Pathfinder

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PAYMENTS TO COLLEGE FOOTBALL PLAYERS ARE NOT NECESSARILY BAD

When the University of Oklahoma football program was put on probation by the NCAA recently, the CBS evening news flashed the word "illegal" on the screen three times as Dan Rather reproachfully related the evil deeds that were allegedly committed. People connected with the football team were accused by the NCAA of paying some young men relatively small amounts to attend Oklahoma and play football. The rules of the NCAA forbid such payments.

Judging by the response in the media, one would have thought that Oklahoma's crimes were on a par with multibillion dollar cost overruns on military airplanes or $600 toilet seats sold to the defense department. Recent sanctions imposed by the NCAA on the football programs of Texas A&M, the University of Texas, the University of Houston, SMU, Texas Christian and Oklahoma State for similar offenses have elicited outcries ranging from "tisk-tisk" to "shame on you" to "the punishment isn't enough" to "crucify them" not only in the sports news, but also in the editorial pages. Such responses would be appropriate for the deeds of J. R. Ewing or at least Ivan Boesky. These and other football programs or university alumni were actually paying some extremely talented and, in many cases, extremely poor young men to play football.

So what law did the guilty schools break? None, they simply broke a voluntary agreement of a price fixing cartel, which, in most other circumstances, would be illegal itself under the antitrust laws of the U.S. government.

The NCAA is a cartel. The purpose of a cartel is to increase the profits of its members through an agreement by the member firms to increase the price of the products sold above the price that would result from competition, or to reduce the price of an important material used by the firms. The firms promise not to sell below the agreed-upon product price or purchase the material above the agreed-upon price. The Organization of Petroleum Exporting Countries (OPEC) is an example of a cartel that raised the price of its product. Agreements among firms to hold down the wages of workers are examples of materials price fixing cartels. In either case, the purpose of the cartel is to increase the profits of the member firms above what they would be under competition.

Economists almost unanimously agree that cartels are inefficient. Economists also almost unanimously agree that cartel members generally will cheat on the cartel agreement, causing the cartel to break up. Any one firm can reduce its price and gain a large increase in sales or increase the wages it pays and get better workers as long as the other firms don't break the agreement. But if one firm has the incentive to cheat, all firms have that incentive. A widely used introductory economics text states: "Cartel theory has two great and contradictory themes: 1) Every cartel member can gain through the attainment of monopoly profits if every other cartel member adheres to the agreement; 2) Each cartel member can gain by cheating on the agreement if the others do not cheat."

When private firms cheat on cartel agreements and cause prices to fall, they are generally applauded for acting in the public interest. Recall the public reaction when some members of OPEC reduced their prices or increased their production, causing oil prices to fall.

So why, when NCAA members are caught cheating on their cartel agreement by increasing the in-

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come of young athletes, are they treated like pariahs by the press and general public? Their behavior is somehow thought to be morally reprehensible when they are caught slipping around an arrangement that would be illegal in most other circumstances.

As Chicago economist Gary Becker has noted, "Governments often fail to oppose cartels that involve educational and other nonprofit entities because these institutions are especially good at clouding the issues with self-righteous rhetoric." Thus, when an NCAA member cheats on a price fixing agreement, it is violating a sacred compact. Cheaters are reproached, not the cartel as a whole.

It should be recognized, however, that NCAA regulations are designed to increase the profits or reduce the losses of the athletic programs of member schools, just as any cartel is designed to increase members' profits. As evidence, consider the fact that we never hear about schools cheating on the cartel in any sport other than football and men's basketball. For the vast majority of schools, these are the only profitable sports, the only ones with lucrative TV contracts. Have you ever heard of a university being investigated for paying baseball players or women basketball players? The cartel agreement is important only in the two profitable sports. There is no incentive to pay athletes in any of the others.

After the latest flurry of publicity about cheating and probation dies, the NCAA probably will return to business as usual and under-the-counter payments. Defenders of the NCAA will continue to argue that paying young athletes is somehow harmful to them.

Moses Malone, the all-pro basketball center for the Atlanta Hawks, put the hypocrisy in perspective several years ago. When Malone was a high school senior, he was the most heavily recruited basketball player in the country. He would have guaranteed almost any school several trips to the final four. Malone, however, gave up a university education and signed with a professional team in the American Basketball Association—previously unheard of. The sports media were furious over a professional team signing a boy out of high school and depriving him of a college education. As we recall, Malone responded, "I wonder how worried they would be about a kid with a low C average not going to college, if he weren't 6′10″ and couldn't play basketball." We wonder too.

