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THOMAS R. SAVING NAMED CENTER DIRECTOR

Dr. Thomas R. Saving, professor and head of the Department of Economics at Texas A&M University, has been named director of the Center for Education and Research in Free Enterprise, effective January 1991. He will succeed Steve Pejovich who has directed the Center since 1981. Saving has been a professor at Texas A&M since 1968 and has been head of the economics department since 1985. He is also chairman of the board of RRC, Inc., an economics and management consulting firm with headquarters in Bryan.

Professor Saving received his Ph.D. from the University of Chicago in 1960. Before joining the Texas A&M economics department, he served on the faculties of the University of Washington and Michigan State University where he became a professor of economics in 1966.

Tom Saving has had a distinguished academic career. He has published more than 30 articles in the principal economics journals and has made major contributions in several areas of economic analysis. His book *Money, Wealth, and Economic Theory,* with B. P. Pesek, 1967, set forth the theory of the real balance effect, which was one of the underpinnings of modern monetary theory, a field in which Saving has written extensively. Other areas in which Saving has made important contributions are antitrust economics, the theory of the banking firm and the general theory of the firm and industry. He has done economic studies of the trucking and the dental industries. Professor Saving has served as a consultant on the economics of certain legal proceedings to the General Motors Corporation, United States Steel Corporation, Brown and Root, Santa Fe Railroad, Transco Energy Company and the Olin Corporation.

Professor Saving is held in high esteem by his colleagues throughout the nation. He was president of the Western Economics Association, 1971-72, and the Southern Economics Association, 1980-81. He has served as a referee or as a member of the editorial board of all of the major U.S. economics journals. He received a Ford Foundation Faculty Fellowship in 1970-71, and is listed in *Who's Who in Economics: A Biographical Dictionary of Major Economists.* He has, throughout his academic career, received several research grants, including five from the National Science Foundation.

In addition to his own scholarly publications, Saving has directed 40 Ph.D. dissertations during his 22 years at Texas A&M, more than any other faculty member in the economics department. His Ph.D. students have had successful careers in research and teaching in universities throughout the nation as well as in both government and private sector occupations. One of Tom's primary contributions to the Department of Economics and to Texas A&M has been developing new, young faculty members and assisting them in beginning their academic research. Many now successful professors owe much of their academic success to Tom Saving's help and advice early in their careers.

Tom and his wife Barbara live at 1402 Post Oak Circle in College Station. They have two children, Jason, a senior honors student and economics major at Rice University, and Nicole, a sophomore at Baylor University.

Continued on next page

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TWO RASPBERRIES FOR THE BUDGET AGREEMENT; WE HAVE TO SHOW WHO'S BOSS

If the White House and Congress can't come to a budget agreement, the Gramm-Rudman-Hollings Act mandates a sequester of about $100 billion in across-the-board cuts from the 1991 budget. Big spenders in the White House and Congress have used scare tactics to soften Americans up for a tax increase. Congress and the White House warn that a $100 million sequester would hurt essential services like air traffic control, postal services, prisons and military pay.

This is a vicious and unscrupulous hoax. It's like me telling my wife we have to cut expenditures by $800 a month in order to bring our budget into balance, and she says, "OK, Walter, we're going to have to live outdoors and eat beans." In the meanwhile, she plans to continue spending money updating our record collection, buying jewelry and fitting herself with a new designer wardrobe. At best, that would demonstrate a real priority problem; we might describe it as vicious extortion.

It's the same thing with Congress and the White House. They say Americans must make great sacrifices, but through the Export-Import Bank they will continue giving $400 million in handouts to Boeing, General Electric, Westinghouse and the Bechtel Group. If we went to a sequester, our leaders warn of cutbacks in military pay. That way Congress can continue funding the Rural Electrification Administration, created in 1935 to bring electricity and telephone services to the nation's rural areas. Even though 99 percent of rural residents have electricity and 96 percent have phones, the Rural Electrification Administration spends $2 billion each year.

