

TxD  
Z TA289.6 P273 10/6

NON-CIRCULATING

# Pathfinder

CENTER FOR EDUCATION AND RESEARCH IN FREE ENTERPRISE  
TEXAS A&M UNIVERSITY COLLEGE STATION, TEXAS 77843

TxD

October 1988

Volume 10, Number 6

TEXAS STATE  
DOCUMENTS COLLECTION

## WHO CREATES JOBS?

A huge amount of rhetoric in the presidential campaign has focused on which candidate will create more jobs during the next four years. Vice President George Bush points to the many new jobs that were created during the last eight years and promises that 30 million more would be created in a Bush administration. Gov. Michael Dukakis emphasizes the new jobs in Massachusetts created during his term as governor and promises more "good jobs at good wages" during a Dukakis administration. Both candidates will continue to emphasize job creation during the remainder of the campaign.

Notwithstanding the emphasis on job creation, a shortage of jobs is not the problem. There are many, many more jobs than there are workers to fill them. Certainly we could use more school teachers, more police, more people to keep the highways and parks clean, more people to build and maintain low income housing, and we could go on and on.

So why are some people unemployed and why do others choose not to be in the labor force if there are so many jobs available? Of the less than 6 percent of the labor force that is unemployed, approximately one-half is between jobs. Others, even though jobs might be available, choose not to take jobs because they don't think they could make a satisfactory living at jobs they can perform. They choose not to work at the wages paid for the best job they can do. Some do not have the skills necessary to perform a job that would pay the legislated minimum wage or more. Still others choose not to look for a job that they believe would pay less than the value they place on the alternative use of their time.

So we see a paradox: supposedly there are not enough jobs. At the same time the government cannot prevent the huge influx of illegal aliens who are willing to risk almost anything to work at one of these "nonexistent" jobs.

The fact that more jobs exist than there are workers to fill them does not mean that everything is wonderful, that people do not work because they are lazy, or that there aren't potential problems. Quite the opposite. If more people enter the labor force—choose to work—than leave it, some must obtain jobs that were previously unfilled or unemployment will result. Furthermore, the increase in the supply of labor could drive down wage rates even though the unemployment rate remains unchanged or even falls. The problem is, therefore, can the net addition to the labor force find jobs they can perform at wages they are willing to accept without a decrease in the wage rate? *If the answer is yes, this must be what Bush and Dukakis mean by job creation, even though no new jobs would actually be created.*

The problem with all of the discussion about which administration would create more jobs is that it gives the impression that government is the source of these new jobs. This is generally not the case. Certainly the federal government can and does hire more workers. The new government workers are typically bid away from jobs in the private sector whether the new workers have just entered the labor force or have been employed before. Seldom does the government overtly hire unemployed workers with the motivation of giving them jobs (the CCC in the 1930s is one example).

The cause of an increase in the number of workers employed at the same time that overall wage

*Continued on next page*



U OF NT LIBRARIES 76203

OCT 22 1988

*From page one*

rates are not falling or even rising—as has been the case during most of the 1980s—is an increasing demand for labor. The source of this increase in the demand for labor is the private sector, not government. If, on average, businesses want to hire more workers at existing or even higher wage rates, three things typically will happen: wages will be bid up by businesses; some previously unemployed workers will find acceptable jobs that they can perform at acceptable wages; new workers will enter the labor force and find acceptable jobs.

Even though the private sector, not government, is the source of additional jobs for workers and of higher wages, government can and does play a role in the process even though it does not create jobs. *The government can create an atmosphere, through a set of institutions, that provides the incentive for businesses to want to expand and hire more workers.* In the 1980s, decreases in taxes and a regulatory policy more favorable to business made businesses more profitable and induced them to expand their output. This was an important cause of the longest recovery since World War II and of the substantial increase in the number of workers in the United States. An important cause of the expansion in Massachusetts was the reduction in state taxes.

Alternatively, government does not destroy jobs, but its policies can create an atmosphere that causes business to contract and to hire fewer workers at existing wages. This decrease in the demand for labor causes unemployment and a decrease in wage rates. The higher business taxes and more stringent regulations in the 1970s had this effect.

So neither candidate will create or even save jobs directly. But they sure can do it indirectly by changing this country's institutions. The net addition to the labor force will be approximately 16 million workers during the next eight years—possibly more if wages continue to rise and induce more workers to try to find jobs. The question is under which administration would businesses demand enough new labor so that the additional workers can find acceptable jobs at acceptable wages and wages continue to rise. These conditions would be the mark of continuing increases in prosperity.