No matter what the cloak of good intentions is, the NCAA is a price fixing cartel.

—Charles Maurice
Steve Pejovich

TALES FROM THE PUBLIC SECTOR: RED TAPE ALL' ITALIANA

It has been observed that Italians tend to be rather secretive about their salaries. Whereas Americans are at times inclined to talk, often with pride, about their annual pay, Italians positively refrain from mentioning it. Banca d'Italia, Italy's central bank, recently announced two openings for blue-collar positions within its organization. One of the potential applicants wanted to know before applying what salary the job entailed. Since he was not able to get the information from the local branch of Banca d'Italia, he wrote to the central administrative office in Rome. The reply he got was that the pay was revealed only to those who already worked there.

The usually well-informed intellectuals maintain that the explanation for the loquacity of Americans and the secretiveness of Italians on the issue of their pay goes back to cultural factors: the Protestant ethic on the one hand, and Catholic culture on the other. Maybe so. I venture to suggest, however, that as far as Italian civil servants are concerned, another, simpler explanation might apply: They do not know what their pay actually is. Let me illustrate by drawing from my own experience.

I have always been puzzled by the amount of my salary as a university professor (in Italy, university professors are, I regret to say, state employees). It has never been a nice, round figure like, let us say, \$15,000 a year, or \$1,250 a month. On the contrary, the amount has always bordered on the use of decimals, and it has tended to fluctuate mysteriously. For example, in February of this year my paycheck amounted to 1,484,965 lire. I decided that it was incompatible with my faith in the rational pursuit of self-interest not to try to understand why my salary was what it was. I therefore asked a friend, the director of our university institute and an expert on the details of life in this great peninsular republic, to enlighten me.

"You are lucky," he said. "I have just been able to understand the issue myself. A group of theoretical mathematicians have just published a paper in a learned statistical journal dealing with the determination of university professors' salaries. It's quite simple, really." He took a sheet of paper full of figures from his wallet and turned on his pocket calculator.

New Math

That did not catch me unprepared: I had brought my calculator along and did not refrain from sporting it.

"You start from an annual salary of 24,125,220 lire," he said.

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WORRY LESS ABOUT FOREIGN DEBT

Many critics of current economic policy and performance fret that we have become a debtor nation. They point with alarm to the growing, some would say rocketing, debt we owe to foreigners. More than a little xenophobia enters when talk turns to Japanese purchases of our farms, factories and office buildings.

In the recent political campaign, now mercifully concluded, Gov. Michael S. Dukakis and Sen. Lloyd Bentsen raised this issue many times. Were they arousing fears unnecessarily? Or were they warning the public about a serious problem?

First, the numbers. The official statistics, though widely repeated, are misleading. Net international investment, as reported by the Commerce Department, includes a variety of assets and liabilities such as the government's gold stock, private investment in farms and factories abroad and investments here by foreigners. It also includes foreigners' bank deposits in this country, their ownership of corporate stocks and of bonds issued by the U.S. government and corporations, and our citizens' ownership of similar foreign assets. Our reported net international debt is the difference between the sum of these assets and liabilities. At the end of 1987, we reported net debt of $368.2 billion.

This number is almost certainly too high. The government values our gold stock at $42.22 an ounce, one-tenth its current market price. Even more erroneous is the valuation of investment. If you hold shares of Tokugawa Motors that Grandpa bought at the turn of the century, they may be worth vastly more today.

However, the Commerce Department carries all assets at acquisition cost, and it makes no effort to mark asset values to market. The same is true of liabilities. The Latin American debt owned by U.S. banks is carried at face value, though its market value is lower.

On balance, we acquired net assets abroad in the 1950s and 1960s, and foreigners have acquired net assets here in the 1980s. Our investments in Europe, Asia and Latin America have had more time to rise in value than foreign investments here, so the understatement in official statistics is greater for the foreign assets we own than for our debts. The published numbers make us appear to be a much larger debtor than we are. Some recent efforts to correct the numbers suggest that we may not be a net debtor after all, at least not yet.

