RESEARCH REPORTS

Reviews of new research by public agencies and private institutions

"Dealing With Drugs: Consequences of Government Control."

Pacific Research Institute for Public Policy, 177 Post St., San Francisco, Calif. 94108. 385 pp. $40.00.
Editor: Ronald Hamowy

The continuing "war on drugs" is the most expensive prohibition effort in American history. In Fiscal Year 1983, for example, $836.3 million was budgeted for drug law enforcement; in contrast, enforcing the first *10* years of Prohibition cost U.S. taxpayers $506 million in 1983 dollars.

Yet despite the vast sums spent on eradication, argues Hamowy, a historian at the University of Alberta in Canada, "the availability and use of the major illicit drugs do not appear to have decreased." The authors of the essays in this volume raise questions about federal spending designed to stop illicit drug use.

Little reliable information about the size and nature of illicit drug use in America now exists. Robert J. Michaels, an economist at California State University, Fullerton, argues that the most commonly used drug statistics (such as those issued by the National Institute on Drug Abuse) are "meaningless political constructs," produced by government agencies with a vested interest in inflating both the numbers of drug users and the crimes they commit. Michaels predicts that federal drug statistics will continue to be unreliable for some time, simply because unlike other official numbers (such as the Census Bureau's, constantly used by demographers) no one has a vested interest in ensuring their accuracy.

Federal programs do not affect the most important channel by which drug information is transmitted. According to Norman Zinberg, a Harvard psychiatrist, "social controls"—informal warnings about drug dangers shared between users—are the best way to reduce the harmful effects of illegal drugs. These "social controls" ensure that the injury inflicted by illegal drug use will decline. For example, a user of psychedelics in the early 1960s had a "far more extreme experience" than the user in the 1970s, because the latter user had more information about the colors, music, and sensations associated with a "trip" than did his predecessor.

Rather than banning all illicit drug use in all circumstances, Zinberg believes, government officials should explore the ways that "social controls" can be enhanced in order to promote responsible drug use.

His argument is echoed by Randy Barnett, law professor at the Illinois Institute of Technology. Barnett maintains that allowing illicit drug prices to fall below current artificially-high levels will bring in more occasional drug users, who are better able to understand how to use drugs without engaging in criminal activity. Government drug policies, by driving out the occasional user, may *increase* crime by forcing drug prices to rise so high as to make certain that most buyers are hardened users—the people most likely to become hardened criminals.

Moreover, most illicit drugs have beneficial uses, say Lester Grinspoon and James Bakalar, an associate professor of psychiatry and lecturer in law, respectively, at Harvard. Amphetamines can be used to combat narcolepsy and depression. LSD has had some effect in curing alcoholism. Marijuana is not only an exceptionally safe drug (there is no "reliable evidence" that anyone has ever died from marijuana use) but it also has had some effect in reducing glaucoma, asthma, and the nausea and vomiting resulting from chemotherapy treatments for cancer.

Banning certain drugs, Grinspoon and Bakalar contend, blocks medical researchers from learning if these drugs have further "medical potential."

"What Do Our 17-Year-Olds Know? A Report on the First National Assessment of History and Literature."

Harper, 10 East 53rd St., New York, N.Y., 10022. 293 pp. $15.95.
Authors: Diane Ravitch and Chester E. Finn, Jr.

A test taken by nearly 8,000 American 11th-grade students in early 1986 showed that many high school juniors know little about history and literature.

The 11th-graders, on the average, correctly answered 54.5 percent of the 141 questions about history and 51.8 percent of the 121 questions about literature.

Yet many students did well on the test. Why did they succeed? Ravitch, adjunct professor of history and education at Teachers College, Columbia University, and Finn, a U.S. assistant secretary of education, found the following factors correlated with student achievement:

Students from families that owned a dictionary, an encyclopedia, at least 25 books, and subscribe to magazines, scored higher than students from homes that lacked one or more of these items.

Students who lived with both parents scored higher than students who only lived with one parent. However, when the mother worked outside the home, it had no effect on her child's test performance.

Students who watched more than three hours of television a day did worse than students who watched less.

Students who did more than two hours of homework a day (12.5 percent of the sample) were more successful than students who did little homework. Sixteen percent of the students surveyed reported that they did no homework, and an additional 18 percent did less than a half hour of homework each day.

Students who worked at outside jobs for up to 15 hours a week scored higher than students who did not work. However, test scores declined as work increased beyond 15 hours a week.

Scores also increased as school attendance increased. Students with perfect attendance scored 9.2 percent higher on the history test than students who missed more than 10 days of school a month.

"Job Creation in America: How Our Smallest Companies Put the Most People to Work."

