imprimis
Hillsdale College Hillsdale, Michigan 49242 Vol. 4, No. 10
October 1975

Government and Business

ROBERT M. BLEIBERG

Robert M. Bleiberg, editor of Barron's National Business and Financial Weekly *for twenty years, came to* Barron's *in 1946 from* Prudden's Digest of Investment and Banking Opinions, *where he was associate editor. Mr. Bleiberg received a B.A. degree from Columbia University (Phi Beta Kappa), and an M.B.A. degree from New York University. Mr. Bleiberg is a member of the New York Security Analysts, the New York Financial Writers Association, and the Mont Pelerin Society. He is a trustee of the American Economic Foundation. This presentation is available in its full length as one of six lectures compiled in* Champions of Freedom, Volume 2. *It may be ordered from Hillsdale College, where Mr. Bleiberg delivered this address.*

While it may strike some of you as smacking of heresy, I'd like to begin tonight by saying a good word for modern economics. Poor Ricardo and Marshall. They lived and worked in an orderly, more or less rational society, where experimentation was confined to the laboratories of the newly emerging physical sciences, and the world—or at least the part of it that counted—was solidly wedded to the gold standard. Thus they were barred from such exciting pursuits as fine-tuning the gross national product, or manipulating corporate profit margins; as one Nixon price controller confessed to posterity when he first tackled the intricacies of Freeze One and Phase Two (and I quote): "It's fun."

On the contrary, nineteenth century economists were compelled to turn their talents to the dull, plodding and often thankless quest for truth. There were Gresham's Law, Say's Law and the Law of Supply and Demand—but relatively few lawbreakers. That was a time in which you could almost learn economics in one lesson. To prove (or disprove) a theory, few followers of the dismal science had the slightest inclination, let alone authority, to carve up either the body economic or the body politic.

What a backward day and age, with its mindless belief in pure reason. In striking contrast, today—and for roughly the past half century—economics has broken out of the confines of the classical mold, and we are all thereby infinitely richer. Thus, while experts might have argued the point endlessly, now we know for sure—thanks to the New Economics as practiced for decades in Washington, D.C.—that the dollar is not as good as gold. We have found out the hard way the heavy impact of minimum wage laws on teen-age unemployment, notably among minority groups. We have learned for ourselves that wage and price controls, notably in peacetime, do discourage capital formation, create artificial shortages and ultimately lead to debasement of the currency, both at home and abroad. And after subsidizing illegitimacy for a generation, through so-called federal aid to dependent children, we have belatedly come to recognize that we live in a world full of bastards.

All of which brings me—by a slightly roundabout route, to be sure—to my topic: Government and Business. Thanks to decades of social experimentation at a mounting pace, a large body of empirical evidence has now piled up as to the efficacy—or, more accurately, the lack of efficacy—of federal regulation of U.S. economic life. The evidence supports the following conclusions, each of which we shall explore in turn. (1) Measured in terms of number of bureaucrats involved, volume of decisions and decrees or sweeping significance, U.S. rules and regulations in recent years have increased at an almost geometric rate. (2) Weighed on a scale of input against output or cost vs. benefits, virtually all such activities, both old and new, invariably are found wanting. Some have proven counterproductive, while a few are demonstrably a menace to the nation's health or welfare. (3) Perhaps because of its blatant shortcomings, government regulation—for the first time in living memory—is running into criticism and resistance, from an unlikely coalition of conservatives and liberals alike. (4) Ironically, some of the most powerful support for regulation is coming from quarters which by rights should be leading the fight against it, namely, the business community.

im•pri•mis (ĭm-prī′ mĭs) adv. In the first place. Middle English, from Latin in primis, among the first (things). . .

IMPRIMIS is the journal from The Center for Constructive Alternatives. As an exposition of ideas and first principles, it offers alternative solutions to the problems of our time.

In order to appraise properly the current regulatory explosion, some background is useful. In *The Wealth of Nations*—we will celebrate the two hundredth anniversary of its publication next year—Adam Smith wrote as follows (and I quote): "No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord."

