Pathfinder

CENTER FOR EDUCATION AND RESEARCH IN FREE ENTERPRISE
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THE MODEL IS MARKET, NOT MARXISM

The most remarkable event of our time is the recognition by the Soviet Union, at its highest levels of government, that Marxism is inferior to the market as a system for producing goods, providing economic development and enhancing living standards. This recognition comes as no surprise to the people of Eastern Europe, but it may be a surprise to many in the West.

At least since the end of World War II, university courses on economic development have treated the Marxist system as an alternative to the market system, to be discussed and considered seriously. Countries could choose state ownership and planning or private ownership and the market system to achieve growth and higher living standards. If they chose capitalism, they could get growth but faced recessions and the disorder or chaos of the marketplace. If they chose Marxism, they got planning and direction to achieve orderly growth.

Influenced by these arguments, in the 1950s and '60s many countries, particularly in Africa, chose state planning, direction and ownership. Others in Cuba, Eastern Europe, China and North Korea had comprehensive planning imposed on them.

Many intellectuals in the 1940s and '50s expected the economic performance of the planned economies to exceed that of the market economies. They talked about the maturity of the capitalist system, the tendency toward stagnation under capitalism and the virtues of comprehensive planning, much as their successors in the 1960s talked about the greening of America and their successors in the 1980s now talk about America in decline.

There was some factual basis for the earlier comments. The inter-war experience of the democratic market economies included the slow growth of the 1920s and the severe depression of the 1930s. While the experiences differed from country to country, few had the sustained growth that has been the common experience of the years since World War II.

Some of the more perceptive proponents of state ownership of industry or state planning recognized that among the virtues of capitalist market economies are their greater freedom and respect for individuals. Often, they were willing to trade these freedoms for the utopian vision of a "new man" that was supposed to emerge from the Russian, Chinese, Cuban or other experiment that captured their fancy at the time.

Looking back after 40 years, the records of market and planned economies are very different. There was no trade-off. Those countries that produced the greatest increases in living standards also had more freedom and, in several cases where freedoms were restricted, market economies are moving now to eliminate some of the restrictions and to permit movement toward democratic government.

The clearest comparisons come from differences between such countries as East and West Germany, North and South Korea, and China and Hong Kong or Taiwan where people have the same language, culture, history and background. These comparisons are as close as we are likely to come to planned experiments in the social sciences.

In each case, the achievements of the market economies so far outstrip those of the planned

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economies as to leave no doubt about the results. And the achievements of the market economies are dramatic. Those—mainly Cantonese Chinese—who swam to Hong Kong now have more freedom and per-capita incomes that are at least six times the incomes of the relatives they left behind and more than 20 times the average for mainland China as a whole. The South Koreans, who inherited the poorer, less-developed part of their peninsula and fought a destructive war, now have incomes at least three to four times the incomes of their northern cousins and have moved toward a more Western-style democratic government.

To these clear cases of countries with common language and culture, we can add the experience of countries with "socialism" in all its varieties. Whether it is Burma, Cuba, Poland, Ethiopia, Vietnam or any of the many forms of African or Eastern European socialism, the results are similar. Progress in raising standards of living is poorer than in the market economies and, too often, non-existent. Several have gone backward. None has democratic government.

The comparative economic performance of market and socialist economies has had dramatic effects. No rational person can any longer believe that Marxism and the market are alternative modes of development to be compared, weighed and balanced. What seemed to be a major challenge in the early postwar years should no longer be discussed or debated. The market system, and some form of capitalism, is the recognized path to development. Not everyone chooses that path, but their failure to do so is not based on conjectures about finding a superior alternative.

One can imagine a pragmatist like China's Deng Xiaoping comparing the experience of China after 1949 to that of its neighbors in Japan, South Korea, Taiwan, Hong Kong and Singapore. Might he not have concluded that he had been reading the wrong books—that Marx and Mao had not provided a valid alternative to the market system and that it was time to recognize the reason for the different results and to change? Whatever the reason for change following Deng's decision to reintroduce the market system, Chinese living standards rose dramatically.

The example has not been lost on others. We have seen the market system and the system of individual incentives spread in countries as different as India, New Zealand and Hungary, where they were once rejected in whole or in large part. Even the Soviet Union has started to talk out loud about the failures of state planning and the virtues of the market.