Free Press, 866 Third Ave., New York, N.Y. 10022. 244 pp. $22.95.
Author: David L. Birch

Some 20 million Americans leave their jobs every year, half of them involuntarily. Another 10 million American workers change their careers each year, some of their own volition, but more often involuntarily. Some do it without changing employers; most have to switch employers, sometimes moving to another part of the United States.

Where are the new jobs coming from for the millions who quit, are laid off, or fired?

To find the answer, Birch, a lecturer in urban studies and planning at the Massachusetts Institute of Technology and president of Cognetics, Inc., conducted a computer analysis of data on approximately 12 million U.S. business firms between 1969 and 1986. The study shows that as the next decade approaches, the biggest—and most consistent—source of new jobs will be small, high-innovation companies.

Approximately seven million companies in the United States, together with an unknown number of partnerships and self-employed individuals, collectively employ

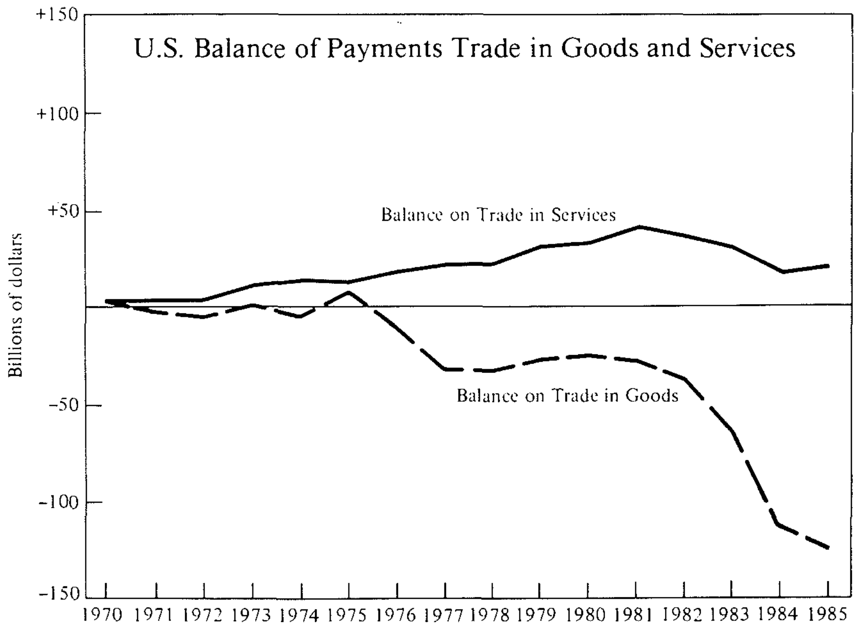
85 million nongovernment U.S. workers. Almost 90 percent of these enterprises employ fewer than 20 workers. Economic life in these "bubbly, . . . creative," businesses is characterized by "turbulence"—swift birth, expansion, decline, and death. "Taken together," writes Birch, "these small companies create more jobs than the giants comprising the Fortune 500, grow more rapidly, run greater chances of failure, and show more adaptability."

The turbulence that Birch found in many companies coincides with an overall decline in manufacturing and a rise in service industries—a fundamental shift in the structure of the economy that has "fostered an era of great innovation."

The small, high-innovation firms of the future will not necessarily be "high-tech." Some will focus on new products, such as the artificial heart. Others will package products and services in new ways, such as Nucor's advanced steel mills, or Federal Express, which revolutionized the mundane task of parcel delivery. The United States—with a large pool of private venture capital and easily available technical support for small businesses—already exports 20 percent of the world's services.

The top 10 "high innovation" growth areas, according to Birch, will be Atlanta, Los Angeles, Phoenix, Washington, D.C. (including nearby Maryland and Virginia), Miami-Fort Lauderdale-West Palm Beach, Orlando, Tampa-St. Petersburg, San Francisco, San Diego, and Dallas-Fort Worth.

Factors that once attracted manufacturing firms—cheap labor, cheap raw materials, and cheap transportation—no longer apply. High innovation companies search out quality—in education, labor, government, communications, and amenities. A German manufacturer of advanced electric products scoured the country for a U.S. plant site and finally chose Connecticut, where hourly wages are high. The reason: Skilled workers in Connecticut do it right the first time.



While the U.S. trade deficit in goods *steadily worsens, the U.S. continues to maintain a trade surplus in* services *($30 billion in Fiscal Year 1986).*

"Anti-Protection: Changing Forces in United States Trade Politics."