Thanks to the wisdom of the Founding Fathers, this country heeded Adam Smith for nearly a century. Then a basic change occurred, one described concisely and well in the latest annual report of the President's Council of Economic Advisers, headed by my old friend Alan Greenspan.

(And I quote): "Until after the Civil War, the federal government's policy toward the economy involved little or no direct regulation. . . . The first steps toward regulation were designed to deal with problems of monopoly. In 1887, the Act to Regulate Commerce set up an Interstate Commerce Commission (ICC) to regulate the railroads, which eventually led to reduced competition throughout the surface transportation sector. In 1890 the Sherman Act outlawed contracts and activities designed to create monopolies in restraint of interstate trade, intending thereby to promote competition. In succeeding years, the transportation and anti-trust statutes were amended and complemented and direct economic regulation spread to other industries. There's been a marked trend toward more rather than less governmental regulation, [one which] has been particularly evident in recent years. More requirements have been placed on the private sector, often to achieve objectives such as safety, health and pollution control. . . ."

Some facts and figures underscore the point. In the past decade, according to the National Association of Manufacturers, Congress has enacted more than 60 major pieces of legislation affecting the conduct of business. For example, in 1965-1966, the 89th Congress passed the following measures: Child Protection Act; Cigarette Labeling and Advertising Act; Extension of Defense Production Act; Extension of Re-Negotiation Act; Fair Packaging and Labeling Act; Federal Housing Subsidies; Manpower Development and Training Amendments; Nuclear Indemnity; Patent Fees; State Technical Services; Taxation of Foreign Securities; Traffic Safety Act; Water Pollution; Water Resources Planning.

Similarly, the 90th Congress (1967-68) passed laws involving Age Discrimination in Employment; Air Pollution Control; Extension of the Defense Production Act; Extension of the Interest Equalization Tax; Flammable Fabrics Act; Interstate Land Sales Full Disclosure Act; Land and Water Conservation Fund Amendments; Natural Gas Pipeline Safety; Radiation Control for Health and Safety Act; Truth in Lending; Wholesome Meat Act; Wholesome Poultry Products Act.

Came 1969-1970, the 91st Congress and a fresh spate of legislation, as follows: Extension of Defense Production Act—Authorization of Economic Controls; Extension of the National Commission on Product Safety; Federal Standards for Occupational Safety and Health; National Environmental Policy Act; Poison Prevention Packaging; Public Health Smoking Act; Securities Investor Protection Act; Tax Reform; Water Quality Improvement; Workmen's Compensation.

In 1971-72, under the aegis of the 92nd Congress, came the following measures: Consumer Product Safety Act; Economic Stabilization Act Amendments of 1971; Emergency Unemployment Compensation Act of 1971; Equal Employment Opportunity Act; Federal Boat Safety Act; Federal Water Pollution Control Act Amendments of 1972; Lead-Based Paint Elimination Act; Longshoremen's and Harbor Workers' Compensation Act Amendments; Noise Pollution and Control Act; Ocean Dumping; Revenue Act of 1971.

Finally, the 93rd Congress, which spanned 1973-1974, left its mark on business as follows: Anti-Trust Procedures and Penalties; Commission on Federal Paperwork (there's a fine irony for you); Emergency Unemployment Compensation; Energy Supply and Environmental Coordination; Establishment of a Council on Wage and Price Stability; Export Controls; Federal Energy Administration; Federal Non-Nuclear Energy Research and Development; Federal Protection of Private Pension Plans; Minimum Wage.

Federal regulation has burgeoned in other ways, notably in the growth in the number of regulators and the amount of taxpayers' money which they spend. In the past two years, according to Murray L. Weidenbaum, Director of the Center for the Study of American Business at Washington University (and former Assistant Secretary of the Treasury for Economic Policy), the number of persons employed in the major federal regulatory agencies rose from 55,316 to nearly 64,000. In the 12 months ended June 30, 1972, federal spending for such purposes totalled $1.3 billion. By fiscal 1974, just 24 months later, such outlays had increased 46 percent, to $1.9 billion, while for fiscal 1975, the total is estimated at roughly $2.2 billion. In short, the federal regulatory establishment is growing at a greater rate than the industries which it oversees.