Imagine what would have happened if the reverse had been true. Suppose that countries in various parts of the world were now actively discussing or moving toward centralized planning and the Soviet model of centralized resource allocation.

Would the discussion fail to point out that the United States was becoming increasingly isolated, that the "socialist" model had been shown to be an equal or superior mode of development? Is it not, then, a major achievement for the United States and other market economies that some type of market system and system of private incentives is now seen as a requisite for more rapid growth and development? Should we not conclude that our system—capitalism—despite mistakes, has worked, not perfectly, just better than any alternative and far better than the critics of capitalism recognized before or after the fact?

—Allan H. Meltzer
J. M. Olin Professor of Political Economy and Public Policy, Carnegie Mellon University

Dr. Meltzer is the 1989 Visiting Kirby Professor at Texas A&M. This article originally was published in The Los Angeles Times, *January 8, 1989.*

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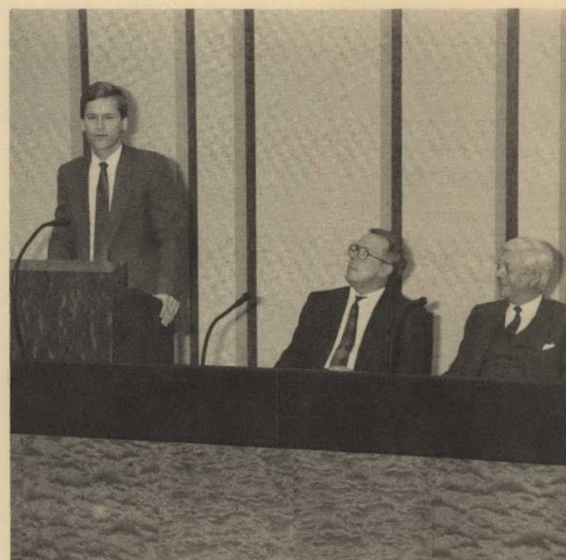


Steven N. Wiggins, associate professor of economics and former Rex Grey Professor at Texas A&M, lectures at the University of Frankfurt.

CONGRESS DISGUISES A TAX

Stymied by the deficit and widening resistance to tax increases, Congress has invented a new form of deceit: mandated benefits. Congress wants to require employers to provide health care coverage to 30 million currently non-covered employees. This is sleight-of-hand taxation. Look at it. Suppose Congress wanted to give $100 to your neighbor. It could tax you, then send a check to the neighbor. It might just as easily decree that you walk across the street and personally hand over the neighbor's $100. Either way, you're out the $100. The only difference is: With the mandate approach, the federal spending appears to be $100 lower.

Mandated benefits will increase labor costs. If you think mandated benefits mean only lower profits, you might be a supporter. But let's pry deeper. When labor costs rise, the long-run response is for employers to seek ways to get around the higher cost, since you and I prefer lower prices, and stockholders like the resulting increased dividends from more profits.

Faced with higher employment costs, businesses will seek to hire highly qualified employees whose productive output is worth the added cost. Thus, mandated benefits will have an adverse employment effect on the least-skilled employee. Furthermore, since Congress cannot mandate employment benefits in the Republic of China (Taiwan), Hong Kong and Singapore, U.S. businessmen will have a greater inducement to locate all, or part, of their operations overseas. All of this means the U.S. economy will become more like the stagnant European economies where labor laws such as Congress is contemplating for us already are in place.