Of course, we continue to borrow more than we lend, so if we are not a debtor now, we will be. But the size of the net debt is important. We will have to serve the debt in future years by producing more than we spend. That is a fact. Those who view the debt problem with alarm use this fact to caution that our standard of living must fall.

I was tempted by this view a few years ago, but I am convinced that I overstated the problem then and that those who raise these concerns overstate the problem now. Properly measured, paying for the net debt is unlikely to require more than 1% of gross national product at its peak, sometime in the next decade. As GNP grows and standards of living rise, the cost of servicing the debt becomes less important.

Historically, the principal foreign investors in American factories and firms have been British and Dutch investors. Before World War I, these investors owned a significant share of the U.S. capital stock. They sold these assets to finance two wars, but they have now returned as investors. Once again, Britain and the Netherlands are the two countries with the largest investments in U.S. real assets such as buildings, factories and stores. Japanese investors concentrate much more on government bonds.

Some see the debt as a sign of weakness. This is a mistake. Our economic strength as a nation and our standard of living as a people depend mainly on the use we make of resources, not on how we finance our purchases. If we borrow from abroad to finance increased productive investment, we add to our productive potential and increase our ability to pay the interest on our debt in the future. If we spend for current consumption, we add to consumer satisfaction and to debt, but we do not increase our ability to service the debt.

Those who are concerned about our foreign debt should favor policies that increase investment. Replacing taxes on capital, such as the corporate income tax, with taxes on consumption would help to spur productive investment and reduce the growth of consumption. Servicing the debt would be easier, and both we and our children would be richer in the future.

One fear, often raised, is that foreigners can threaten us by withdrawing their invested balances. This neglects the fact that ownership of the debt and capital is mainly in private hands; there are many owners, and they rarely have a common interest. If we do not fix the exchange rate, any effort to divest ownership of dollar assets is bound to affect values, impose costs on creditors and offer bargains to other investors.

Many arguments about herd-like actions by foreign investors are unthinkingly based on experience with fixed exchange rates and a gold standard, particularly Britain's experience in the 1920s. Under the current fluctuating exchange rate system, the process works differently. Investors observe losses in value as others sell, and they reconsider their own best course. This limits a "run" on the dollar.

This does not mean that we should be sanguine or unconcerned about our position. But it does mean that we should be skeptical about those who predict a crisis. If we pursue sound economic policies and avoid fixed exchange rates, protectionist policies, tax increases, mandated benefits and more regulation, we are capable of paying for our current and prospective debt while increasing our standard of living.

—Allan H. Meltzer

***Allan H. Meltzer** is J. M. Olin Professor of Political Economy and Public Policy at Carnegie Mellon University. He will be the Visiting Kirby Professor at Texas A&M this semester. This article was published originally in the* Los Angeles Times, *November 13, 1988.*

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GILCHRIST CHAIRS COMMITTEE

Henry Gilchrist has been appointed chairman of Dallas World Salute for 1988-89 by Dallas Mayor Annette Strauss. Dallas World Salute is an organization that promotes Dallas as an international city through a series of cultural, commercial and educational events primarily held during April.

Gilchrist, senior member of the law firm of Jenkins and Gilchrist, is a member of the Center's Board of Directors.

PROTECTION RACKET ON THE RUN

In the long run, everyone won when Canadians gave the boot to trade protectionism by re-electing Prime Minister Brian Mulroney and giving his Progressive Conservative Party a comfortable majority in Parliament.

In the U.S. election, President-elect Bush stood strong for free trade, though the issue never surfaced in a major way after Rep. Richard Gephardt, D-Mo., failed to win the Democratic nomination by vowing to retaliate for the alleged unfair practices of U.S. trading partners. In Canada, it was "The Issue."

The candidate of the Liberal Party, John Turner, and New Democratic Party candidate Edward Broadbent tried to win by bashing as anti-Canadian the free-trade agreement worked out by Mulroney and President Reagan in 1985 and approved by Congress earlier this year. Over a 10-year period, the agreement phases out remaining tariffs and most non-tariff barriers between the United States and Canada. With a Parliamentary majority behind him, Mulroney should soon win approval of the agreement so it can take effect in January.

Since the two countries are the world's biggest trading partners, the long-term impact will be enormous. Something that will create jobs and make more and better products available to Canadians at lower prices is hardly anti-Canadian; it's anti-special interests.