Notably impressive rates of gain were scored by the Department of Health, Education and Welfare, Department of the Interior, Department of Justice, Environmental Protection Agency, Equal Employment Opportunity Commission and the U.S. Treasury, all of which, from fiscal 1972 to fiscal 1975, more than doubled expenditures on business regulation.

In terms of costs to U.S. industry and the U.S. economy, moreover, the numbers cited above barely scratch the surface. Just to fill out federal forms—as of June 30, 1974, according to the Office of Management and Budget, there were 5,146 different ones—business spends over 130 million man-hours a year. Merely to work up the required data for the new line-of-business reports currently sought by the Federal Trade Commission (which, by the way, industry is contesting in the courts), eight companies, including Beatrice Foods, Dow Chemical, duPont, General Electric, Procter & Gamble, Singer, Standard Oil of California, Union Carbide and Westinghouse, estimated that it would cost upwards of $8 million for start-up costs alone and over a million dollars a year in annual maintenance.

Similarly, in a recent study for the Brookings Institution, Professors Douglas and Miller concluded that in 1969, air passengers paid excess fares to domestic trunk airlines ranging between $366 million and $538 million. Deducting improvements in quality—notably, in less waiting time at airports—the authors concluded that the traveling public that year suffered a dead-weight loss put at between $248 million and $536 million. In an update of this estimate,

offered in testimony two months ago before a Senate subcommittee, one of the authors observed: "In our judgment, this figure today would be in the neighborhood of $1 billion per year, or around 10 percent total domestic trunk-line revenues."

But the CAB looks like a bargain compared to the Interstate Commerce Commission. Two years ago, in a study, "Surface Freight and the ICC," the American Enterprise Institute for Public Policy Research concluded that the agency properly may be charged with worsening freight shortages and delaying such technical breakthroughs as the Big John Hopper Car and the unit train. All told, the study estimated that ICC regulation costs the railroad industry $1.7 billion to $2.4 billion per year, the U.S. economy perhaps as much as $10 billion. Early this month, Vice President Rockefeller told a group of concerned businessmen that nobody in government had the slightest idea how much regulation as a whole costs the country. To judge by the fragmentary figures cited above, it seems fairly clear that the annual total runs into tens of billions of dollars.

One reason is the way that regulation breeds regulation, a process clearly described by Thomas E. Kauper, assistant attorney general, at the Senate subcommittee hearings. Regarding airlines, for example, Mr. Kauper pointed out that after experimenting with different ways of handling a system for subsidizing the air transport of mail—it's worth noting that mail was Congress's chief concern at the time—the lawmakers in 1930 granted the Postmaster General broad powers over the routes, rates and practices of carriers hauling air mail under government contract. In 1935, Congress broadened the scope of regulation.

Mr. Kauper explained (and I quote): "The predominance of mail over passenger service was rapidly diminishing, however, and by 1937 air carrier income from passenger service was twice as great as mail income. Unregulated carriers without air mail contracts began to compete with air mail carriers, who naturally complained about their unregulated competitors' greater economic freedom." Thereupon the ICC pushed for extension of economic regulation over all air carriers, under the general theory that it is unfair and "chaotic" for unregulated firms to be allowed to compete with their regulated counterparts. Acting on the same so-called principle in 1938, when trucks became a ponderable element on the nation's transportation scene, the ICC—instead of opting for de-regulation, since the railroads plainly were no longer a monopoly—merely extended its sway to motor trucks and water carriers, too.