With media complicity, Congress and the Bush people will tell us we need to raise taxes so they can continue funding an unending list of nonsense like: $2.1 million to survey American sex habits and attitudes; $700,000 for the Census Bureau to count trees, shrubs and ornamental flowers; $6.4 million for a Bavarian-style ski resort in Idaho; $170,000 for a Dunkin' Donuts store in Lawton, Okla.; $11 million to construct a harbor for private pleasure boats in Cleveland; and $6 million in handouts for beekeepers.

There is virtually no end to this type of congressional rape of the taxpayer. But to add insult to injury, our politicians tell us they cannot live up to the mandates of the Gramm-Rudman-Hollings Act, limiting the 1991 budget deficit to $64 billion, unless they gut essential government services, or we cough up more of our earnings. They have a real priority problem.

Gramm-Rudman-Hollings provisions spare us from cuts in a number of mismanaged and waste-ridden programs, such as Social Security, Medicaid, food stamps and interest payments. You might wonder why Congress would cut essential services or raise our taxes before cutting the nonsense. The answer is simple: If they reduce your take-home pay by $20 a week or raise the tax on your beer, what are you going to do? I guess, and they guess too, you'll do nothing but gripe. If Congress cuts back on air traffic control, causing long flight delays, what are you going to do? You're going to sit on the runway and gripe.

What if Congress cuts handouts to Boeing and beekeepers? Those people are well informed and organized. They'd have their political action committees and lobbyists breathing down the neck of Congress before sundown. If Congress doesn't do their bidding, they can make political life, not to mention campaign budgets, miserable.

The average taxpayer doesn't have this kind of clout, but we don't have to sit idle for unending lies from Congress. We don't have to get organized either. We can prepare a November surprise by simply voting out every single incumbent. Show them we're the boss.

—Walter E. Williams

Walter E. Williams teaches economics at George Mason University. His column is distributed by the Heritage Foundation with whose permission we reprint this article.

From page one

Tom has several hobbies. Among these are travel with Barbara, skiing with Jason and Nicole, and swimming by himself. Tom is also an avid basketball player—he plays enthusiastically and aggressively, but rather slowly.

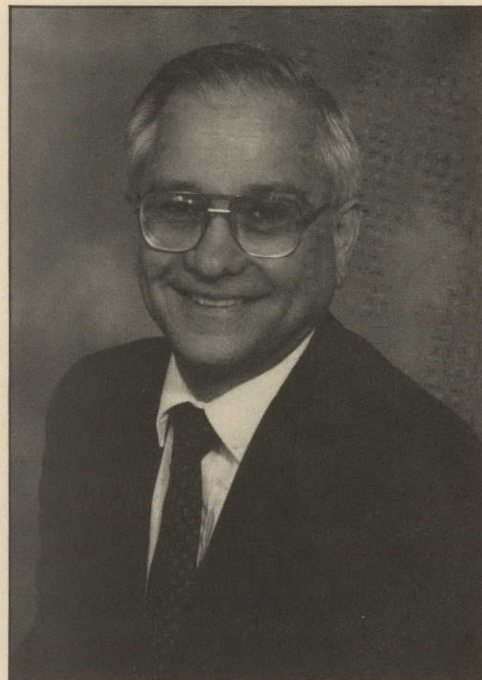
We welcome Tom Saving as the new Center director and wish him well in this new challenge. We are certain that the Center will continue to prosper and grow in prestige under his direction.

—Charles Maurice
Steve Pejovich

BUSH IS BURNING THE MANTLE HE INHERITED FROM REAGAN

President George Bush, Senate Minority Leader Bob Dole (R-Kan.), and House Minority Leader Robert H. Michel (R-Ill.) are doing a good job of convincing voters that there is no difference between a Republican and a Democrat. They participated in and endorsed a budget agreement that would break the no-tax-rise campaign promise that transferred Reagan's mantle to Bush and distinguished Bush from his Democratic rival.