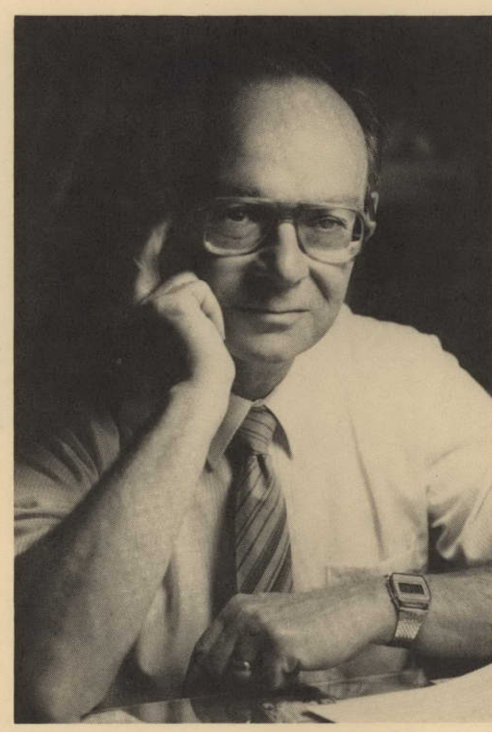
But let's not put all the blame on Congress. The medical profession supports mandated benefits because they earn more business for doctors. Doctors can charge higher prices for medical services and reap a higher income. But why do some big companies support mandated benefits? As it turns out, many already are facing increased health care costs. Larger businesses will be pleased to see their smaller competitors stuck with higher costs, since this will allow the big companies to raise prices. By the same token, labor unions support mandated benefits because they up the costs in the non-union sector.

Despite what any of us might think, congressmen are not stupid; they know that nothing is free, that somebody pays the cost. Congress knows that the beneficiaries of mandated benefits are vocal and visible, while its victims are invisible. In the hardball of the political arena, you pay attention to vocal "visibles." Labor unions, the doctor's union (better known as the American Medical Association) and big businesses contribute megabucks to political campaigns. Low-skilled workers and small businesses contribute less.

Underhanded tax increases by Congress, together with its sneaky attempted 50 percent pay raise, vindicate what my grandmother always said: "You can't lock up from a thief." A Constitution is important, but it does little good when men of little character, little ethics and little understanding are entrusted with its protection.

—Walter E. Williams
Professor of Economics
George Mason University

ALLAN MELTZER VISITS CAMPUS MARCH 6-10


Allan Meltzer

Allan H. Meltzer, 1989 Visiting Kirby Professor at Texas A&M, was at the University March 6-10 where he presented three formal lectures on the October 1987 stock market crash, macroeconomic theory and policy, and public finance.

He met with graduate students and faculty members, particularly those who are doing research in his major areas of interest. Meltzer also visited Daniel Fallon, dean, College of Liberal Arts; Donald McDonald, provost; and William H. Mobley, president of Texas A&M.

On March 9, Meltzer and Dr. Leonardo Auernheimer, associate professor of economics, dined at the Houston home of Mr. and Mrs. George Peterkin, long-time supporters of research and education at Texas A&M. Meltzer gave his views of the activities, plans and programs of the Department of Economics at Texas A&M to the Peterkins and their dinner guests including Robert Brito, holder of the Peterkin Chair in Economics at Rice University.

Dr. Gary Trennephol, professor and head of the Department of Finance, said "Dr. Meltzer is extremely knowledgeable on many topics of current interest to the finance profession. His delightful personality and quick insights greatly benefited our students and faculty and we appreciate your (the Center's) willingness to share his time with us."

Dr. T. R. Saving, professor and head of the Department of Economics, told the Center, "There is no doubt in my mind that Professor Meltzer's visit was of significant value to the University in general and in particular to the faculty and students of the Department of Economics. We appreciate the opportunity to host his visit."

Meltzer is J. M. Olin Professor of Political Economy and Public Policy at Carnegie Mellon University and was a recent member of the President's Council of Economic Advisers. Meltzer is a distinguished scholar, specializing in macroeconomics and international finance, and has many publications in all areas of economics and finance.

OUT OF BALANCE

It's odd to find myself coming to the defense of Congress, but our representatives have taken a lot of undeserved heat from inside-the-Beltway elitists for voting down that pay raise.

The pay raise proposal, which would have paid members of Congress half again what they make now, was issued by the Commission on Executive, Legislative, and Judicial Salaries, and would have gone into effect automatically February 8, unless both houses of Congress voted it down. House Speaker Jim Wright reportedly planned to prevent the raise from being voted on, but he backed down when it became clear that the American people were almost unanimously opposed to the proposal.

"The people are the problem," sniffed New York Times columnist Tom Wicker, who condemned the public's "blind and often irrational opposition to paying public officials salaries commensurate with their responsibilities. The result is democracy at its worst."

