rather than to increase over the entire sweep of history. This trend is at least as reliable as any other trend observed in human history. The prices of all natural resources, measured in the wages necessary to pay for given quantities of them, have been falling as far back as data exist. A pound of copper now costs an American only a twentieth of what it cost in hourly wages two centuries ago, and perhaps a thousandth of what it cost 3,000 years ago.

The most extraordinary part of the resource-creation process is that temporary or expected shortages, whether due to population growth, income growth or other causes, tend to leave us even better off than if the shortages had never arisen, because of the continuing benefit of the intellectual and physical capital created to meet the shortage.

For all practical purposes there are no resources until we find them, identify their possible uses and develop ways to obtain and process them. We perform these tasks with increasing skill as technology develops. Hence, scarcity diminishes.

Besides, the general trend is toward natural resources becoming less and less important with economic development. Extractive industries are only a very small part of a modern economy, say a twentieth or less, whereas they constitute the lion's share of poor economies. Japan and Hong Kong prosper despite the lack of natural resources, whereas such independence was impossible in earlier centuries.

And though agriculture is thought to be a very important part of the American economy, if all of our agricultural land passed out of our ownership tomorrow, our loss of

And what should our vision be? Should we heed the message of the doomsayers of the population control movement? This is a message of limits, decreasing resources, a zero-sum game where one gains wealth at the expense of others, conservation, deterioration, fear, conflict and calling for more governmental intervention in markets and family affairs. Or should our vision be that of those who look optimistically upon people as a resource rather than as a burden?

wealth would only equal about a ninth of one year's gross national product.

There is, however, one crucial natural resource that is becoming more scarce — human beings. Yes, there are more people on earth now than in the past. But if we measure the scarcity of people the same way we measure the scarcity of economic goods — by the market price — then indeed becoming more scarce, because the price of labor time has been rising almost everywhere in the world.

Just a few years after Egypt was said to have a labor surplus, agricultural wages in Egypt have soared, for example, and people complain of a labor shortage, because of the demand for workers in the Persian Gulf.

Even the World Bank, for years the leading worrier about population and natural resources, has muted its alarms. "The difficulties caused by rapid population growth are not primarily due to finite natural resources," its 1984 Report states. But no sooner is one fear about population growth scotched, then another takes its place.

The latest bugaboo is the effect of population growth upon education.

The World Bank now worries that even if a higher birth-rate does not imply fewer natural resources, it does imply less education per person. Once more, it just ain't so.

Studies have shown that societies with relatively high proportions of youths somehow find the resources to educate their children almost or equally as well as do countries at similar income levels with lower birth rates. Outstanding examples of high rates of education in the face of relatively large numbers of children include the Philippines, Costa Rica, Peru, Jordan and Thailand.

Now we come to the matter that the international development institutions consider poor form to mention when discussing economic development: economic and social systems.

Compare China with Singapore. China's coercive population policy, including forced abortions, is often called "pragmatic" because its economic development supposedly requires population control.

Singapore, despite its very high population density, now suffers from a labor shortage, and imports workers. It is even considering incentives for middle-class families to have more children, in contrast to its previous across-the-board antinatality policy. This raises the question whether there are economic grounds for China to even ask, much less compel, people to have only one child.

It is said, however: Hong Kong and Singapore are different because they are city-states. But what does that mean — that if large hinterlands were attached to those "city-states" they would then be caused to be as poor as China?

Compare countries that have the same culture and history, and had much the same standard of living when they split apart after World War II. The accompanying chart shows centrally-planned communist

Continued next page



countries that had and still have less population per square mile than the market-directed non-communist countries. The communist and non-communist countries in each pair also started with much the same birth rates and population growth rates.

The chart makes clear, despite the frequent absence of data for the centrally-planned countries, that the market-directed economies have performed much better economically, no matter how you measure economic progress. Income per person is higher. Wages have grown faster.