Dollars-and-cents-wise, as we have seen, the costs of regulation are staggeringly high. Perhaps even more significant is the threat to freedom of choice from ill-considered or unscientific regulatory decrees, the kind that seems to have proliferated along with regulation itself in recent years. On this score, take the case of cyclamate, the artificial sweetener which, for the past six years, despite a vast weight of evidence in its favor, remains banned to most Americans. First discovered by a scientist at the University of Illinois in 1937, cyclamate was licensed in 1950 to Abbott Laboratories, which proceeded to develop and exploit its unique properties (while non-caloric, it is 30-40 times sweeter than sugar and much cheaper to use).

By the late 60s, cyclamates had begun to revolutionize U.S. eating and drinking. From 1963 through mid-1969, consumption soared from five million to 17 million pounds per year and, prior to the abrupt ban late in 1969, 20 million pounds were projected for 1970. As the House Judiciary Committee reported (and I quote): "Cyclamates were extensively used in carbonated beverages, fruit drinks and weight control preparations. They also were used in canned fruits, jam, jelly, preserves, desserts, salad dressings, maple syrup, baked goods and candy, and direct application as a food sweetener." By 1969, diet soft drinks were pushing 15 percent of total production, while cyclamates in all formulations were displacing a ponderable quantity of sugar.

Alarmed at the competitive thrust, the sugar trade fought back. (And I quote): "As the low-calorie market was developing into a major industry," so Abbott has publicly charged, "the sugar interests openly launched a research, advertising and publicity program designed to raise doubts about non-caloric sweeteners, especially cyclamates. By 1967, anti-cyclamate publicity was strident, and FDA felt a thorough scientific evaluation was necessary." After weighing all available data, the National Academy of Sciences—National Research Council in November, 1968, issued a report which concluded that consumption of cyclamate in reasonable amount posed no health hazard to human beings.

However, NAS-NRC urged further tests, some of which Abbott proceeded to finance. One turned up evidence of tumors in rats fed huge doses of a cyclamate-saccharin mixture, which Abbott promptly reported to the Food and Drug Administration. The infamous Delaney Amendment, that unfortunate by-product of food faddism written into law in 1958—and zealously defended ever since—by Congressional primitives, provides that (and I quote) "no additive shall be deemed safe if it is found to induce cancer when ingested by man or animal. . . ." Invoking its mischievous mandate, FDA in October, 1969, abruptly struck cyclamate off the list of substances "Generally Recognized As Safe." Early the following year, under further pressure from legislative know-nothings, the agency banned its use outright.

How sweet it is, said the Sugar Daddies (whose lawyer, Thomas G. Corcoran, known in New Deal days as Tommy the Cork, claimed credit for the move). Everyone else cried foul. In particular, processors, canners and farm cooperatives, caught with heavy inventories of cyclamate foods and beverages, suffered unrequited losses estimated at $100 to $125 million. Consumers by the millions overnight were deprived of access to low-calorie products. A great growth industry was stopped in its tracks—under new, less palatable formulations (largely of saccharin—itself the target of sugar industry-financed attacks)—diet drinks today command only a fraction of the market share they once commanded. Low-calorie foodstuffs are hard to find on grocery shelves. As in the Middle Ages, sugar once again is a luxury.

The blow to the pocketbook is bad enough. What is genuinely alarming is the FDA's stubborn refusal to admit and rectify a mistake. As an overwhelming mass of evidence now suggests, mistake it undoubtedly was. Since 1969, more than a dozen new scientific studies—conducted under such prestigious auspices as the British Industrial Biological Research Association, Curie Institute, German Cancer Research Association, Osaka University School of Medicine, U.S. National Cancer Institute and FDA itself—have been unanimous in finding that cyclamates, even when fed in large quantities or in combination with saccharin, are free of either carcinogenic (that's cancer-producing) or other adverse effects. The German experiments, incidentally, involved the study of twice as many rats as before, and for

a far longer time. Hence the Bonn Republic, which enacted stiff food and drug laws after the thalidomide tragedy of a decade or so ago, has rejoined the large number of Western countries, including Canada and Switzerland, where cyclamate in all its many uses freely may be bought and sold. Contrariwise, this country continues to suffer, financially and otherwise, from Big Brother's boneheadedness.