The economics of the budget agreement are equally absurd. None of the participants has explained how raising taxes can ward off recession. Theory, logic, and empirical facts played no role in the agreement. The agreed level of budget savings is based on deception. The government is withholding revised economic assumptions that it expects to release in November in order to claim $500 billion in deficit reductions. But government officials who oppose this deception have given me a copy of the revised forecast. The revised assumptions eliminate 40 percent of the claimed deficit reductions. Indeed, the downward revisions in real economic growth for 1990 and 1991 wipe out all but $8.1 billion of the $133.8 billion tax increase, along with $72.6 billion of the claimed outlay reduction for 1991-95.



Thomas R. Saving

This revelation alone is compelling evidence that Housing and Urban Development Secretary Jack F. Kemp, House Minority whip Newt Gingrich (R-Ga.), supply-side economists, Keynesian economists, and practically all economists in the country are correct to emphasize that a pro-growth budget is the only way to contain the deficit in a weakening economy. If it takes only two years of lower-than-projected growth to wipe out the revenues from a five-year tax increase, it is obvious that a recession will drive the red ink to new heights.

Pyrrhic Victory. If the "bipartisan budget agreement" had been produced in a parliamentary democracy, the government would have had to resign for gross incompetence. In America's democracy, however, an opposition that controls Congress fattens on the woes of the party in the White House. By signing on to a budget strategy that ignores the weakening economy, Bush acquiesced in his own demise.

Perhaps it is just as well. The primary goal of the Republican Establishment, which Bush represents, is to obliterate the unique accomplishment of Ronald Reagan: a record economic expansion without any rise in the rate of inflation.

In the end, the Establishment may succeed in tarnishing Reagan, but it will be a Pyrrhic victory, which all of us will pay for.

Allegedly, the legacy of Reagan's tax cuts is persistent budget deficits that are destroying the economy. Reagan's real sin, however, is not deficits, which never before caused a ripple within the Beltway, but his having wrested the nomination and the party from the patricians accustomed to ruling the Republican roost. Moreover, he did so easily and survived every effort of the media and political Establishments—including those within his own government—to destroy him with scandal and controversy.

Old Canard. Now, the deficit will be continued indefinitely, nurtured by bad policy and high spending. During the first 11 months of fiscal 1990, federal outlays were $133 billion above the corresponding months of 1989.

A decade of budget deals has left the deficit untouched. Yet one continues to hear that the deficit is the legacy of the Reagan tax cuts' failure to pay for themselves. This oft-repeated assertion has no basis in fact. To begin with, Reagan's Economic Recovery Tax Act of 1981 explicitly assumed that every dollar of tax cut would result in a lost dollar of revenue. That's the only assumption the Treasury Dept. has ever allowed any government to make about tax cuts. What this means, of course, is that the Reagan Administration over-predicted the revenue loss from its tax cut.

There have been many studies that bear this out, and none that doesn't. For example, in his recently published book, *The Growth Experiment,* Lawrence B. Lindsey shows that the Reagan tax cuts initially accounted for 30 percent of the deficit and that higher spending accounted for 70 percent. But by 1987, higher spending accounted for 100 percent of the deficit.

Moreover, Lindsey shows that the reason the tax cuts contributed to the deficit was that they broke the back of inflation more rapidly than expected and deprived the Treasury of revenues from an inflated tax base. I have independently documented this fact, both in published writings and congressional testimony. A 1987 study from the Treasury Dept. showed that there is no "structural deficit" as a result of the 1981 tax cut. Public policy in a free society with countless media voices continues to be distorted by repetition of a decade-old canard.

This is the 10th year of budget deals, and so far—except for 1987, when Reagan achieved a near budget freeze—the only thing that has reduced the deficit has been economic growth, now jeopardized by Bush's abandonment of Reaganomics. Despite the dismal record of budget deals and higher taxes, the politicians expect us to believe their story one more time.

—Paul Craig Roberts

Paul Craig Roberts is chairman of the Institute for Political Economy in Washington, D.C. Reprinted from the October 22, 1990, issue of Business Week, *by special permission, 1990, by McGraw-Hill, Inc.*

DEPOSIT INSURANCE SYSTEM WAS CULPRIT IN S&L MESS

Where was the press when the savings and loan industry got into its current mess? A financial press that prides itself on its hard-nosed, investigative journalism did little to bring the deteriorating condition of the industry to light. Washington is crowded with reporters, yet, when their opportunity came, the financial press mishandled it.