Further, indexes such as telephones per person show a much higher level of development. And indicators of individual wealth and personal consumption, such as autos and newsprint, show enormous advantages for the market-directed enterprise economies compared to the centrally-planned, centrally-controlled economies.

Also, birth rates fell at least as early and as fast in the market-directed economies as in the centrally-directed countries.

China's problem is not too many children, but rather a defective political-economic system. With free markets China might soon experience the same sort of labor shortage as Singapore — which is vastly more densely settled, and has zero natural resources. (And this does not mean a "free" system such as China is talking about now; it is quite unlikely that a truly free market can coexist with a totalitarian political system, because a free economy is too great a political threat.)

Even the most skilled persons require a social and economic framework that rewards hard work and risks, enabling their talents to flower. The key elements of such a framework are economic liberty, respect for property, fair and sensible rules of the market that are enforced equally for all and the personal freedom that is particularly compatible with economic freedom.

What should we do about population policy? These are the key issues: First, should we encourage and aid countries to implement coercive population policies, as we have in the

past with China, India, Indonesia and many other places? The answer depends upon one's values, of course. But we should recognize that the scientific evidence about the long-run economic consequences offers no support for such policies.

And what should our vision be? Should we heed the message of the doomsayers of the population control movement? This is a message of limits, decreasing resources, a zero-sum game where one gains wealth at the expense of others, conservation, deterioration, fear, conflict and calling for more governmental intervention in markets and family affairs. Or should our vision be that of those who look optimistically upon people as a resource rather than a burden?

This is a message of receding limits, increasing resources and possibilities, a process in which wealth is created, consistent with the belief that persons and firms, acting spontaneously in search of their individual welfare, regulated only by rules of a fair game, will produce enough to maintain and increase economic progress and promote liberty. **EU**

## Whose future? continued

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20 years. And though economic growth in Europe and America have fallen below three and a half percent in recent years, Macrae expects growth to accelerate:

"Economic growth depends on two things: (a) the advance of knowledge, and (b) whether a country has a tolerably sensible political system for putting the advance of knowledge into productive effect"

Free trade can quickly spread new knowledge, such as advances in computer and manufacturing technologies, to countries around the globe. And many trade doors long-closed are now creaking open.

Recent years have held out hope that billions more people will make the transition from nonsensical political systems to tolerably sensible ones: one billion people in China, 800 million in India, and 400 million

in the U.S.S.R. and Eastern Europe. In the Pacific Rim, the market revolution has already reached 50 million people in Thailand, and is likely to keep expanding to 175 million in Indonesia, and 61 million in the Philippines.

These two and a half billion people will slowly emerge from backward and corrupt political economic systems, where innovation and extra effort usually go unrewarded. The coming decades could bring the brightest awakening in human history. Imagine living in the age when half the world's population breaks free from economic bondage!

Why now? In part, because the last intellectual defenses of the aristocratic "old order" of centralized economic controls have crumbled. And in part, because the experience of the last 50 years has given govern-

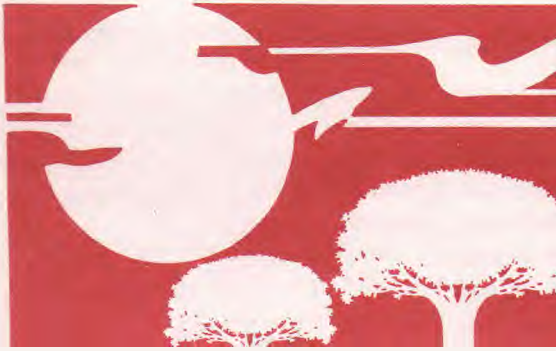
Free trade can quickly spread new knowledge, such as advances in computer and manufacturing technologies, to countries around the globe.

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ment officials unmistakable evidence that socialism does not work. Even Soviet and Chinese officials admit that central planning has caused economic as well as environmental disaster.