Let's turn now to the Environmental Protection Agency, which, as noted earlier, is one of the fastest-growing regulatory bodies in Washington. In just a few years, the agency has done an awesome amount of mischief, notably in its rulings on automotive exhausts and DDT. Let's first look at the latter, which has been under assault from environmentalists and other pseudo-scientific types ever since Rachel Carson published her highly alarming and equally misleading book, *Silent Spring*, over a decade ago.

Early in 1972, after 81 days of hearings, during which 125 witnesses filled nearly 10,000 pages with testimony, an EPA hearing examiner reached the following conclusions (and I quote): "DDT as offered under the registrations involved herein is not misbranded. DDT is not a carcinogenic hazard to man. The uses of DDT under the registrations involved here do not have a deleterious effect on fresh-water fish, wild birds or other wild life. . . . In my opinion, the evidence in this proceeding supports the conclusion that there is a present need for the essential uses of DDT."

Nonetheless, six months later EPA, for all practical purposes—except in cases of emergency—banned the pesticide's use. In the spring of 1973, despite anguished pleas by the cities of Walla Walla, Washington, and Milton-Freewater, Oregon, as well as both states, EPA refused to grant requests for emergency use of DDT. Regarding the proposed use of DDT to control an infestation of the tussock moth in the Pacific Northwest, the "benefits," so the agency decreed, failed to outweigh the risks.

Regarding risks, an agency spokesman, quoting the official decision to ban the stuff, mentioned "cause for concern given by unknown and possibly forever undeterminable long-range effects of DDT on man and the environment." As against such nebulous terrors, the costs of withholding its use turned out to be mercilessly real. Nearly 700,000 acres of forest land in Washington, Oregon and northern Idaho were defoliated. Dollars-and-cents-wise, the Department of Agriculture issued the following grim tally: loss in timber stumpage value, $3,650,000; loss of timber value that cannot be salvaged, $10 million; reforestation costs, $7,304,000; costs of reducing fire hazard to normal and extra fire protection over the next five years, $25,712,000. All told, including a few other expense items, nearly $50 million. As Sen. James A. McClure (R-Idaho) bitterly remarked in Congress: "Some risk. Some benefit."

Nor was the environment itself immune. Far from it. As the Tussock Moth Control Association and Pacific Legal Foundation cogently argued: "During a tussock moth epidemic, entire trees are often defoliated in one summer. . . . In an evergreen forest, once a large number of trees is suddenly killed, serious environmental degradation occurs at once. Dead leafless spires cannot properly diminish the forces of wind, rain and snow. Ground cover is torn off by snow-melt and heavy rain. Dependent plant and animal life do not obtain necessary support. The result is a desert. . . . The destruction of the forests by the tussock moth has great adverse effect on wild life. . . ."

Finally, last spring, despite cries of rage from rabid ecologists, EPA relented and allowed the Pacific Northwest to spray the tussock moth with DDT. Nearly 426,000 acres were sprayed with dramatic results. According to the U.S. Forest Service, the pesticide achieved a mortality of 96.8 percent within a few days. Feeding in the treated areas stopped immediately. The 21-day post spray weighted insect mortality averages for all units was 98.8 percent. Thanks to DDT, the Pacific Northwest forests have been saved.

Or consider how EPA has handled the catalytic converter, the device which it seized upon years ago as the most feasible means of reducing automotive exhausts to the levels prescribed by the Clean Air Act of 1970. Back in 1971, *Barron's National Business and Financial Weekly* cited what happened in Japan when authorities ordered the lead content of gasoline cut in half. Following the changeover in motor fuel, Tokyo suffered several "white smogs," caused by sulphuric acid mist, which led to thousands of cases of breathing difficulties, burning eyes and sore throats.