Now, maybe I'm naive, but I thought it was democracy at its best when the Congress listens to the people and votes to reflect their sentiments. Isn't that why they call it the House of *Representatives?*

What was scandalous about the pay hike episode was not that the raise was rejected, but that it took so much public pressure even to bring it to a vote. Many in Congress wanted the raise but few wanted to take the heat for voting for it.

Unfortunately, it is all too common for Congress to delegate its authority—and, more important, its responsibility—to independent agencies. Since the Interstate Commerce Commission was established a century ago, Congress has created an alphabet soup of panels, boards, councils, commissions, and agencies: the FCC, FTC, CAB, NRC, ITC, OSHA, HLBB, FEC, FDIC, SEC—the list goes on.

To be sure, some of the policies the commissions set forth are beneficial. For example, a law passed last year created a commission to select obsolete military bases to be closed down, cutting the Pentagon budget without damaging our national defense. Yet the commission was only necessary because members of Congress were unwilling to take the heat for closing bases that employ their constituents. (This in spite of studies that have found closing obsolete bases is good for the local economy in the long run.)

In the new book "The Imperial Congress: Crisis in the Separation of Powers" (Pharos Books, New York), Nolan E. Clark points out that these independent commissions are "in large part independent from the president, Congress, and the courts." Except by impeachment, members of these agencies cannot be removed from office by Congress, and the president is barred from firing them by a questionable 1933 Supreme Court ruling. Thus, independent commissions ultimately answer to no one, and are an affront to representative democracy and our system of checks and balances.

Clark points out that it can actually serve the interests of Congress for the independent agencies to be ineffective. "When a regulatory failure has been spotted, the members of the [congressional] oversight committees can write letters, give speeches, hold oversight hearings, and pass appropriation riders," all to increase their visibility and popularity with constituents.

Clark calls on President Bush to challenge the 1933 Supreme Court ruling by firing any agency head who balks at carrying out his policies. Congress would still maintain its power—if it disagrees with the president's policies, it could pass new laws reversing them. But it would have to take responsibility for its actions.

"Only if the president takes steps to see that the independent regulatory agencies cease to be independent," writes Clark, "can the constitutional system of regulation be restored."

—**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.

Dr. Buchanan's comments on "Payments to College Football Players Are Not Necessarily Bad."

21 March 1989

Professor Svetozar Pejovich, Director
Free Enterprise Center
Texas A&M University
College Station, TX 77843-4231

Dear Steve:

Commendations on the little piece by you and Charles Maurice on the university athletic "scandals" published in the current issue of *Pathfinder.*

The points made are indeed simple ones, and ones that are familiar to all economists.

But, to the media and to the general public, it will appear "shocking" to defend the practice of violating cartel rules.

In order for your message to get across, we need continual repetition and reminder that the NCAA is indeed a price-fixing cartel that effectively squeezes rents out of young and talented athletes. The cartel is especially effective, of course, because no single member can opt out, as would be the case with firms that produce goods. A university athletic program, to be effective, requires a *league,* with at least several members.

This last point suggests a possible reform that would work wonders. Since the NCAA has now dealt harshly with SMU, Oklahoma, Oklahoma State, Texas A&M, Texas, Houston, Texas Christian, Virginia Tech, Florida, Kentucky, and several other major programs—why not organize a new league among these violators? Why not encourage these "criminals" to set up shop outside the NCAA, pay their athletes at least some share of the rents they earn, and shift university athletics toward honesty and integrity?

Or, must we continue to live with the hypocrisy that those who are the exploiters are those who do good?

Sincerely yours,

James M. Buchanan
Advisory General Director,
Center for Study of Public Choice,
George Mason University
Nobel Laureate in Economics, 1986

CFE DIRECTOR'S ACADEMIC SCHEDULE

Dr. Steve Pejovich will be on the road most of the summer attending various conferences at which he will represent the Center for Free Enterprise.

Dallas, Texas, May 4-7, 1989

Liberty Fund Symposium on Liberty, Institutions and Innovation, directed by CFE.

Steve Pejovich, conference director, will present one of the major papers. Participants will include distinguished scholars from the United States—three from Texas A&M—Eastern and Western Europe and South Africa.

