

Pathfinder

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

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NON-CIRCULATING

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AND WE'VE GONE INTO HOCK TO THE REST OF THE WORLD

Americans are in the habit of feeling sorry for the poor debtor countries of the world, like Mexico or Brazil. But it's time for us to recognize that their problem is ours. The United States today is a country with a chronic debt problem, and the unpleasant Third World options of inflation or austerity are precisely what we face in the next decade.

America's main economic problem is that as a nation we consume too much relative to what we produce. The government spends mainly for consumption—for health, welfare, and defense spending—and very little on investment. Privately, the share of spending for consumption remains near the highest rate we have experienced, while net investment remains at a very low rate.

To maintain spending in excess of production, we sell assets and borrow abroad. The counterpart of this borrowing is the trade deficit—net imports from abroad.

In the past four years, we have borrowed so much that, instead of owning net foreign assets of nearly \$140 billion, as at the end of 1981, we had net foreign debts of more than \$200 billion at the end of 1986. Large borrowing will continue even on the most favorable assumption. By the end of the decade we will owe foreigners between \$600 and \$900 billion. In just four years, we have wiped out the net accumulation of several generations.

If our borrowing financed a high rate of productive investment, the returns on the investment would pay the interest and principal. Our future standard of living would be higher. But since our borrowing is used mainly to finance consumption, we live better now but leave a debt to be serviced and paid in the future. At some time, we or our children will be faced with two options.

▪ *Inflation.* Since our international borrowing is denominated in dollars, one option is to reduce

the real value of the debt by inflating faster than people now believe likely.

▪ *Austerity.* The second option is to produce more than we consume and sell the surplus abroad to pay the interest on the foreign debt. Because the debt remains outstanding, the shift to a surplus must be permanent.

The crunch won't necessarily come next month or next year. But every additional dollar of America's debt must be serviced by a permanent increase in exports—or devalued by a new wave of inflation.

If the debts accumulated by the United States in the 1970s and 1980s are to be serviced, there must be a major change in trading patterns and, therefore, in economic and trading relations. The United States must become a large net exporter to Europe and especially to Asia. Europe and Asia must become net importers. The postwar strategy in many countries of export-led growth must change to reflect the debtor position of the United States.

This would mean massive changes in trade flows. Currently, the United States exports about \$370 billion and imports more than \$520 billion in constant 1982 dollars. Closing the gap between exports and imports and paying the interest on our debt is equivalent to doubling the amount of current exports (in constant dollars) by 1990, or reducing current imports by more than half, or some combination of the two.

To eliminate the trade deficit and service our debt while permitting foreigners to service theirs, we must lower costs of production relative to prices. There are four options. None offers an easy, attractive solution.

We can inflate. Inflation lowers the value of the debt and devalues the dollar. But sooner or later,

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From page one

inflation raises all prices and costs of production. This offsets the effect of the devaluation on trade. Indeed, by encouraging consumption, inflation makes the trade problem worse.

We can protect against imports, using quotas, surcharges and perhaps tariffs. This invites retaliation and shrinks the amount of world trade. A lower level of trade makes more difficult the task of squeezing out \$60 billion to pay interest on our foreign debt.

We can continue to devalue the dollar. Since February 1985, the dollar has fallen by almost 50 percent against major currencies, lowering our standard of living but modestly improving our trade balance. Devaluation raises prices relative to costs of production and raises domestic prices relative to foreign prices. This method of adjustment, like protectionist policy, reduces standards of living relative to foreigners and perhaps in absolute terms. We cannot avoid devaluation, but we should avoid policies aimed at manipulating exchange rates and "talking the dollar down." Exchange rates should be allowed to fluctuate freely.

We can increase productivity. There are many ways to do this, none easy to accomplish. At the national level, the three most important policy changes in my judgment, are:

(1) Shift taxation from capital to consumption so that the share of consumption spending falls and the share of capital spending rises to levels substantially above those achieved in the last 20 years.