—Charles Maurice  
Steve Pejovich

*Editors' Note: During the 1983-87 period of high economic growth along the eastern seaboard, employment was up 6 percent in Massachusetts, 21 percent in New Hampshire, 12 percent in New Jersey, 12 percent in Connecticut, 7 percent in New York and 13 percent in Rhode Island.*

## NEWS FROM THE SOVIET UNION

"Academician L. P. Kapitsa, when determining the level of social progress of a society, always used to want to know the number of people detained in prison. He reckoned correctly that the lower the number, the stronger was the moral health of that society". (*Ogonek* No. 24, 1988)

"In our country, the figure of those in prison is one of the highest in the world". (*Moskovskiy Novosti* No. 18, 1988)

Both quotations came from recent articles on the current labour-camp system in the USSR, which is one of many previously forbidden subjects exposing the difference between the officially proclaimed picture of Soviet society and the reality. *Izvestiya* published a series of three articles devoted to camps in Siberia (4, 5 and 7 August), where the crime rate was said by the minister of internal affairs, A. Vlasov, to be four times higher than in the Transcaucasus.

Apart from accommodating "the finest minds" (in Tsarist times), and "thousands of thousands of innocent victims" (under Stalin), Siberia has also been the dumping ground for the dregs of Soviet society—murderers, rapists, bandits and robbers—for nearly 400 years. In recent times the people of Achinsk remember with horror the mass riots and deaths in the seventies when suddenly their town was invaded by 7,000 prematurely released convicts. In Sayansk (pop. 45,000) the authorities are unable to guarantee the safety of the local people from hundreds of convicts who serve the second half of their sentences in the area after being released from camps. (*Soviet Analyst*, page 1, Aug. 17, 1988)

— ■ —

How do you describe Gorbachev's reforms? They are like injections of medicine into a wooden leg.

— ■ —

At the Central Committee Plenum: After a unanimous vote, the General Secretary announced, "You may lower your arms and come away from the wall."

— ■ —

Why did Gorbachev lower his hands twice during the funeral ceremony at Chernenko's (his predecessor) burial? He was indicating "deeper, deeper."

## A LETTER TO THE WORLD FROM INSIDE SOUTH AFRICA

*(In a few societies it is easier to understand the frustration of those struggling for their political freedoms. We cannot agree, however, with attempts to discredit those who are opposed to apartheid, but who question whether further economic sanctions will have the effects that are being attributed to sanctions. The real issue in South Africa is not an ideological but a practical one: how to overthrow apartheid without inflicting even greater misery on the South African people. For example, a large number of scholarships for Black students were terminated when U.S. companies left South Africa.—Editors)*

I would dearly love my country to become a highly productive multi-racial democracy. As far as I am concerned, that is the only solution for South Africa.

It is my view that foreign people and foreign governments could assist South Africans in realising such a worthy goal. They could help by engaging actively with South Africans economically, socially, intellectually and culturally.

It is my view that a strong South African economy would be liberating for all South Africans—especially black South Africans. South Africa has a minority of people, mostly but by no means exclusively white, who enjoy a standard of living that compares well with that in the advanced, industrial countries. But white South Africans are by no means uniformly well off. Many black

South Africans have incomes that exceed that of many white South Africans.

The affluent South Africans are affluent largely because of the skills and assets they have managed to acquire. This makes them internationally mobile. If South Africa does not provide them with a competitive standard of living, many are likely to migrate elsewhere. It is essential for the well-being of all South Africans that those with skills and capital remain committed to the country.

The ability of black South Africans to acquire the skills to make them more productive depends critically on how much is spent on their education and training. The ability and willingness to spend on their behalf will depend, in turn, on the state of the economy.

I believe that economic liberation improves the chances of political liberation for black South Africans. It is my view that economic stagnation will not promote political liberation. It will be possible for the white South Africans to retain political control for the foreseeable future, without meaningful economic growth.

What is required of foreign interests who wish to exercise an influence that is helpful to the process of evolving South Africa into a multi-racial democracy, is a realistic appreciation of the balances of forces that apply in South Africa. In my judgement, recent policies of western governments towards South Africa, which have been intended to isolate and punish South Africans into change, have been anything but helpful to the purpose of change.

I have long held the view that sanctions were morally irresponsible because they did not have regard to their consequences. It is possible to be against apartheid and against sanctions. It seemed obvious, in 1986 (when the United States sanctions law was passed), that by applying sanctions western governments and western values would be less rather than more influential over the actions of the South African government. I emphasised that sanctions would play into the hands of the extremists in South Africa, black extremists to the left of the government and—more immediately dangerous—white extremists to the right.