A year or so later, Herbert L. Misch, Ford Motor Co. vice president, said that Ford had (and I quote) "noted the formation of some sulphuric acid particulates resulting from the use of catalysts [which] we reported to EPA. . . . The phenomenon merits further study to determine whether the levels which would occur in the atmosphere are deleterious to health." In the fall of 1973, the authoritative publication, *Science*, reported that (and I quote) "tests made by industry and EPA beginning in 1972 . . . showed that relatively large amounts of sulphuric acid . . . were coming from the tailpipes of catalyst-equipped cars."

Evidence pointing in the same ugly direction, i.e., that catalytic converters, while ridding automotive exhausts of some pollutants, cause dangerous emissions of sulphuric acid, continued to accumulate. As a result, Russell E. Train, EPA administrator, last month reluctantly announced that he had granted auto makers their request for a one-year delay in imposing emission standards for 1977 model cars. Not surprisingly, the move triggered a storm of protest from the hinterlands. Upset at the response, EPA swiftly went back to the drawing board. Last week, believe it or not, the agency leaked a brand new study purporting to show that perhaps the threat of sulphuric acid is not so deadly after all. Where the issue goes from here remains to be seen, but one thing is clear: the automobile industry, at official behest, already has spent several hundred millions of dollars working on a process which literally may do more harm than good.

So the dismal story goes. If time permitted, I could regale you all night with similar tales of bureaucratic excess and folly. Suffice it to say that the U.S. rejoices in a Federal Communications Commission and a so-called Fairness Doctrine—yet television shows bias toward collectivism and against private enterprise and the free market, while officialdom throws one roadblock after another in the path of technological developments that might expose the nation to a fresh diversity of viewpoint. There is the Federal Power Commission—and thanks to its policies, a worsening man-made shortage of natural gas. We have a Securities and Exchange Commission—and from 1968 through 1974, American investors suffered a financial disaster in many respects comparable to that of the Great Crash. The other day, a group of visiting students asked

James Needham, president of the New York Stock Exchange, whether 1929 could ever recur. His reply—a fairly sensible one—was that history indeed could repeat. But what Mr. Needham failed to add was that on Wall Street, at any rate, we in effect have just lived through 1929-32. Nor should one overlook the fact that despite the menacing presence of the SEC, investors in the last few years have lost through fraud far more money, both absolutely and relative to their investment, than in any other era in American history.

Perhaps not surprisingly in the circumstances—though I must say that I am always surprised when something sensible seems to be shaping up in the nation's capital—for the first time in decades, a discernible groundswell of opposition to regulation has begun to surface. Last October, Lewis A. Engman, head of the Federal Trade Commission, publicly charged that "much of today's regulatory machinery does little more than shelter producers from the normal competitive consequences of lassitude and inefficiency." The public, he added, was "beginning to view the price of government with the same jaundiced eye with which it views prices in the marketplace." In view of the source—Mr. Engman's agency, the FTC, has been perhaps one of the worst offenders of all—this was a fairly astonishing statement. Nor could it be simply shrugged off; next day, the White House asked Congress to create a study group "to identify and eliminate existing federal rules and regulations which increased costs to the consumer without any good reason in today's economic climate."

Congress has proven receptive. According to the authoritative *National Journal*, which keeps tabs on what goes on in the nation's capital (and I quote): "Reform has attracted Congressional supporters who make strange bedfellows, such as conservative Republican Senators John Tower of Texas and Bill Brock of Tennessee, and liberal Democratic Senators Edward M. Kennedy of Massachusetts and George McGovern of South Dakota. . . ."

National Journal added that Senator Kennedy "provided the platform from which the Ford Administration recently detailed an airline regulation reform proposal that shocked both the airlines and the Civil Aeronautics Board. Kennedy's Administrative Practices and Procedures Subcommittee of the Senate Judiciary Committee also aired its own criticisms of CAB. At a subcommittee hearing on February 6, Administration officials blasted 'uneconomical and irrational' regulation, adding that the White House will propose a measure to promote air fare competition, to allow new competitors into the airline business and to apply anti-trust principles to airline mergers." Incidentally, the White House shortly plans to introduce legislation aimed at achieving similar reforms in the regulation of railroads and trucks.