Interlaken, Switzerland, May 14-19, 1989

Interlaken Conference on Ideology and Power, directed by Karl Brunner, University of Rochester. Pejovich will present a paper.

Freiburg, Germany, May 27-30, 1989

The Third Hayek Symposium on Knowledge, Information and Competition, directed by CFE and the Walter Eucken Institute. Pejovich will present a paper.

Seville, Spain, July 20-23, 1989

The International Policy Forum Board of Governors Conference, directed by Morton Blackwell, Atlanta. Pejovich will present a paper.

Boston, Mass., August 18-20, 1989

Liberty Fund Conference on Market Economics and Eastern Europe, directed by CFE.

London, England, August 25-29, 1989

International Conference on Liberal Democratic Society, directed by M. Kaplan, University of Chicago, and R. Michener, Princeton University. Pejovich will present a paper.

Main street in Leningrad.

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Sid Carr, Publications Editor

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SOVIET UNION STILL FAILS TO COMMUNICATE

KIEV, U.S.S.R.—This is the story of an American journalist searching for *perestroika* in the snows of Kiev.

My search for some modern means of communication starts early in the Ukrainian capital. I'm trying to find a means of sending my column to the United States. After some conversations, the women in the Hotel Rus, one of the best in the city, tell me that, yes, they do have a telex machine. They even drag me down to it. It is an ancient machine in Latin and Cyrillic. The czars must have loved it. I continue my search.

How about dictating by phone? I ask. There is one phone in the lobby to call Moscow. It takes 15-kopek coins only. No, the hotel does not have any 15-kopek coins. May I call from my room? That will take hours, they say smiling.

How about the international phone, which is also a single phone standing forlornly in the lobby? It doesn't work either, the Intourist guide tells me. I insist upon trying Moscow anyway. The hotel gives me three different codes before I finally get through.

Let us pause here in my humble search to remind the reader that Kiev is not remote Samarkand or Bukhara. Commercially, Kiev is the second city of the Soviet Union—Moscow's "Chicago."

And yet there are virtually no means of communication with the outside world! In an age of beepers, computers, modems and the movement of billions of dollars in seconds across the airwaves, Kiev awaits modernity behind its curtain of swirling snow.

At a meeting in Moscow with some of the chiefs of the official Novosti Press Agency, American journalists asked whether the Gorbachev people pushing the opening and restructuring of Russia were really ready for Russians to have their own personal computers or modems.

"We're not just prepared; we are willing to have it," Vsevolod Marinov, a senior sociologist working with Novosti, told us.

But the Russian lack of the most basic methods of transmitting information, their fear of them, and their unwillingness to risk the political freedom that goes ineluctably with a free flow of information are at the very heart of their failure to develop economically in recent years.

Several years ago, for instance, they installed a direct-dial phone system in Moscow. When they found that journalists were using it to telephone dissidents, the government shut it down. Even more important a decision in 1962 to cancel the computer division of the Academy of Sciences led directly to the backwardness in all computer levels today.

"They have reached a plateau of industrial achievement," Majid Tehranian, an expert on the information society at the University of Hawaii, told me. "To move from this plateau to the next, they have to make a quantum leap. And that means restructuring not only the economy, but politics."

The first industrial revolution happened alongside print technology, and it demystified the church and the monarchies while pushing ahead the information-intensive bureaucracy. The second industrial revolution, which we are in the midst of today, depends on computers, information storage and robotization.

So the conundrum that Gorbachev faces in modernizing his economy comes to sharp focus in the exchange of information.

"Unlike previous leaders, Gorbachev has concluded he couldn't modernize the economy without modernizing society," one senior Western official explained. But the Soviets still can't get over their political fear of free information—and of their people knowing things that could politically liberate them.

Postscript: I never did get the column sent from Kiev. The biggest hotel, the Dnieper, did not have a telex at all. So I finally sent it later via the new electronic fax system an American company had set up, amazingly, in the lobby of Moscow's Hotel Intourist. The senders were very proud of it. They told me it was the first newspaper article they had sent.

—Georgie Anne Geyer

Georgie Anne Geyer writes for United Press Syndicate. This article first appeared in the Columbus Dispatch *in December 1988.*

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