Instead of becoming leaner and meaner to meet global competition, many industries get the government to prop them up by slapping tariffs on imports. This short-run relief from competitive pressures makes them flabbier in the long run, and their products become less attractive to consumers despite the tariffs on competing goods from abroad. All the while, consumers are stuck with higher prices, and the economy as a whole suffers.

Soon other industries demand similar protection, and the nations whose products we impose tariffs on threaten retaliation. That's how industries that became strong through market incentives are reduced to panhandlers in the halls of Congress, pleading for protection against big bad foreigners. The syndrome led to the Great Depression of the '30s.

In Canada, the economic aspects were only part of the picture. Canadians have always feared losing their national identity in a sea of American products, and the protectionists portrayed the free-trade agreement as somehow "selling out" Canada's national identity and even sovereignty.

But when markets are free, consumers are the ultimate sovereigns. Their choices determine who succeeds and who fails.

If more people prefer American products to Canada's, the answer is for Canadian companies to make their products more attractive, either by cutting prices or upgrading quality and marketing. The answer is not to penalize the entire nation by forcing consumers to pay higher prices for competing American products. That's as unfair as taking away the freedom to emigrate from citizens who prefer another country's climate or system of government.

With other regions of the world—the European Common Market chief among them—moving fast to eliminate trade barriers between participating nations, killing the U.S.-Canadian free-trade agreement would have put both countries at a huge competitive disadvantage.

Now, pressure mounts on European and Asian nations to open their markets to our products. If sense can prevail in Congress, freedom and prosperity will be on the march.

—**Edwin Feulner**

***Edwin Feulner** is president of The Heritage Foundation, a Washington-based public policy research institute, and a member of the Center's National Advisory Board.*

LIFE IN THE U.S.S.R.

For 10 days in mid-November, Steve Pejovich joined a group of about 30 members of the media representing newspapers, magazines and radio stations on a study mission to the U.S.S.R. Leader of the group was Ambassador Francis Dale, former U.S. representative to the United Nations. The trip was sponsored by the World Media Association. In this and several other issues, Pathfinder *will share with its readers reports on this trip written by various members of the group.—Editors.*

"Nyet!" exclaimed a pair of soldiers, one of them waving his hand, as I photographed them near the Rostrow column on the banks of the ice-clogged Neva River in the heart of Leningrad . . . . And when I made some photos in a dry-goods store on the main street of Zagorsk, three little old ladies, arms waving in protest, set up such a vocal clatter, like a goose protecting her goslings, that I beat a hasty retreat to the street. But those were the exceptions. Elsewhere, a mother smiled and knelt beside her children.

The U.S.S.R. equivalent of our dollars and cents is rubles and kopeks. The ruble is not traded in international markets and cannot be taken out of the country. In other words, it is worthless outside their borders. And inside, the official government rate of exchange is $1.60 U.S. for one ruble . . . . But on the street, young men, and even some women, sidle up to you and in a sotto voice say, "Trade money?" And they offer from four to six rubles for a U.S. dollar. One of our group got 6.25 per dollar, and on the last day, one of our people couldn't resist an eight for one swap. But then he had to spend it, because you have to have a bank receipt in order to convert rubles back into dollars! And the street traders, who seem able to handle any amount, don't give receipts!

Practically all of the population lives in state-owned apartment buildings, which range from five to 10 and 15 stories high. The apartments are three and four rooms, frequently shared with another family, and with communal bathroom facilities! Only those buildings above

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"Why?"

"Because that's the annual pay of a civil servant at the top of his career, and university professors have been equated to top civil servants."

"But that's not what I make," I observed.

"I know," he replied patiently. "You have to multiply that figure by 0.486."

"Why?"

"Because a professor at the beginning of his career is paid 48.6 percent of that salary. I know," he added, preventing me from interrupting, "I know you are not at the beginning. We must find your seniority coefficient. When were you appointed full professor?"

"In 1976."

He worked on his calculator for a few minutes and then announced, beaming: "Your seniority coefficient is 1.32. We have to multiply the previous result by 1.32."

The amount was still different from my paycheck.

"Now," he said, "we must multiply this figure by 1.122. I am not sure why, but I believe that it was a once-and-for-all increase of 12.2 percent they gave us a few years ago. The resulting figure must then be divided by 12 to get the monthly salary."

