# Business ♥ Washington

"Save Us from the States!" by Jonathan Walters, in *Governing* (June 2001), 1100 Connecticut Ave. N.W., Ste. 1300, Washington, D.C. 20036.

Washington regulators were once the bane of business existence, but they're beginning to look much lovelier to corporate executives. Faced by thickets of state and local laws, business is increasingly seeking single federal standards, reports Walters, a staff correspondent at *Governing*. Banks, for example, have gone to federal court to argue that federal banking law preempts state and local laws restricting certain automatic teller machine surcharges. Walters says that 35 preemptive bills were introduced in Congress in 1999, "mostly in the areas of telecommunications and finance."

From a corporate point of view, the advantages of uniformity are obvious. It's easier and cheaper to conform to a single federal standard than to 50 different state standards. "The business attitude today seems to be that no matter how bad a single federal standard might be, it's better than 50 of them," notes the Cato Institute's Adam Thierer. And centralized regulation allows business to concentrate all of its resources on enacting, modifying, or defeating a single law or regulation.

Others see great advantages in multiple standards. "In a world of increasingly large, amorphous, and distant corporations, who better to hold business accountable than those officials closest to the people?" writes Walters, summarizing this view. In some cases, the states have been able to step in when Washington has fallen down on the job. "Congress failed to agree on a health bill in 1994; the states have responded with patients' rights and prescription drug laws. Congress debated bills to deregulate the electric utilities industry but passed nothing; more than 20 states went ahead and did it."

Utah governor Mike Leavitt (R) argues that the state governments must cooperate with one another and with the federal government to coordinate their efforts in areas where it makes sense for them to act. "States are going to have to reinvent themselves," he declares. Otherwise, they will become "functionally obsolete." But state governments don't have a strong record of collaboration. The 45-member Multistate Tax Commission has been working for years without success to devise a policy dealing with the application of state sales taxes to out-of-state mail-order purchases. And last year's federal Gramm-Leach-Bliley law overhauling the financial services industry allows the states to regulate the insurance industry if 29 of them can settle on a uniform standard. Leavitt himself says that's not likely.

Getting state and local governments to cooperate may require a slap in the face. Walters knows just where it might come from: an international trade tribunal. For example, when a small town in Mexico denied Metalclad Corporation a permit to dump toxic material, the U.S.-based company complained to a North American Free Trade Agreement (NAFTA) arbitration panel. The company won a $16.7 million judgment against Mexico. Now NAFTA is looking at another case: A Canadian company is seeking $970 million because the state of California is phasing out the gasoline additive MBTE on health grounds the company says are not scientifically justified.

Leaving such wild cards aside, Walters is sanguine about the effort to shift power away from the states. As one official said, "there's always an ebb and flow" in a federal system.

# The Rich Get Richer

"Where Has All the Money Gone?" by Edward N. Wolff, in *The Milken Institute Review* (Third Quarter, 2001), 1250 Fourth St., 2nd fl., Santa Monica, Calif. 90401–1353.

Yes, the rich got richer than other Americans did during the late, lamented economic boom. But there's a bit more to the story than that.

Overall, writes Wolff, an economist at New York University, the richest 20 percent of American households claimed 91 percent of the increase in wealth between 1983 and

1998. The remaining 80 percent garnered only nine percent of the gain. (Thanks to social mobility, however, a lot of families moved into or out of the top 20 percent.)

The middle 20 percent of households enjoyed only a 10 percent increase in their net wealth during those 15 years, from $55,500 to $61,000. Americans at the bottom of the scale fared worst of all. In 1983, 15.5 percent of households had no net worth or were in debt. By 1989 that number had grown to 17.9 percent, and it remained virtually unchanged through 1998.

The share of all wealth owned by the top one percent of U.S. households grew quickly between 1983 and 1989, but then slowed in the years up to 1998. Overall, their share increased from 33.8 percent to 38.1 percent. (Wolff's data do not extend through the recent Wall Street downturn.) Even so, the number of millionaires jumped 54 percent during the 1990s, and the number of decamillionaires (those with net worth totaling $10 million or more) almost quadrupled.

It's not just corporate moguls and movie stars who prospered. Two-thirds of the top one percent are small-business owners.

Wolff sees a disturbing trend in the rise of Americans' indebtedness, which grew from 13 percent of household wealth in 1989 to 15 percent in 1998. Forget the usual suspects, credit card and other consumer debt. Bigger mortgages and home equity loans are the problem. Net home equity (the value of a house minus outstanding mortgages) dropped from 24 percent of total household assets in 1983 to 18 percent in 1998. "Middle class households, it appears, were spending down their net worth to maintain their living standards," Wolff writes.

Despite the stock market mania of the '90s, most Americans still have the lion's share of their wealth in real estate. (The home ownership rate rose three percentage points, to 66.3 percent, between 1983 and 1998.) Less than a third of households owned stock worth more than $10,000 in 1998.

Overall, median wealth grew a bit more slowly than median income during the 15-year period. It was up 11.1 percent, while income grew by 13.8 percent. Both measures point to the same conclusion, says Wolff: "The boom of the 1990s . . . bypassed most Americans. The rich have been the main beneficiaries."

# Why Europe?

"The Fates of Human Societies: A Review of Recent Macrohistories" by Gale Stokes, in *The American Historical Review* (April 2001), 400 A St. S.E., Washington, D.C. 20003.

It's money, not politics, that makes our new globalized world go 'round, and that may explain why historians have been returning lately to an old question: Why Europe? Why, asks Stokes, did this "relatively small and backward" region suddenly burst upon the world scene in the 16th century and soon dominate it?

Two main schools of thought exist, according to the Rice University historian, while a third, very impressive body of ideas is developing.

One school, led by Harvard University's David Landes, author of *The Wealth and Poverty of Nations* (1998), holds that some kind of European exceptionalism—individualism, the rise of unfettered science—is the best answer. Europe, says Landes, enjoyed the advantage of diverse cultures combined with a single unifying language: Latin. More important, it developed values, such as thrift and honesty, that favored economic development. Above all Europe was open to new knowledge, while its chief rival, China, was hobbled by what Stokes calls "a systematic resistance to learning from other cultures."

An opposing school of thought, which finds its best expression in Andre Gunder Frank's *ReOrient: Global Economy in the Asian Age* (1998), holds that, essentially, Europe got lucky. Frank and other scholars portray the last 1,000 years as an era dominated by the more advanced cultures and economies of Asia (mainly China), with the period of Western advantage brief—and likely to end soon. They see evidence in China of all the things said to distinguish precapitalist Europe, including vigorous markets and trade, technological innovation, and Ben Franklin-like sages who