(2) Reduce government spending, particularly consumption spending and, if possible, shift government spending from consumption to productivity-enhancing investments in infrastructure.

(3) Shift from a policy of lending to foreign debtors to a policy of encouraging repatriation of foreign capital and debt-equity swaps. It makes little sense for a debtor country, the United States, to borrow and sell assets to finance loans to Latin American debtors.

Much depends on our choices. If we solve our problems of trade and debt by reducing our relative wealth, we will eventually become equals in a multi-centered world. In that case, we will need new arrangements for sharing responsibility for defense, finance, trade and the maintenance of such order as can be provided.

We aren't prepared—politically, militarily or psychologically—for the reduced role that our diminished wealth and power will bring. But if we fail to increase American productivity, such planning will be essential to avoid a return to the uncertainties of the 1920s and '30s.

—Allan H. Meltzer
Professor of Economics
Carnegie-Mellon University

A GREAT FRIEND DIES

Beverly Venable Thompson, Jr., a member of the Center for Free Enterprise's Advisory Board, died on June 14, 1987.

Education was a family tradition for Thompson. Ramsey Armstrong, his great-grandfather, was instrumental in founding Polytechnic College, now Texas Wesleyan, and served as its vice president and financial agent at the turn of the century. His grandfather, George W. Armstrong, donated land in Fort Worth for Texas Christian University, and together with Bishops H. A. Boaz and Sam Hay, initiated the building of Southern Methodist University. Beverly Thompson gave generously of his time and resources to at least 20 Texas universities, and as many more outside of Texas, and to other organizations devoted to the cause of freedom. He received honorary doctoral degrees from Northwood Institute, Oklahoma Christian College and the University of Plano, and a Distinguished American Citizen's Award from Harding College in Searcy, Arkansas.

At the time of his death, Bev Thompson was president of the American Forum and the Texas Educational Association. His leadership resulted in the statutory requirement that all Texas public schools teach economics with emphasis on the free enterprise system and its benefits. He funded, through the Texas Educational Association, institutes for teachers at a dozen or more universities each year to teach the teachers the foundations and benefits of the free enterprise system. Although an industrialist by occupation, he was an educator in the truest sense.

Thompson was a B-17 pilot during World War II. He joined Texas Steel Company in 1945, served as its president from 1965-1975, and as chairman of its board until his retirement in 1982. He was a director of the Continental National Bank, of Lauritzen and Makin Corporation and of Liberty Manufacturing Company, all Fort Worth businesses, and of the U.S. Industrial Council, National Association of Manufacturers (vice president from 1968-1971), and the Texas Manufacturers Association as well as numerous social organizations.

Beverly Venable Thompson, Jr., will be sorely missed.

—Leon Blair
American Enterprise Forum

A NEW BREED OF JUDGES

Alex Kozinski is judge, United States Court of Appeals for the Ninth Circuit. Kozinski's opinion in the case involving rent controls in Santa Barbara, Calif., is an excellent example of a new breed of judges. He addressed himself to a very important issue of private property rights, and used economic analysis to discuss its legal and social consequences. Our space limitation allows us to print only excerpts from Judge Kozinski's opinion. Upon request, however, Pathfinder will send you Judge Kozinski's entire opinion.

—Editors

We review the district court's dismissal of plaintiffs' lawsuit seeking compensation for an alleged taking of property resulting from the operation of Santa Barbara's mobile home rent control ordinance. . . . William and Jean Hall own and operate. . . a mobile home park within the city of Santa Barbara. . . . California law normally prohibits mobile park operators from forcing tenants to remove mobile homes. . . . Tenants typically sell their homes to buyers who then succeed them as tenants of the mobile home parks. . . . In August 1984, the city of Santa Barbara enacted a rent control ordinance to mobile home parks. . . . The ordinance requires mobile park operators to offer their tenants leases of unlimited duration. These leases. . . must be terminable by the tenants at will, but by mobile home operators only for cause. . . . Plaintiffs argued that by giving tenants the right to a perpetual lease at a below market rental rate, the ordinance transfers to each of them a possessory interest in the land on which their mobile home is located. . . . this interest has a market value and a market: the market for mobile homes. . . . The price of mobile homes. . . shot up dramatically after enactment of the ordi-

nance. . . . (Plaintiffs' claim that the substantial premium paid by mobile homes in parks subject to the Santa Barbara ordinance reflects the transfer of a valuable property right to occupy mobile home parks at below market rates.