Intellectuals promoting socialism and communism claimed that planned economies would better promote both equality and economic growth. Centrally-planned economies were to bury the free world's "wasteful and disorganized" market economies. Instead, socialist societies became steadily less equitable as

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## Whose future? continued

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their economies spiraled downward.

For billions of impoverished people in the third world, economic growth is a life or death issue. They are turning to free market ideas because socialism did not deliver the economic growth it promised. Partial property rights and freer markets have already spurred growth in agricultural productivity in India and China, for example.

Only by storing surplus harvests and accumulating wealth in good years can the poor survive when crops fail. Even in recent decades, socialist agricultural policies caused famine in China (where 25-30 million perished in 1960-61), India, and most recently Ethiopia (where one million died in the 1984-85 famine, and six million are still at risk today). (See Karl Zinsmeister, "Famine or Murder? The Politics of Hunger," *Reason*, June, 1988.)

However, as every high school debater knows, or quickly learns, economic growth has its detractors. In wealthy countries, economic growth is no longer a life or death issue, and for the well-to-do, the main issue seems to be how to stop economic growth. Anti-growth ideologies have risen from the ashes left as socialism went down in flames. And these anti-growth ideologies have been injected into high school debate, where they live on in the popular and ever-evolving "growth disadvantages."

This way of thinking about the world condemns economic growth altogether, usually on the grounds that people are environmentally de-

structive by nature. Herman E. Daly, for example, writing in *Omni* magazine, condemns modern "growthomania" and calls for a no-growth, steady-state economy, which "will allow us to mold our future in accordance with our goals" (January, 1989, p. 8).

But this is central planning again, under a different guise. The "us" that does the molding will be government planners like Daly (who is an "environmental economist" with the World Bank), while the futures that get molded will be the peoples'. Daly uses metaphors from biology to argue that human economies are getting too big for the Earth's ecosystem.

We should have learned from recent experiences with central planning that society-molding is not possible without dictatorial force, such as Pol Pot needed to mold Cambodia's future, Mao needed in China, Stalin in the Soviet Union, and Mengistu is using today in Ethiopia.

It is often hard to separate straightforward arguments for better environmental protection, from arguments promoting anti-growth as an ideology. *Time's* lead "planet of the year article" ends with a call to arms: "Mobilizing . . . mass commitment will take extraordinary leadership..." capable of launching "a new universal crusade," and "mankind must embrace that cause totally, and without delay." Since this is the sort of language usually used in wartime, we have good reason to examine the alleged enemy closely before embarking on a new crusade to save the

planet.

Market economists call instead for a crusade to define and enforce property rights worldwide. Where environmentalists see economic growth itself as the problem, economists argue that growth is likely to be a problem only in the absence of property rights. One pioneer living by an unowned lake is unlikely to damage the ecosystem. But hundreds crowding the lake's perimeter will pollute it, unless some individual or group can own the lake, and can enforce its ownership rights.

Though *Time* magazine's "endangered earth" section presents anti-growth arguments, *The Economist*, in a number of recent articles on environmental issues, argues against many of the policies proposed by *Time* (see references below).

How can two popular newsmagazines turn out such dissimilar analyses of environmental issues, and offer such strikingly different visions of the future? *Time's* negative view is grounded on the seemingly insurmountable ecological problems they outline. *The Economist* takes these problems in stride, and then goes on to its upbeat look at the "new ages of man."

The "economic way of thinking" leads *The Economist's* writers to interpret data and trends in different ways than *Time's* writers, and, of course, they find market-oriented approaches to environmental problems more appealing than new regulations and government programs.

Continued on page 10



# Medicare: a threat to retirement security

Medicare was adopted 25 years ago to help the elderly pay medical bills. Yet at its current state of growth and revenue, the Medicare program now poses a major financial burden to the same senior citizens it was designed to protect. In fact, elderly people pay about the same amount of medical expenses themselves that they paid prior to the institution of the Medicare program. Given cur-

tee retirement security to senior citizens.