For years, economists have pointed to the flaws in the deposit insurance system that encourages S&L managers to take high risks when their equity position is low. As S&L failures developed, these alarm bells were ringing more and more frequently. Conferences and books developed the theme. Members of Congress, the press and the regulators participated at many of these conferences. Still, little was done to bring the problem to public attention or to correct it.

By the mid-1980s, some economists at the regulatory agencies produced regular estimates of the growing magnitude of the losses. By 1985, many S&Ls had sustained losses so large that they were technically insolvent. One economist, Edward Kane, coined the term "zombie S&Ls" for the associations that, though insolvent, were kept in business by the regulators and ignored by Congress and the financial press. Congressional investigations seem designed to persuade the public that the massive losses imposed on the public came about because of the corrupt, criminal or unethical behavior of some slick operators.

The slick operators were part of the problem, but a small part. A careful study of the losses by Alexandria, Va., thrift consultant Bert Ely, an expert on the industry, found that fraud was responsible for losses of $5 billion out of the nearly $150-billion cost to the taxpayers. Add $3 billion for losses on junk bonds and another $3 billion for losses on non-real estate investments. These losses together are about 7 percent of the total cost. And, some of the losses on junk bonds and non-real estate investments are the result of honest mistakes, choices that can be criticized only with hindsight.

Ely's estimate may be off the mark. Suppose the losses from bad judgment, fraud and chicanery are 10 percent of the total. Add another $5 billion for Ely's estimate of the excess cost of the hasty 1988 sales of S&Ls that some in Congress are investigating diligently. More than 81 percent of the losses have other causes. Why are they ignored?

I am not opposed to congressional investigation of fraud. Far from it. It is important to know why, how and by whom the public was defrauded. The Justice Department is also investigating these cases and properly so.

My objection is that by focusing exclusively on the 7 percent to 10 percent, Congress ignores the bulk of the problem and does nothing to avoid a repetition. The press contributes by giving the public the impression that Congress is hard at work learning who is to blame, avoiding a repetition and developing a safe and sound financial system.

The unreported story is a tale of administrative failure, regulatory failure, failure of congressional oversight and, most of all, flawed institutions. The arrangements, designed to protect the public from the consequences of bank failures, didn't work as intended. True, the banks and S&Ls didn't shut their doors, wiping out the depositors' accounts. But that is not much consolation to the average taxpayer who will pay about $1,500 for his or her share of the losses.

Deposit insurance began as a program to protect small savers against bank runs—attempts by depositors to get their money out before a bank failed. When deposit insurance began in the 1930s, insurance was limited to $2,500 per depositor. In today's depreciated dollars that would be about $25,000, an amount far above the amount held by most depositors.

Over time, the limits were raised. By the mid-1980s, accounts were insured to $100,000. And when banks or S&Ls were about to fail, regulators would usually protect all depositors without any limit at all. For large banks, the doctrine became "too big to fail." Everyone was assured that the government or regulators would not allow a big bank to fail, no matter how unwise or risky its lending practices. This policy encouraged risk taking and, ultimately, large losses.

Of course, the regulators examined and supervised banks on a regular basis. As we know from successive rounds of defaults on Latin American debt, real estate loans, energy loans and loans for leveraged buyouts, supervision and examination are weak reeds on which to rest the safety and soundness of the financial system.

Something is rotten in our system. If we look north to Canada, east to Europe or west to Japan, we do not find anything comparable to our experience. Few of these banking systems have experienced problems of failure and costly bailouts by taxpayers. These countries, too, have endured oil shocks, rapid disinflation, real estate booms and the like. But so far only U.S. taxpayers have ended up bailing out large parts of the financial system.

Real financial reform will not come until large depositors have an incentive to monitor what their banks do, just as they monitor the credit-worthiness of other parties who owe them money. It would be difficult and costly for small depositors to do the same. They could be protected by offering them the option of keeping their deposits in accounts that are completely secured by Treasury bills—direct obligations of the federal government. Such accounts are available now at some money market mutual funds.