In adjudicating a claim such as that presented by (plaintiffs) the court must resolve three questions: (1) Did the governmental action amount to a taking of property? . . . (2) Did it advance a legitimate governmental interest? . . . (3) Was there just compensation? If the first question is answered in the affirmative and either of the remaining two in the negative, plaintiffs prevail; otherwise they lose.

. . . The Santa Barbara ordinance. . . directs the landlord to give tenants a lease. . . lasting indefinitely. . . . The landlord's rights in the property are largely at mercy of his tenants; he loses practically all right to decide who occupies the property, and on what terms. If a tenant moves, the tenant alone decides who will be his successor by selecting the buyer for his rental unit. . . . The tenant is able to derive an economic benefit from the statutory leasehold by capturing a rent control premium when he sells his mobile home. In effect, the tenant is given an economic interest in the land that he can use, sell or give away at his pleasure; this interest (or its monetary equivalent) is the tenant's to keep or use, whether or not he continues to be a tenant. . . . As the Santa Barbara ordinance is alleged to operate, landlords are left with the right to collect reduced rents while tenants have practically all other rights in the property they occupy. . . . This oversteps the boundaries of mere regulation and shades into permanent occupation of the property for which compensation is due.

. . . If their claim is substantiated, (plaintiffs) are entitled to additional compensation for the taking of their property: the possessory interest in the land allegedly transferred to each of

their tenants. . . . To make this determination, the court must ascertain the value of the interest allegedly transferred to each tenant and the value of what (plaintiffs) received. All these are matters that must be considered by the district court on remand. . . . The motion to dismiss (the case) was improvidently granted and we remand the case to the district court for further proceedings consistent with this opinion.

NEW CENTER DIRECTORS APPOINTED

The center is pleased to announce the appointment of Jack E. Brown of Midland, Texas, and Frank M. Muller, Jr., of Tulsa, Oklahoma, to its Board of Directors.

Jack Brown, with his partner, Cyril Wagner, Jr., founded Wagner & Brown in 1962. The company built vast oil production resources. Wagner & Brown later diversified into plastics, aeronautics, real estate and shrimp farming. The firm has joined T. Boone Pickens on several merger bids. Brown is a member of the Texas A&M class of 1946. He served three years as an officer in the U.S. Army.

Frank Muller, Jr., is general manager of The Kensington Company, Ltd., a construction company in Tulsa, and president of Tex X Technology, Inc., a computer software company in Austin. He recently has been president and 50 percent owner of Devco Overseas Company, with majority interests in Saudi Sulfur Company. Muller received his B.S. and M.B.A. degrees from Texas A&M in 1965 and 1971. He served in the army from 1965 through 1973, teaching at the U.S. Military Academy in 1972-73. His decorations include a Silver Star, five Bronze Stars, a Distinguished Flying Cross and a Purple Heart.

Jack Brown and Frank Muller were interviewed for the *Pathfinder*. Excerpts from

Brown's interview follow. Information about Muller's interview will appear in the next issue.

Pathfinder: Mr. Brown, we are pleased to welcome you to the center's Board of Directors. What do you see as the center's role?

Brown: I see its role as spreading its thought and philosophy into the school system and to the public in general. Older people had thought for some time that learning in the public schools was becoming too socialistic. Too little attention was placed upon our free enterprise system. The center and other similar organizations have made considerable progress in reversing this trend. I see this as a major accomplishment. We need to keep working through the schools. I hope to learn much more about the center and its work while meeting with the Board of Directors.