It seems to me now that the predictions made then have proved regrettably accurate. The white South African electorate in May, 1987, took a decidedly rightward step.



*Dr. and Mrs. Pejovich with the Free Market Institute leadership.*

Let us now turn to the economy after sanctions. The South African economy suffered a very severe recession in 1985 and through much of 1986. The recession itself had much more to do with the withdrawals of capital from South Africa under private initiative than with direct government sanctions which were applied at the end of 1986. Despite sanctions, the South African economy has recovered. The improvement in commodity prices, especially in the price of gold, in 1987, was a major boost to the economy. Relative stability in South Africa was also well appreciated in financial markets.

There has been some recent progress towards economic freedoms in South Africa. There has been a loss of other freedoms. There is potential for good and for evil in South Africa. There is a grave danger that the actions of foreign governments towards South Africa will make it harder to promote what is good.

—Brian Kantor

*Professor Kantor is director of the School of Economics at the University of Cape-town. This article is extracted from an address at the Fraser Institute in Vancouver, B.C., Canada.*



*The Free Market Institute building in Johannesburg, South Africa.*

## SECOND HAYEK SYMPOSIUM ON KNOWLEDGE, EVOLUTION, AND COMPETITION

The Second Hayek Symposium was held June 4-7, 1988, at the Panorama Hotel in Freiburg, West Germany. Approximately 40 persons participated, among them scholars from France, Spain, New Zealand, West Germany, the Netherlands, Switzerland, and the United States. Three graduate students from Texas A&M University also were in attendance.

In his opening remarks, William H. Mobley, president of Texas A&M University, said: "On behalf of the University administration, I commend the Center for joining with the Walter Eucken Institute in sponsoring, for the second consecutive year, the Hayek Symposium on Knowledge, Evolution and Competition. How fitting it is to honor Nobel laureate, F.A. Hayek, through a symposium that focuses on analyzing and illuminating current economic issues within the framework of evolving institutional structures and competitive markets. . . . Whitehead once observed that fools act on imagination without knowledge; pedants act on knowledge without imagination. Great individuals, centers, and institutions successfully weld imagination and knowledge. May this symposium be a further step forward welding knowledge and imagination."

Dr. John Moore, deputy director of the National Science Foundation, attended the symposium on behalf of the Center's board of directors and the national advisory board.

In his lengthy report on the conference, Dr. Moore said, "The sessions on Sunday, June 5, centered on two papers: 'Contract, Utility, and the Evaluation of Institutions' by Charles King of the Liberty Foundation; and 'The Evolution of Economic Institutions' by Ulrich Witt of Freiburg University. Dr. Edwin J. Feulner, president of the Heritage Foundation, presented a special lecture on diplomacy in the cause of freedom on Sunday afternoon. A large audience, including many students from Freiburg University and the Walter Eucken Institute, attended the lecture. Dr. Feulner's talk was well received and provoked a lively question and answer session.

"The session on Monday, June 6, was centered on papers by Thomas Romer of Carnegie Mellon University, whose title was 'Buchanan and Public Sector Economics,' and on Jennifer Roback of George Mason University, whose paper was 'Expansion, Secession, and Lawlessness: A Contractarian Approach.'

"In a special session on Monday afternoon, Professor Pedro Schwartz of the University of Madrid gave a brief history and analysis of the transition to democracy in Spain. In a fascinating exposition, he showed how Spain had successfully transformed itself from a dictatorship under Franco to a democratic constitutional monarchy in less than a decade.

"The discussions on Tuesday, June 7, were focused on papers by Kenneth Lehn of the U.S. Securities and Exchange Commission, whose subject was the economics of corporate takeovers, and on Carsten Hermann-Pillath of the University of Cologne, whose title was 'The Sensory Order and the Evolutionary Concept of Mind.'

"Dr. Lehn's paper was an analysis of the motivation for corporate takeovers. The study considered a large sample of U.S. firms that had been takeover targets

to determine whether they had previously made acquisitions that had a negative impact on their share values. The underlying idea was that corporate raiders could be motivated by the possibility of gains in firms that had made poor decisions about acquisitions. The empirical results of the study were consistent with this idea.

"Overall, the conference produced lively and wide-ranging discussions with good participation by all those present. The papers were made available well in advance of the sessions, so participants could come to the sessions prepared for the discussions. The authors were well-selected in that they prepared stimulating papers and presented and defended them capably. The Center is to be commended for an excellent conference."

One of Texas A&M's graduate students who attended the conference wrote: "Just a personal thanks for making it feasible for students to have such a unique experience. . . . I have learned that an education is more than knowing facts. . . . Most of us Americans are too limited in our experiences. I am in your debt for such a rich and enjoyable opportunity."