Institute for International Economics, 11 Dupont Circle N.W., Washington, D.C. 20036. 204 pp. $10.00.
Authors: I. M. Destler and John S. Odell

The conventional view that the debate over U.S. trade policy is a struggle between "special interests" favoring protection and the general "public interest" favoring free trade ignores a recent phenomenon—the rise of special interest "anti-protectionism."

Over the past 15 years, a rapidly growing number of U.S. trade groups have campaigned openly and vigorously, and often successfully, to defeat protectionist measures such as quotas and tariffs.

In their analysis of trade politics, Destler and Odell, both visiting fellows at the Institute for International Economics, studied 14 trade disputes that occurred between 1974 and 1986. They found that restrictions on a given imported product bear more directly on certain groups than on others. "Among those who pay for protection," the authors argue, "those who matter most in the political process are not household consumers, but the special interests that benefit most from the specific trade that would be restricted: industrial users of imports, retailers of traded consumer goods, U.S. exporters who sell to the countries whose goods would be restricted, and the companies and governments of those countries."

There was a sharp increase in political opposition to product-specific trade protection over the decade, from the mid-1970s to the mid-1980s. For example, in 1984 U.S. shoe manufacturers asked for protection from overseas imports. The Footwear Retailers of America (FRA), representing high-volume sellers of cheap imports, mobilized to defeat the request. The FRA's Washington office lobbied Congress and commissioned studies of the cost of trade restrictions to consumers. Shoe store owners pressed friends in the Reagan administration and in Congress. Nineteen senators were persuaded to sign a letter to President Reagan opposing relief for domestic shoemakers. In August 1985, Reagan sided with the FRA against the U.S. International Trade Commission and decided against import relief on broad antiprotection grounds.

The study indicates that the greater a group's dependence on international trade, the more intense and persistent the political effort it is likely to mount to block the threat of protection.

In 1983, for example, the Reagan administration imposed quotas on textiles and apparel from the People's Republic of China. China retaliated against American agricultural products. U.S. wheat producers are highly dependent on foreign sales—in 1982, 68 percent of the U.S. wheat crop was shipped overseas, 11 percent to China. The threat of Chinese trade restrictions triggered a lobbying campaign by the National Association of Wheat Growers to stop the U.S. textile and apparel quotas. As a result, an agreement on textiles was concluded in July 1983, and China resumed purchasing U.S. farm products, although in smaller quantities than previously.

In contrast, U.S. soybean growers, who were also targeted by the Chinese, did little to try and resolve the dispute because their sales to China had been declining. Only a year later, however, the American Soybean Association attacked legislation in Congress that would have protected California wine producers from foreign competition. The reason: fear of retaliation by the European Community, a major soybean importer and wine exporter.

While antiprotectionist activity has been episodic and certainly did not defeat all proprotection campaigns, the authors conclude that "the growing anti-protection phenomenon does seem to have made a significant difference in product cases."

"Money to Burn? The High Cost of Energy Subsidies."

World Resources Institute, 1735 New York Ave. N.W., Washington, D.C. 20006. 68 pp. $10.00.
Author: Mark Kosmo

Because of price controls or subsidized electricity, consumers in many developing countries pay artificially low prices for energy. These subsidies can, on occasion, be massive. In China, for example, government subsidies for coal, electricity, and oil totaled $19.4 billion in 1985—seven percent of the Chinese gross national product.

While governments claim that energy subsidies promote economic growth, Kosmo, a World Resources Institute research associate, argues that these subsidies "lead to excessive energy consumption [and] accelerated energy depletion."

Countries that export fossil fuels—such as Mexico, Venezuela, and Egypt—tend to have the most extensive energy subsidies. Yet these subsidies, far from helping the poor, *increase* unemployment, by allowing "firms to substitute energy for labor." Moreover, artificially low fossil fuel prices encourage waste and environmental damage. In Nigeria, for example, where natural gas prices are artificially low, 84 percent of the natural gas produced in Nigeria in 1984 was "flared" into the air.

Kosmo concludes that all governments should eliminate energy subsidies within three to five years. Increasing fossil fuel prices to market levels (by removing subsidies and selective taxation) will, by decreasing domestic consumption, allow developing countries to reduce oil imports and "minimize environmental damages and risks" resulting from pollution.

Developing countries should not, Kosmo concludes, abandon energy regulation entirely. But the primary purpose of such regulations should be to "maximize economic efficiency."

These price rises, Kosmo argues, will not significantly harm either manufacturers or consumers. In Indonesia, for example, the World Bank determined that raising energy prices 150 percent would cause manufacturing costs to increase by an average of 2.1 percent. A 50 percent rise in Indonesian energy prices would result in a household cost-of-living increase of no more than 2.5 percent.