Pathfinder: Are you optimistic or pessimistic about the future of free enterprise in this country?

Brown: I'm extremely optimistic. It's better today than ever. We've seen such rapid advancement recently, such rapid changes in technology. This means that there is so much opportunity today. I have no reason to be pessimistic about the future. Elections won't make a difference. People feel different now. Programs like those of the center have made a difference. People know what you are saying and believe it. Continue to emphasize free enterprise and its benefits.

Pathfinder: Please compare Texas A&M now and when you were a student here.

Brown: Obviously it's much, much larger, and there are many female students. I think these trends have been good. But I should emphasize that big is not necessarily best. We should not confuse quality with quantity. We should continue to emphasize quality.

MARX IN ONE SHORT LESSON

Several weeks ago, Glen Mitchell invited the center's director to discuss Marxism on the KERA radio talk show in Dallas. The one-hour interview covered a number of issues. Excerpts from the interview are presented here for our readers who are interested in Karl Marx.

Mitchell: The topic of the talk show tonight is "Karl Marx in One Lesson," which is the title of one of Dr. Pejovich's many publications. Was it easy to write "Karl Marx in One Lesson"?

Pejovich: Not really. Marx was a very productive writer and Pejovich's Marx in one lesson is probably quite different from (and better than) Marx in one lesson by other writers.

Mitchell: You started with the influences on Marx. What were those?

Pejovich: Marx was an important person. He has influenced the course of human history. Marxism is a very influential social movement today. It is very regrettable that our high school and even college students know very little about Karl Marx. Marxism is basically a synthesis of early French Socialism, Classical German Philosophy, and Classical British Economic Theory.

Mitchell: You also describe Marxism as a religion.

Pejovich: An important difference between religions and ideologies is that the former are very explicit about salvation. Marxism sees salvation on this side of the grave; paradise will happen in this time and space. Thus, Marxism is a secular religion and a very appealing one at that.

Mitchell: One section of your book refers to the economic interpretation of history.

Pejovich: Marx believed that economic conditions of life (i.e., the stage of economic development) determine all other aspects of social life such as politics, morals, social norms and religion. Thus, he interpreted the entire human history as being shaped by economic forces.

Mitchell: I take it you think it is bad economics.

Pejovich: One has to be intellectually honest in evaluating Marx. We should distinguish between his scholarship, which was considerable, and his ideological diatribes and prophecies, which have all been wrong. Marx has made a definite contribution to our understanding of social processes that rivals that of Ricardo and Malthus.

Mitchell: In what way?

Pejovich: Malthus and Ricardo saw overpopulation, economic stagnation and diminishing returns while Marx believed, and correctly so, that the ability of man to advance science is limitless; that is, man's ability to innovate will offset the law of diminishing returns.

Mitchell: You have already boiled Marx into one lesson. Can you boil him down into one sentence?

Pejovich: Marx was a very intelligent man and also an evil man.

Mitchell: Now, can you expand?

Pejovich: Marx certainly was an intelligent man. Marx had to be a man of significant intellectual abilities in order to write as much as he did and to have that much influence on the course of history. We tend to be quite superficial in judging people we do not like. People often say that Hitler, Stalin and Mao were

sick individuals. But it takes a person of extraordinary ability to do what they did—good or bad. I never think of them as sick people; I think of them as extremely capable, but also evil men. The same goes for Marx.

Mitchell: Would Marx recognize his socialism and communism today?

Pejovich: Would Jesus recognize Christianity?

Mitchell: How would Marx see socialism and communism today?

Pejovich: Ask him. I can only make a few conjectures. Marx said very little about socialism. However, in the Critique of the Gotha Program, he emphasized quite strongly and unequivocally that socialism is not about economic equality and redistribution of wealth. In that sense he differs from socialists today who see socialism as a vehicle for income redistribution. Marx saw socialism as a stage in man's journey from primitive society to pure communism. Socialists today might call themselves Marxists, but they have little in common with Marx.