Indeed, affirmative cases that do not address the increasing cost of medical care to the elderly should be attacked by negatives on solvency, using the evidence in this study to show how the affirmative's plan will fail to guarantee retirement security.

Ferrara's plan to solve for these financial burdens repeals the income

be unable to meet its obligations around the year 2000. Such a tax increase would have to be on the order of 400 percent, mostly borne on the backs of the Medicare beneficiaries (the elderly.)

The second plank of Ferrara's plan would establish Health Care Savings Accounts (HCSAs) much like the current Individual Retirement Accounts (IRAs). Employers and workers could deposit money in this account tax-free up to the current payroll tax for Medicare. The money built up in such an account would reduce the amount of Medicare coverage due to that individual by allowing them instead to buy private insurance with that money. Although these workers would still have to pay Medicare taxes, the tax-free nature of HCSAs would still make such accounts attractive.

A major benefit of Ferrara's plan is its greatly decreasing the amount of money handled by government while increasing the amount of health costs paid by private individuals in the marketplace. Since retirees will have an incentive to shop around to control their medical costs (they're spending their own money, after all), they will get more "bang for their buck" than they would under Medicare. This, coupled with the tax changes in the first plank, will help them achieve retirement security by lowering their medical costs significantly.

Thus, the major advantages to this new affirmative two-plank plan would be lower medical costs and lower taxes for the elderly. However, other advantages could be "add-ons" in 2AC, or even advantages in 1AC. One would be the value of autonomy, which is greatly enhanced when seniors are allowed to make their own health care/retirement decisions instead of having government do so for them. Another would be that HCSAs

Continued next page

## CX Update

rent trends, the elderly will soon be paying even more for their health care.

A new study, *Abolish Medicare Taxes on the Elderly*, from the Cato Institute (224 Second Street SE, Washington, DC, 20003) gives affirmatives a chance to develop a new case for the upcoming district and national tournaments. Peter Ferrara, a professor at George Mason University School of Law, argues in the study that current Medicare regulations are beginning to pose a financial threat to senior citizens. His proposals for change in the system could be planks in an affirmative plan to "guarantee retirement security" by lowering health costs facing those over 65.

The harms in the status quo are considerable. First, the current regulations are posing a major tax burden on the elderly. The monthly premiums they must pay have risen 78 percent just since 1987. In addition, the catastrophic health bill passed last year instituted an income tax surcharge on the elderly that will give them the highest marginal tax rates of any group in the United States. These two expenses, combined with skyrocketing medical costs, will soon make it nearly impossible to guaran-

tee retirement security to senior citizens.

tax surcharge and ends the monthly premiums. This will save the elderly about \$17 billion each year.

At first glance, this seems hardly helpful to senior citizens. They will save some tax money, but will also get fewer benefits from Medicare. Remember, though, the power of the free market to lower costs and increase benefits. Since more of the routine costs will be paid by seniors directly, they will have more incentive to shop around for better services at lower prices. This will help reverse the astonishing increase in the price of medical service, which was largely caused by the lack of an incentive to compete. With the government paying the bill, there is little reason for patients to shop around for lower prices, or for health professionals to offer lower prices.

Ferrara's plan forces fiscal responsibility on the medical business while lowering marginal tax rates, both of which would greatly enhance the retirement security of senior citizens. Although this solves the harms in the short-term, Ferrara points out that retirement security would still be at risk in the long-term. Without a major increase in payroll taxes, or monthly premiums, Medicare will

# Econ Index

E	Economist
F	Forbes
FM	Freeman
TNR	The New Republic
R	Reason
RG	Regulation
WSJ	Wall Street Journal