Other Congressional moves are afoot. In mid-January, Rep. James T. Broyhill (R-N.C.) introduced a bill to authorize an in-depth Congressional study of each of the major regulatory bodies every three years. It is designed to replace the current unsatisfactory state of affairs, whereby the agencies each year present their budgets directly to the House Appropriations Committee, thus by-passing most of the lawmakers. Again, various Congressional probes of the regulatory agencies—notably one soon to be launched by Rep. John E. Moss (D-Calif.), head of the Subcommittee on Investigations of the Interstate and Foreign Commerce Committee—will soon be afoot.

The shift in thinking—now highly visible, by the way, in the communications media, both electronic and print—is noteworthy. However, we would be well advised not to expect free-market miracles overnight. Bureaucrats are powerful and shrewd, and they're not about to give up their entrenched authority without a fight. Moreover, they command considerable support in the business community. Corporate executives seem to split into two camps on the issue: one that will voice muted criticism of the regulatory process, and another that wholeheartedly embraces the existing system. As to the first, the chairman of a major Midwest railroad last month spoke out as follows (and I quote): "The current dialogue over de-regulation, or re-regulation, reflects a healthy, overdue and widespread public questioning. . . ." However, he then proceeded to add (and I quote): "Most railroad executives accept regulation—they have all lived with it throughout their careers. They accept its usefulness and fairness in many situations, as I do."

The head of another Midwest carrier has had even harsher things to say about the ICC. Thus, in a speech in mid-February before the Mountain-Plains Shippers' Board in Lincoln, Nebraska, this executive caustically observed (and I quote): "Of all the regulatory agencies at the federal level, the ICC operates with the least regard for the economic realities of our times." Specifically, he charged it with behavior that is "not only erratic and irrational, but also clearly punitive." Then, having painfully documented his charges, he proceeded to voice the hope that (and I quote) "the Administration and Congress will see the wisdom of replacing the ICC with a federal railroad commission operating along the lines of the Federal Maritime Commission and the Civil Aeronautics Board."

His sentiments were echoed the other day by a major shipper, who, in view of the burdensome costs imposed on him by regulation, might have been expected to look for a change. So he does, but in severely limited fashion. Those who seek to abolish regulation, he said, are generally far removed from actual involvement in the transportation business. "The closer people are to that business," he added, "the less likely they are to support de-regulation.

Despite their angry words, such executives must willy-nilly (and sadly) be placed in the category of regulatory fellow travelers. From their own long experience, they see clearly that regulation has gone off the tracks, yet they blink at reaching the logical conclusion. More reprehensible, in our book at any rate, are their colleagues who have sprung to the defense of the sorry status quo.

To illustrate, we recently received the following communication from the American Trucking Associations, Inc. "Dear Mr. Bleiberg: To the typical American, the word regulation no doubt is repugnant. Proud of our freedom, jealous of our independence, confident of our system of private enterprise, we Americans just naturally get our backs up whenever anyone tries to slap laws or rules or regulations upon us. That's the way it ought to be, and that's the way it is. And that's what makes it so tough for the transportation industry to obtain a sympathetic, even an objective audience in support of government regulation of transportation.

"Yet economic and safety regulation . . . is the very foundation of the American transportation system, which is generally conceded to be the best in the world. . . . That system today, however, is threatened because the concept of regulation that makes it possible is threatened. Sweeping

accusations, unsupported claims and baseless arguments are hurled at the regulatory structure—both the governmental regulatory framework and the carriers which provide the essential transportation services within that framework. . . .

"It is in recognition of this situation . . . that the American Trucking Association has compiled the enclosed 'White Paper' in support of sound economic regulation of transportation."

The White Paper dismisses as theoretical and unsubstantiated the impressive array of independent studies from a half-dozen different sources, including the American Enterprise Institute for Public Policy Research, Hoover Institution and the National Bureau of Economic Research, which document the heavy cost to the public of ICC regulation of railroads and trucks.