Mitchell: Did Marx have any notion of what the government should be like?

Pejovich: He considered the government to be a tool in the hands of those who control scarce resources; a junior partner of the ruling elite.

Mitchell: Why is Marxism such an attractive movement?

Pejovich: Because it is based on so many half-truths and a great promise of salvation in this time and space.

Caller: In what sense would you say Marx was evil?

Pejovich: Just look around at how many people have died because of his teachings in Russia, Eastern Europe, Central America, China. Please remember that we are not affected by his motives. We are affected by the consequences of his teachings.

Caller: I am told that there are very few comparisons between Marx's writings and the way of life in the USSR. Why should we blame Marx for what is happening there?

Pejovich: Ideas have consequences. And consequences are frequently unintended or unexpected. We know from history that the ideas and their implementations frequently do not match. However, the issue is not (and this is an important point) whether the Soviets, the Cubans and the Chinese actually follow Marx's teachings. It is by reference to Marx's deterministic view of history that those regimes continue to legitimize their existence. It is in that sense that Marx brought a great deal of suffering upon innocent people.

Caller: Would you say that communism is robbing the people of their wealth?

Pejovich: They have come to power in poor countries where there is not much wealth to take away. What the socialists and communist governments are doing, in the name of Karl Marx, is more important. They are taking human dignity away from their subjects.

Mitchell: Why can't Marxism work?

Pejovich: The right of ownership and contractual freedom are two essential institutions for human progress. And they do not and cannot exist in socialist and communist states. All Marx's major predictions about the economic consequences of capitalism have been refuted by empirical evidence.



THE FIRST HAYEK SYMPOSIUM



Mrs. Hayek, Mr. Buchanan, Mr. Hayek, Mr. Filbinger.

The First Hayek Symposium, jointly sponsored by the Center for Free Enterprise and the Walter Eucken Institute, was held in Freiburg, Germany, June 20-23, 1987.

The Second Hayek Symposium is scheduled for June 4-6, 1988, also in Freiburg. The first symposium was attended by about 30 invited scholars from the U.S. and Western Europe. The event was partially supported by the Carthage Foundation, the Charles G. Koch Foundation, Lufthansa, the John M. Olin Foundation and several anonymous donors.

AWARDS BANQUET

What an excellent conference you gave us — and how Pat would have enjoyed sitting with you in the back of the room and beaming with pride and satisfaction! You have built a continually better center, better conference, better accomplishment of mission—but, how can you top this one?!

—Polly Zachry

Warm greetings to everyone gathered to honor Louis Rukeyser with the Texas A&M Center for Education and Research in Free Enterprise Award.

Louis Rukeyser deserves high honors for his devotion to free enterprise, his ability to distill complex business issues and trends, and his skill in passing along his insights to an eager and affectionate audience of Americans.

As we celebrate the bicentennial of our Constitution this year, we should keep in mind that our Nation will move forward only if we are willing to pledge ourselves anew to a quest for excellence. I salute the Center for Education and Research in Free Enterprise for your efforts to help foster business and entrepreneurial excellence among the people of our proud Nation.

Again, congratulations to Louis Rukeyser for his many fine achievements. All of you have my best wishes for a most enjoyable and productive conference. God bless you.

—Ronald Reagan

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THE CENTER'S FACULTY AND STUDENT PROGRAMS

Faculty

During June, the Center for Free Enterprise provided partial support for John Robertson, associate professor of political science at Texas A&M, to attend a major international event in Alpbach, Austria. In his report on the conference, Professor Robertson wrote:

I just wanted to drop you a short note to let you know how things went during my recent visit to Austria to attend the Dialogue Congress on "West European-American Relations," from July 7-11. The Center for Education and Research in Free Enterprise was one of my principal supporters in this trip, providing generous assistance to help defray my costs for participation and housing.