## TOPICS IN BOLD FOR EASY REFERENCE

### USA – BUSINESS

Takeover wars in the boardroom, p. A10, WSJ, 2/6

Takeovers slash corporate overhead, p. A16, WSJ, 2/7

New age sessions same old brainwashing, p. A18, WSJ, 2/9

The speculator as hero, p. A6, WSJ, 2/10

Firms address workers' cultural variety, p. B1, WSJ, 2/10

Businesses face big fines for breaking immigration law,

p. B2, WSJ, 2/10

'Disadvantaged' contractors' unfair advantage, p. A20, WSJ, 2/16

Capital flight, p. 22, R, March  
Investing in America's future, p. 42, R, March

### USA – ECONOMY

Happiness is a cheap seat [airline deregulation], p. 68, E, 2/4

Why don't we aim for zero inflation? p. A18, WSJ, 2/9

TVA: A model privatization target, p. A18, WSJ, 2/9



## Whose future? continued

Consider the conclusions of one *Economist* editorial: "The notion that environment and development are in conflict is rooted in the rich countries, where it is true both that growth can cause pollution and that controlling pollution can eat into growth. In the third world, though, economic efficiency and ecological soundness usually go together. Development means industrialization which, by increasing a country's wealth and non-agricultural employment, can relieve the pressures on forest, soil and grass. Higher incomes make it feasible for subsistence farmers to plan ahead.." (May, 2, 1987, p. 16).

Assigning property rights and allowing markets to operate drive the economic growth and wealth creation that encourage people to protect their environment. Today's environmental problems are serious, but they are solvable within the same economic system that has generated economic growth in the western world for each of the last twenty decades.

The big picture, according to Macrae, is this: "Mankind as a whole, in the last 11 years of the twentieth century, is almost certainly on the foreshore of the fastest period of market-driven economic development it has ever seen" **EU**

*Economist* articles:

"The vanishing jungle: Ecologists make friends with economists," October 15, 1988, p. 25-28 (see also editorial "Changing colour," p. 15-16).

"Privatising America's west: Profits from the wild," October 22, 1988, pp. 21-24.

"Making sense of Brundtland: Without economic growth the third world will ruin the environment," May 2, 1987, p. 15-16.

"Giving India's trees to the people," December 6, 1986, pp. 101-102.

"Thailand: Of elephants and dragons," January 21, 1989, pp. 72-73.

"Why socialism will never work," January 28, 1989, p. 85.

"The Next Ages of Man" a survey, December 24, 1988, pp. 1-20.

## Medicare, continued

would represent a move from a "transfer-based" system to a "savings-based" system. *Econ Update* has been extolling the philosophical and economic virtues of the latter all year.

A recent Blue Ribbon presidential commission on health care gives us a third add-on advantage. The commission recently recommended Canada be a model for the U.S health care system. (See any index of newspaper or magazine articles covering the latter half of January for details.)

As pointed out in the November, 1988, issue of *Econ Update* such a move would not be a good one for the United States. Implementing Ferrara's proposal would make a Canadian-style socialized medicine scheme much less politically appealing, and therefore much less likely.

The plan now has advantages, what about inherency? To prove that the status quo will not be solving the health care crisis any time soon, refer to articles in *US News and World Report*

(February 6, 1989) and *Newsweek* (January 31, or February 6, 1989). The former piece graphically illustrates how politics will likely derail any plan that includes a reduction of Medicare services. Ferrara's plan does so, and so will the affirmative plan – remember that market forces will more than offset this loss by lowering medical costs and making superfluous tests and surgery unattractive.

This plan might just provide the surprise factor affirmatives will need to prevail at upcoming debate tournaments. Since the plan would be based on a just-released study, there would likely be little negative evidence that is directly on point.

Write to the Cato Institute and request a copy of Policy Analysis #115, *Abolish Medicare Taxes on the Elderly*, by Peter J. Ferrara. This will give you all the evidence for an affirmative case and plan, as well as for a negative solvency attack.