The Treasury Department will present a plan for deposit insurance reform this winter. Early rumblings from the Treasury suggest that their proposals for change will be modest, little different than current practice. They seem likely to keep deposit insurance as it is and promote better supervision, more capital and more careful examination. This would be more of the same—a repeat of the past mistakes that helped to produce the current failures.

—Allan H. Meltzer

Allan H. Meltzer is a professor of political economy at Carnegie Mellon University. Reprinted by permission of the author.

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This will be the last issue of the *Pathfinder* under our co-editorship. We want to thank all of the scholars at Texas A&M, throughout the nation and the world, who have written articles for the *Pathfinder* at our invitation and who have given us permission to bring their previously published work to the attention of our readers. We also wish to thank the many readers who have written us—sometimes praising certain pieces and sometimes disagreeing with us. Although we have heard from many distinguished scholars, including Nobel Prize winners, we particularly enjoyed and benefitted from the letters from economics teachers in our secondary schools. These are the people who have done the most to reverse a trend and to begin to turn our nation into an economically literate society. Judging by the many teachers we have met, particularly at American Economy Institutes, we are certain that this trend toward economic literacy will continue and will become even stronger. We strongly believe that knowledge is the pillar of economic freedom.

We have enjoyed immensely the past seven years as editors of the *Pathfinder.*

—Steve Pejovich
Charles Maurice

SOVIET FINANCES DIFFER

Keith Miles, Institute of Economic Affairs, notes, "In October 1988, Soviet viewers could listen to an intriguing dialogue between Prime Minister Rhyzkov and Finance Minister Gostev during a partly televised cabinet meeting.

Rhyzkov: How does it (a loss maker) make ends meet then?

Gostev: It makes ends meet through indebtedness. They simply go to the bank and there they are given money.

Rhyzkov: But who gives them money?

Gostev: The money is released by the bank.

Rhyzkov: But then what is wrong with the bank?

Gostev: The bank works mainly according to the commands of local Soviets and party bodies.

Unidentified voice: How interesting!

Rhyzkov: Is this a joke or in earnest?

Gostev: No, this is not a joke. I am being serious here.

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Svetozar Pejovich, Director
S. Charles Maurice and Svetozar Pejovich, Editors

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EDUCATORS CALL FOR SCHOOL CHOICE

Parents should have the right to choose which schools their children attend according to a task force of educators, including faculty members at 10 Texas colleges and universities.

The task force report, published by the National Center for Policy Analysis in Dallas and the Texas Public Policy Foundation in San Antonio says Texas ranks near the bottom among the states in student achievement, in preventing high school dropout and in the literacy of its adult population.

"We have a crisis in education that demands radical reform," said NCPA president John Goodman. "We're spending almost $14 billion dollars a year—about $4,600 per student—and we're not getting our money's worth under the current system. Texas lags behind the nation and the nation lags behind most other developed countries in student achievement."

According to the task force recommendations:

- Parents of children who fail the state's tests of minimum basic skills should have the right to choose to send their children to any public school or any accredited private school.
- The school of choice would receive state funds and local school district funds equal to the average spending per student in the district where the parents reside.
- Ultimately, all parents in the state would have the right of school choice.

The report says there is a nationwide movement toward school choice, including statewide choice plans in Minnesota, Iowa, Nebraska, Ohio and Arkansas.

"Freedom of choice in New York City's East Harlem and in Cambridge, Mass., has greatly improved the schools and led to much higher student achievement," said Goodman.

The task force included faculty members at Southern Methodist University, the University of Texas at Dallas, the University of Texas at Arlington, University of North Texas, Baylor University, West Texas State University and St. Mary's University (San Antonio). Also participating were John Chubb of the Brookings Institution; David Hicks, headmaster of St. Mark's School in Dallas; and Linus Wright, former superintendent of the Dallas Independent School District and former Undersecretary of Education for the U.S. Department of Education.

—National Center for Policy Analysis

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