As to the inefficiency of airline regulation, and the financial penalties which it exacts from U.S. consumers, these are amply documented. As it happens, in two parts of the U.S., Texas and California, federally unregulated intra-state air carriers flourish, the operations of which may be compared to those of their CAB-controlled counterparts. The contrasts are striking. In the relatively free California intra-state market, air fares range from 4.76 cents per passenger mile to 7.31 cents. On the East Coast, contrariwise, the cost of similar hauls runs from 8.63 cents to 11.61 cents per passenger mile.

An equally striking disparity shows up in the Texas intra-state market, where Southwest Airlines, a carrier licensed solely by the Texas Aeronautics Commission, competes with Braniff Airways, a CAB-regulated trunk carrier, and Texas International Airways, a CAB-regulated local service carrier. Although it couldn't get off the ground for nearly four years because of judicial challenges by Braniff and Texas International, Southwest Airlines now serves the Golden Triangle (Dallas, Austin and Houston) at a profit, charging fares which average 20-50 percent less than comparable CAB-regulated tariffs.

Any way you look at it, regulatory reform will not come easy. Emphasis on cost-benefit ratios is all well and good, and may curtail the more blatant abuses. However, truly effective criticism of the regulatory process must cut deeper, to first principles, so to speak. On this score, one of the most powerful arguments against regulation which we have ever seen was penned over a decade ago by Alan Greenspan, Chairman of the President's Council of Economic Advisers. In *The Objectivist Newsletter* for August 1963, Mr. Greenspan wrote as follows (and I quote): "Protection of the consumer against 'dishonest and unscrupulous' business practices has become a cardinal ingredient of welfare statism. Left to their own devices, it is alleged, businessmen would attempt to sell unsafe food and drugs, fraudulent securities and shoddy buildings. Thus, it is argued, the Pure Food and Drug Administration, the Securities and Exchange Commission and the numerous building regulatory agencies are indispensable if the consumer is to be protected from the 'greed' of the businessman.

"What collectivists refuse to recognize is that it is in the self-interest of every businessman to have a reputation for honest dealings and a quality product. Since the market value of a going business is measured by its money-making potential, reputation or 'good-will' is as much an asset as its physical plant and equipment. . . . Reputation, in an unregulated economy, is thus a major competitive tool. Builders who have acquired a reputation for top quality construction take the market away from their less scrupulous or less conscientious competitors. The most reputable securities dealers get the bulk of the commission business. Drug manufacturers and food processors vie with one another to make their brand names synonymous with fine quality.

"Government regulation is not an alternative means of protecting the consumer. It does not build quality into goods, nor accuracy into information. Its sole 'contribution' is to substitute force and fear for incentive as the 'protector' of the consumer.

"Protection of the consumer by regulation is thus illusory. Rather than isolating the consumer from the dishonest businessman, it is gradually destroying the only reliable protection the consumer has: competition for reputation."

Let's hope that sooner or later the American people—and the powers-that-be in Washington—get the message.

Hillsdale College was pleased to host a special meeting of the international Mont Pelerin Society on the campus August 24-28. The entire program was devoted to various aspects of the work of F. A. Hayek, 1974 Nobel Laureate in Economic Science and founder of the Mont Pelerin Society.

The Society is composed of economists, historians, philosophers, authors and governmental officials who share an interest in individual liberty and the free society. Attending the meeting were 228 members and guests from 24 countries. This was the third meeting held in the U.S.A. since the Society's founding in 1947.

The proceedings of the meeting are to be published in book form early in 1976. If you are interested in purchasing a copy, please write to us. In connection with Dr. Hayek's Nobel Prize, Hillsdale College has published an essay by Professor Arthur Shenfield, past president of the Mont Pelerin Society, about Dr. Hayek's achievements. Single copies are free; bulk quantity prices are available upon request.

HILLSDALE COLLEGE

PURSUING TRUTH · DEFENDING LIBERTY SINCE 1844

33 EAST COLLEGE STREET
HILLSDALE, MICHIGAN 49242

HILLSDALE.EDU | (517) 437-7341