**EU**

Some **waste cleanup** rules are a waste of resources, p. A14, **WSJ**, 2/15

Inflation on the rise, shows many faces, p. A2, **WSJ**, 2/17

The money has already been borrowed, p. 38, **F**, 2/20

Citizen Kane meets Adam Smith, p. 82, **F**, 2/20

A revolution restated, p. 86, **F**, 2/20

**America's trade policy:** perestroika in reverse, p. 59, **E**, 2/25

A new cold war? [**protectionism**] p. 56, **F**, 3/6

"No water" economics [Murray **Rothbard**], p. 86, **F**, 3/6

The banker plan, p. 7, **TNR**, 3/6

Our secret desires; why we end up with trade barriers, p. 36, **R**, March

**USA — GOVERNMENT**

How Congress erodes the power of the Presidency, p. A10, **WSJ**, 2/6

With liberals watching nervously, **High Court** takes conservative tone into backlog, p. A12, **WSJ**, 2/6

Bush's new solution for S&Ls could kill them off, p. A1, **WSJ**, 2/7

New alternatives to the **public-court** logjam, p. A17, **WSJ**, 2/7

The courts are not the Constitution, p. A16, **WSJ**, 2/7

Presidential budget control, p. A14, **WSJ**, 2/8

Cool it, thrift lobbyists, p. **A14**, **WSJ**, 2/8

Flashy federal posse pursuing S&L abuses bungles effort in Texas, p. A1, **WSJ**, 2/10

New laws limit 'no children' housing, p. B1, **WSJ**, 2/13

How Congress kills industries with kindness, p. A15, **WSJ**, 2/14

Are **RICO** seizures a violation

All government intervention is "not merely ineffectual, but also pernicious and counter-productive?" And that means *all*.

*USA - Economy, Forbes, 3/6*

of rights, as critics contend? p. A1, **WSJ**, 2/15

Budget deficits: a third view, p. A14, **WSJ**, 2/16

Too many officers can wreck the ship of state, p. A15, **WSJ**, 2/16

**Kemp** bubbles with enthusiasm as he preaches 'progressive conservatism' for fighting poverty, p. A16, **WSJ**, 2/16

The housing gap, p. A8, **WSJ**, 2/17

**RICO** chickens come home to roost, p. A8, **WSJ**, 2/17

Lights out for **RICO**? p. A8, **WSJ**, 2/17

Influence for sale, p. 108, **F**, 2/20

Grime and punishment, p. 7, **TNR**, 2/20

How not to set up an ethics commission, p. 10, **TNR**, 3/6

Political science; pork invades the lab, p. 32, **R**, March

**NASA**

Science fiction, p. 44, **F**, 3/6

**USA — HEALTH**

Medical tests go under microscope, p. **BI**, **WSJ**, 2/7

Experimental **AIDS** therapy gets boost, p. B4, **WSJ**, 2/9

Punishing **Alzheimer's** patients, p. **A14**, **WSJ**, 2/14

Merck scientist finds a chink in the armor of the **AIDS** virus, p. A1, 2/16

Hospitals that need patients pay bounties for doctor referrals, **A1**, **WSJ**, 2/27

**USA — MILITARY**

A leaner American defence budget, p. 12, **E**, 2/11

'Smart arms' failure to distinguish decoys has Pentagon alarmed, p. A1, **WSJ**, 2/17

**Sell those bases!** p. 10, **R**, March

**USA — MISCELLANEOUS**

California's Brown wouldn't be a middle man now, p. **A14**, **WSJ**, 2/8

Future always outwits political pundits, p. A14, **WSJ**, 2/8

Baby boomers find it hard to save money; will they do it later? p. A1, **WSJ**, 2/13