The panels were interesting, and both enlightening and somewhat provocative at times. I sampled each of the various sections (political, economic and cultural), and found the quality and caliber of information to be quite consistent from section to section, as well as from panel to panel. I especially enjoyed the economic sessions dealing with protectionism, marketing, and one on the "Americanization of Europe and the Europeanization of America," with William Bennett (U.S. secretary of education), and Ernest Dichter of Dichter Motivations in New York, as the principal speakers.

I found the quality of participants to be quite impressive. Of particular interest to me were several younger (associate professor level) colleagues who shared my interest in political-economic affairs. I made several useful contacts, and was invited to attend a couple of meetings in Germany during my Fulbright at Universität Trier.

Student

The center also helped Sheila Amin, Dr. Pejovich's research assistant, to attend a special, by

invitation only, nationwide seminar for outstanding students. Amin is a senior in the Department of Economics and has a grade point average of 4.00. Buchanan, Tullock and many other well-known scholars gave lectures to the participants. Upon her return to College Station, Amin wrote:

The Center for the Study of Public Choice hosted an outreach seminar at George Mason University to promote the center's approach to studying economics. The motto of the program was "institutions matter." Questions of political-economic significance were raised and answered. The use of theory ranged from basic game theory to complex modeling. The challenge was in learning a new approach to applying the basic theory.

Participants came from a variety of regions both in and out of the U.S. They ranged from fourth year undergraduates to second year graduate students. The seminar is an experience that should not be forfeited if one is given the chance to participate in it.

AMERICAN ECONOMY INSTITUTE

"POSITIONS AVAILABLE: Primary and secondary educators, teachers and/or administrators, public and private schools. Desire to learn and/or review principles of economics in an intensive three-week summer course. Tuition and fees paid in full, course materials including texts provided, financial assistance with room and board, \$300 stipend paid at end of course, six hours of graduate credit to be earned. Apply American Economy Institute. An equal opportunity supplier: all participants share equally in the work load and opportunities for making new friends, broadening and deepening their understanding of economic concepts."

The Center for Education and Research in Free Enterprise did not run this advertisement

to solicit participants for its annual American Economy Institute (AEI), although it does capture the spirit of what the center's American Economy Institute offers educators in its annual summer course. Principals and superintendents of both public and private schools were contacted early last spring; they, in turn, provided information to potential participants concerning the opportunities for educators to enhance their understanding and teaching of economics. More than 200 applications were received. On June 8, 63 participants with a diversity of educational backgrounds and teaching interests began the three-week course in economic concepts.

Economic principles were compressed into an intensive three-week session on the Texas A&M campus. Scarcity and opportunity costs, demand and supply, the price system and resource allocation, money, inflation and deficits, international trade and finance were among the foundation topics studied and analyzed during the institute. Richard Anderson, associate professor of economics at Texas A&M, was director of the AEI and the primary instructor. One of Anderson's respon-

sibilities was the integration of outside speakers into an agenda that permitted study of the required economic principles before each guest speaker's presentation.

The fourteenth annual summer institute was a highly successful one, from reports and evaluations conducted at its conclusion. Participants came from more than 40 different cities. These included Abilene, Austin, Bowie, Bryan, Caldwell, Channelview, Chappel Hill, Cleburne, Corpus Christi, Dallas, Eagle Pass, Edna, El Paso, Garland, Houston, Killeen, Lubbock, Midland, Plano, Rio Grande City, Victoria and Wichita Falls.

These teachers return to their classrooms in the fall better prepared and formally trained to incorporate fundamental principles of economics into their own courses. The teaching objective of the AEI: to prepare selected teachers throughout the state to be better prepared to implement the newly enacted Texas legislation requiring schools to develop comprehensive economics programs for all grade levels.

—Richard Anderson
Associate Professor of
Economics
Texas A&M University

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