Texas A&M University President Bill Mobley and Mrs. Mobley enjoy a break at the Hayek Symposium with Dr. Garelo of France, Steve Pejovich of the Center and John Moore of the National Science Foundation.



## GUESTS AT THE HAYEK SYMPOSIUM



Dr. Karl Brunner, University of Rochester; Phil Trostel (standing); Allan Meltzer, Carnegie Mellon University; and Manfred Neumann, University of Bonn.



Dr. Charles King and Leonard Liggio.



Texas A&M graduate students Thomas Oakes, Phil Trostel and Anne Gillette.

## PATHFINDER

Volume 10, Number 6

October 1988

Published six times a year by the Center for Education and Research in Free Enterprise in cooperation with Educational Information Services, Texas A&M University, College Station, TX 77843. Telephone (409) 845-7722.

Svetozar Pejovich, Director  
S. Charles Maurice and Svetozar Pejovich, Editors  
Sid Carr, Publications Editor

Board of Directors: Businessmen—Maurice Acers, Jack E. Brown, Thomas Fymire, Henry Gilchrist, Jay Harris, Frank M. Muller, Jr., Carroll Phillips and H. G. Schiff (chairman). Texas A&M Deans—Charles J. Arntzen, A. Benton Cocanougher, Dean Corrigan, Daniel Fallon (vice chairman), Herbert Richardson. Ex-Officio—Leslie L. Appelt, Bill W. Clayton.

National Advisory Board: Karl Brunner, Edwin Feulner (chairman), Rawles Fulgham, Phil Gramm, Dr. Robert F. Lanzillotti, Dr. Leonard Liggio, John Moore.

Permission to quote or reproduce materials in this publication is granted. Please credit the Center for Education and Research in Free Enterprise. The opinions expressed in *Pathfinder* are those of the authors and do not necessarily reflect the opinions of the Center for Free Enterprise staff, Board of Directors or National Advisory Board.

Contributors of \$5 or more receive *Pathfinder* for one year; teachers in elementary and secondary schools may receive *Pathfinder* without a donation.

## 1988 SUMMER AMERICAN ECONOMY INSTITUTE

Forty-nine Texas school teachers participated in the Center's annual American Economy Institute in June 1988. The objective of the course was to provide a rigorous introduction to principles of economics at a level beyond which the participants would teach their own economics courses. The teachers were from 34 school districts and two private schools. There were approximately six applicants for each opening.

Dr. Richard Anderson, associate professor of economics, was the institute's director and primary teacher. Seven senior faculty members from the Texas A&M Department of Economics also lectured on topics as diverse as "Economics of Marx," "Experimental Economics," "OPEC and Energy Policy," and "The Economics of Slavery."

The following remarks reflect the overall comments of the participating teachers:

"[Anderson gave me] a clearer view of the overall picture—giving me more insight when I teach—but much, much beyond the scope of a high school economics classroom."

"This course provided me with exactly what I needed, a background in economics, which now makes me feel confident to teach it."

"Dr. Anderson did an outstanding job of meeting the needs of a very diversified group. The patience of Job should be changed to that of Anderson."

"A little too hard for our class due to mix of teachers . . ."

"A lot of material. Dr. Anderson sometimes takes for granted that we know more than we do."

"Great! Very professional and extremely organized."

"I enjoyed having the speakers . . . It not only gave variety but spanned a wide range of subjects."

"Those who had no background had to work twice as hard to learn the basic vocabulary, concepts, etc."

"My interest in taking the course was to make my 27-year-old B.A. in economics more current. It was a shock to me to realize that my training was originally de-

ficient. Dr. Anderson did a masterful job of filling the gaps in my education . . ."

"Unfortunately, my math skills are so weak that I have felt befuddled . . . [but] you have given me the skills and courage to try some new things next year and to continue my self-education in economics."

"Teachers need this!! It also makes me want to take more courses."

The vast majority of comments were favorable, even extremely favorable. The few critical comments were mostly about the level of difficulty of the material. Compared to other programs for school teachers, the American Economy Institute is demonstratively the most demanding and challenging. The word about the academic difficulty of the institute is out, and it attracts only the best Texas school teachers (and many of them).

The Center wishes to express its appreciation to the guest speakers and in particular to Dr. Anderson for a job well done.

NONPROFIT ORG.  
U.S. POSTAGE  
PAID  
COLLEGE STATION,  
TEXAS 77843  
PERMIT NO. 215

Ms. Tamsen L. Emerson  
Texas Documents Collection  
North Texas State University Library  
P.O. Box 5188 NT Station  
Denton, TX 76203