Refugees deserve a better welcome, p. A12, **WSJ**, 2/13

Shopping malls become **free-speech** battleground, p. **BI**, **WSJ**, 2/14

Government cracks down on environment crimes, p. **BI**, **WSJ**, 2/16

A new wave [immigration], p. 26, **E**, 2/18

Taking care of business [the states], p. 28, **E**, 2/18

Warming trend [solar energy], p. 68, **F**, 2/20

A world without **Roe**, p. 19, **TNR**, 2/20

A Baedeker to better living, p. **A16**, **WSJ**, 2/23

Wrong about Japan, p. 11, **E**, 2/25

Cries of 'rascism' cows crime fighters, p. A18, **WSJ**, 2/28

How about obscene losses? [poverty], p. 76, **F**, 3/6

**Education**

Back to basics, p. 13, **TNR**, 3/6

**INTERNATIONAL**

**MISCELLANEOUS**

Of debt and democracy, p. 11, **E**, 2/11

Make them pay [**privatizing roads**], p. 11, **E**, 2/18

The city, the commuter and the car, p. 19, **E**, 2/18

Self-made crisis [debt], p. 27, **F**, 2/20

U.S.-China-Soviet links enter new phase, p. A12, **WSJ**, 2/23

**AFRICA**

Zambia the slow, Malawi the poor, p. 88, **E**, 2/18

**Angola**

Survivor Savimbi, p. 40, **E**, 2/18

**Namibia**

A frail new infant in Africa, p. 39, **E**, 2/4

**South Africa**

Not far ahead, the road forks, p. 39, **E**, 2/11

Falling queen, p. 40, **E**, 2/18

A lot of '50s in the '80s, p. 44, **R**, March

**Zimbabwe**

One party fits all, p. 15, **TNR**, 3/6

**ASIA**

Scramble for Asia, p. 11, **E**, 2/4

**Afghanistan**

Waiting for the mujaheddin, p. 29, **E**, 2/11

Guerrillas at odds as **Soviets** leave Kabul, p. A10, **WSJ**, 2/15

Victory in Afganistan day leaves country divided, p. A15, **WSJ**, 2/15

Let the battle resume, p. 31, **E**, 2/18

**China**

**Privatizing** China, p. 35, **E**, 2/11

City lights, p. 34, **E**, 2/18

At it again, p. 34, **E**, 2/25

**India**

India by design, p. 75, **E**, 2/25

**Japan**

Japan to offer needy countries **trade insurance**, p. A12, **WSJ**, 2/7

**Philippines**

**The NPA** misfires in the Philippines, p. A15, **WSJ**, 2/8

A Brazilian tale, p. 31, **E**, 2/18

**Singapore**

Medieval Singapore, p. A14, **WSJ**, 2/15

**Sri Lanka**

Whose revolution will it be? p. 34, **E**, 2/11

**CANADA**

Free-trade pact creates winners, losers, p. A12, **WSJ**, 2/7

When Canadian liberals were liberal, p. A9, **WSJ**, 2/17

If 'Alternative Dispute Resolution; or ADR, continues to expand, it might well stimulate serious debate over privatization of some civil litigation as a means of freeing up the public courts for faster administration of criminal justice.

*USA -Justice, WSJ, 2/7*

**ECON INDEX**  
**ON RETIREMENT SECURITY**  
 Taking the lid off Japan's pension pots, p. 73, **E**, 2/4  
 FASB rule on retirees to cause furor, p. A2, **WSJ**, 2/9  
 Hospitals: Medicare's sharecroppers, p. A7, 2/20



## CARIBBEAN

Far, few and democratic, man, p. 46, E, 2/18

## Jamaica

Jamaican leader's head rules his heart, p. A10, WSJ, 2/13

## EUROPE

Fly the American way, p. 16, E, 2/4

EC, U.S. head for new trade friction over label 'Made in America: p. A11, WSJ, 2/8

EC competition czar is man in middle, p. A14, WSJ, 2/9

Europe's global clout is limited by divisions 1992 can't paper over, p. A1, WSJ, 2/13