"It's still not right."

"Sure," he said acidly. "We have to multiply the outcome by 0.095. You know—the 9.5 percent fixed withholding."

At that point I gave up, so he continued undisturbed.

"Your basic salary is 1,309,609 lire. You are married and have two children, so we must add the 58,391 lire family allowance. Finally, there is the *contigenza* [a lump sum, equal for everybody, given as an indemnity against inflation]: 555,116 lire. Your monthly salary is 1,923,116," he concluded.

"No, it's not."

"That's because we must subtract the amount withheld: 436,151 lire."

"That takes us to 1,486,965 lire," I said. "Why is my salary 1,484,965 lire?"

"Do you have it credited to your bank?"

"Yes," I admitted.

Then you must subtract 2,000 lire for the bank's commission, and you get to the figure you actually received. Quite simple," he added triumphantly.

Well, it is not as simple as that. In March my salary dropped to 1,334,965 lire (150,000 lire less than the previous month), but I have not made any further investigation. I just do not want to know. So please, never ask me how much I make as a university professor. I could not tell you.

—Antonio Martino

Antonio Martino *is a professor of monetary history and policy at the University of Rome.*

The group of American journalists in Leningrad.

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seven stories have elevators. Below that, you walk up! There's a waiting list for such quarters, ranging from a few months to a few years; sometimes up to eight years, in fact. Rent is three percent of one's salary, and the beginning salary for everyone, including doctors and engineers (attorney is a nonoccupation), is 140 rubles per month. The average salary is 160 rubles. We were told that our bus driver in Leningrad made 300 per month because of a shortage of that skill.

And our border crossing was an experience. We all had to get off the buses, taking coats, carry-on luggage and cameras with us, then claim our big bags from the storage compartments underneath. A reporter from Tokyo was immediately ahead of me, and the soldier had quite a time deciding if it was OK for a Japanese to be with a group of "American" writers . . . . Then our baggage was x-rayed and we were cleared, except for one man in the first bus. His bag was completely dismantled with a screwdriver. Seems it was a type they'd never seen before and they wanted to be doubly sure there wasn't some way to hide anything. As we were cleared, they started on our second bus, and that group got the full treatment. Every bag was opened and the contents examined! Meantime, our buses had been driven over a pit, such as auto service stations once had, to permit soldiers with flashlights to examine the undercarriage. Meanwhile, a couple of others used a ladder to check the top while another soldier with a dog boarded the bus and checked inside!

And I'll also remember the state-run airline, Aeroflot. We rode a huge Ilyushin 73. They're staffed by a surly bunch of women, most of whom are hefty enough to at least qualify for the Chicago Bears' second team. For refreshments they served the standard apple juice. One of our group asked for a beer, instead. The "hostess" snorted "Beer!!!! Huh!!!!" and acted like she might put him off in midair!

They don't have the supermarkets that we have for foodstuffs. So they stand in line to buy meat at one store, to buy coffee in another; in a department store I saw a line of women, which wound down the stairway from the second floor, who were waiting to get to a counter at which there was a great clamor as they sought

Steve Pejovich in front of the famous Lublanka prison in Moscow.

to buy what we would call stadium blankets in plastic cases . . . . To make any purchase, you must deal with three different people. First, the clerk who writes up your purchase puts the item on a back counter and sends you with the sales slip to a cashier. That second person takes your money, receipts the slip and sends you back to a third person who takes the sales slip, wraps your package and hands it to you!

We stayed in what passes for first-class hotels. Our quarters were Spartan, to say the least. Beds, from headboard to footboard, were 6'2," and I'm 6'3"; the room was about 11' x 15'; and the bathroom about 5' square. The toilet itself appeared to have been designed by a committee . . . . In Leningrad, we had a full shower curtain; in Kiev, only half a curtain (4' wide); and in Moscow, no shower curtain at all . . . . The soap was small, unwrapped, but fragrant. The towels were unusual: one large one with a finish similar to the linen tablecloth, and a smaller one with a terry cloth finish; no washcloths . . . . There was no Kleenex or similar tissue, and the toilet tissue will never be confused with Charmin. In fact, and this is unbelievable, in what would be called the Press Club in Leningrad, the "tissue" in the restroom was standard typing paper, quartered!

—Jim Roberts, Publisher
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