Europeans begin planning for the day when the U.S. pulls troops back home, p. A5, WSJ, 2/17

The **ecu nationalists**, p. 12, E, 2/18

Enter plurocommunism, p. 47, E, 2/18

EEC and Japan; set up or stay out [protectionism], p. 52, E, 2/18

Opening up the open market [books], p. 67, E, 2/25

## Austria

A survey; fading illusions, E, 2/25

## Belgium

Belgium: Making states pay their way, p. A11, WSJ, 2/6

## Great Britain

Hospitals set free, p. 15, E, 2/4

No stopping her [hospital privatization], p. 49, E, 2/4

Out of their depth [water

privatization], p. 53, E, 2/11

Brie and banana skins, p. 17, E, 2/18

British banks abandon stand-offish ways, p. A14, WSJ, 2/28

The prophet motive [**Rushdie**, book review], p. 28, TNR, 3/6

## France

A pungent French tale of socks and shares, p. 43, E, 2/4

## Italy

Having trouble counting all the zeros in Italy's national debts? Here's why, p. A14, WSJ, 2/9

## Spain

As **Gonzalez** glides rightward, p. 43, E, 2/11

## West Germany

What all Germans take on vacation: snapshots, sunscreens – their lawyer, p. A14, WSJ, 2/9

Thus spake Berlin's new nationalists, p. A13, WSJ, 2/13

Germany slides further, p. A14, WSJ, 2/16

Fear of foreigners, p. 49, E, 2/18

## KOREA

Shall we dance? p. 31, E, 2/11

Dreams of **unification** with the North may be unrealistic, p. A10, WSJ, 2/16

## South Korea

Here come the Koreans, p. 40, F, 3/6

## LATIN AMERICA

The banks' great escape, p. 73, E, 2/11

## Brazil

A back door into the Amazon, p. 38, E, 2/11

Brazil balks at international pressure to save environment in industrializing, p. A9B, WSJ, 2/13

## Mexico

Giving a little to save a lot, p. 38, F, 3/6

A Harvard man takes charge, p. 40, R, March

## Nicaragua

Curtains for contras, the Sandinistas sing, p. 39, E, 2/18

## Paraguay

Paraguay ousts its aging dictator, but democracy may take longer, p. A6, WSJ, 2/6

Paraguay faces questions after coup, p. A10, WSJ, 2/16

## Venezuela

Venezuela plans reforms backed by U.S., others, p. A14, WSJ, 2/9

## MIDDLE EAST

**Soviets** move to fill void in Middle East, p. A17, WSJ, 2/21

## Iran

A revolution that lost its way, p. 41, E, 2/11

## Israel

Israel is accused on **human rights** in report by U.S., p.

A18, WSJ, 2/7

The peace Israel will propose, p. 37, E, 2/25

## SOVIET BLOC

Communist giants are too burdened at home to lead much abroad, p. A1, WSJ, 2/6

Selling off the communist shop, p. 17, E, 2/11

Chipping away at Yalta, p. 45, E, 2/25

Eastern European theater, p. A18, WSJ, 2/28

## East Germany

East Germany opens a front in cold war: the kitchen freezer, p. A1, 2/22

## Yugoslavia

Hapsburgslavia, p. 48, E, 2/18

## SOVIET UNION

Perestroika bypasses the **legal system**, p. A6, WSJ, 2/10

The empire pulls back, p. A6, WSJ, 2/10

The empire breaks up, p. 20, TNR, 2/20

The **glasnost** papers, p. 28, TNR, 2/20

Soviet trade awaits the next revolution, p. A16, WSJ, 2/21

Soviet military cuts: who wins? who loses? p. A20, WSJ, 2/21

Gorbacomics, p. 18, TNR, 2/27

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In taking care of ourselves, we speculators somehow ensure that producers all over the world will provide the right quantity and quality of goods at the proper time, without undue waste.

*USA – Business, WSJ, 2/10*

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