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Pathfinders

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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THE SOVIET ECONOMY: PART 3

In two earlier installments on the Soviet economy we discussed the Soviet political structure, the system of planning, the role of the Soviet manager, and the differences in the standard of living between the United States and the Soviet Union. In this concluding part, we discuss the Soviet economic performance, Soviet agriculture and a few other details concerning the Soviet economic system.

Soviet Economic Performance

The Soviet gross national product (GNP) is about 60 percent of ours. The allocations of GNP in the USSR reflects social and political differences between the Soviet Union and the United States. In Russia, consumption is slightly over 50 percent of GNP compared to over 60 percent in the United States. At the same time, the rate of capital formation in the United States and the USSR are 16 to 18 and 34 percent of GNP, respectively (1983 figures). Soviet military spending is estimated at between 13-15 percent of GNP, while in this country we spend less than 7 percent of GNP on defense. In 1983, the total grain production per person in the USSR stood at 80 percent of that produced per person in the United States, while meat production per person was 55 percent of the U.S. total, and consumption of durable goods was 10 percent of the U.S. figure.

Economic growth is the rate of change in GNP (i.e., total value of final output) from one year to another. An increasing flow of goods and services enhances the nation's well being. Important sources of economic growth are (1) the percentage of GNP allocated for investment (because it adds to the country's stock of capital) and (2) the productivity of capital. Investment is costly because it reduces the percentage of total output (GNP) that is available for private and public consumption. How do we get from investment to growth? Suppose that GNP is \$1,000, the produc-

tivity of capital is 20 percent (that is, one dollar's worth of investments today increases total output by 20 cents per year) and the amount available for investment is \$200. GNP will increase from \$1,000 to \$1,040 (investment of \$200 times .20) which is a 4 percent growth rate. The community will have \$40 worth of goods more each year but the price is \$200 worth of output (20 percent of GNP) in the current year.

The following table shows the average real rate of growth (adjusted to eliminate the effects of inflation on the value of output) in the two countries during four consecutive time periods.

Real Growth Rates

Year	U.S.	USSR
1961-65	4.7	5.1
1966-70	3.2	5.3
1971-75	2.6	3.7
1976-83	2.8	2.6

In the United States, both the average real growth rate and gross investment as a share of GNP have been quite stable since the mid-1960s. The rate of investment has fluctuated at about 16 to 18 percent of GNP. The rate of growth in the USSR has been declining since the late 1960s. At the same time, gross investment as a percentage of GNP has increased from 24 percent in 1960 to 28 percent in 1970, 33 percent in 1980 and 34 percent in 1983. This remarkable increase in total investment (the cost being borne by the Soviet consumer) has not been sufficient to offset falling growth rates. Question: Why is the productivity of capital in the USSR falling? Perhaps rereading the last two *Pathfinders* could give you an answer.

Soviet Agriculture

The average output produced by a Soviet farmer feeds eight or nine people. The average output
continued on next page



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produced by a U.S. farmer feeds 65 people (1981-83 figures). In 1983 the agricultural sector of the Soviet economy employed about 20 percent of that country's labor force. In contrast, in America about 3.5 percent of the labor force is employed in agriculture.

Soviet agriculture is backward in comparison with both Soviet industry and American agriculture. Why? The answer is quite simple: Soviet farmers have little incentive to excel. There are no private farms in Russia. The total agricultural area is split between state farms and collective farms. State farms — numbering about 15,000 during the 1970s — are governed by the same rules that apply to other state enterprises. The Soviet state farm has its production plan. The farm employees are paid wages. True, they might get a bonus for above-plan production but then the farm's production plan will be revised upward and the employees will have to work harder just to meet their production targets.

The main productive unit of the collective sector is the kolkhoz. There were about 33,000 collectives in the early 1970s. The average kolkhoz has about 15,000 acres, about 450 households, some 60 tractors, 1,300 cattle and 1,600 sheep and goats. In theory, the major differences between the state farm and kolkhoz are collective, as opposed to state, ownership; and elected, as opposed to appointed, management. Given the overall control by Party officials, those differences do not really matter.

The kolkhoz has to deliver a predetermined quota of its output to the state at low prices. It is really a tax-in-kind. What is left after the tax is shared by the collective farmers in accordance with the number of days each of them spent in the fields. Some of the output is consumed directly by members and some is sold in farm markets, with the proceeds shared by collective farmers. Thus the total income of collective farmers consists of payments in kind and monetary compensation. In general, farmers' incomes are below the average earnings of industrial workers.

There is also a very limited "private" sector in Soviet agriculture. It consists of household subsidiary plots (about an acre per household) and household livestock holdings. Both collective and state farms' households are entitled to such plots. They do not have the right of ownership in that land — just the right to use it. On those plots households can grow anything they want for their own consumption or to be offered for sale in collective farm markets. They are also entitled to have a cow, two pigs and as many chickens as they want. Those plots account for about three percent of the total agricultural area in the Soviet Union. Yet, they make a significant contribution to the total output in agriculture.

On average, private lots supply about 44 percent of the total income in cash-in-kind received by collective farm families. This explains why the government tolerates the private sector. As bad as their agricultural situation is, it would be much worse in the absence of the private sector. In fact, the performance of the private sector indicates that the major cause of agricultural problems in the USSR is the lack of incentives.

Housing in the Soviet Union

The housing situation is quite critical in the Soviet Union. The quality of buildings is poor, and the supply of housing units is grossly inadequate. Some estimates suggest that about half of all housing in the Soviet Union is without running water or sewerage.

In the mid-1970s, living space per person was about 11 square meters (approximately 120 feet) which is about a fourth that provided in the United States. Yury Krotkov, a Soviet defector, described his Moscow apartment as follows:

"Our apartment contained 11 rooms. It had one kitchen with eight gas-rings, three bells (one general, and two individual), a telephone in the corridor which was in constant use, a bath, and a lavatory, which only the fastest were able to get to in the morning (the others stopped in at the public lavatories on their way to work). There were 18 people in the apartment, besides myself. Seven families, seven meters for electricity, seven tables and cupboards in the kitchen, and seven laundings a month, since none of my neighbors used the state laundries. This was not because they did not like them, but because they were economizing. There was not a single washing machine in the apartment; we have never even heard of a clothes dryer. But there were three television sets and two radios. Furthermore, all 18 people ate at home. They never went to even the cheapest cafeteria, much less a restaurant. Again, it was because of the expense..." Y. Krotkov, *The Angry Exile*, London: William, Heinemann, 1967, pp. 125-127.

Health Care in the Soviet Union

Free medical care is a central element in the Soviet welfare system. If a Russian gets sick he goes to a clinic where he is treated free of charge. The word "free" must be understood. It means that services are not paid for by those who consume (use) them at the time when they are consumed. The cost is born by all citizens via the taxes they pay. Health expenditures for persons in the USSR are only about 34 percent of those in the United States.

An article published in *Komsomolskaia Pravda* (October 3, 1984) describes the quality of the free medical care in the Soviet Union.

"Little Kena Medvedeva (2 years, 9 months) took sick. Within three hours her temperature was already over 40 degrees (104 degrees Fahrenheit) and mama quickly brought Lena to the nearest hospital... where nurse's aide L.V. Marchenko was on duty... Nurse's aide Marchenko called the duty doctor Kuznetsova after about half an hour; the little girl became ever worse, but Kuznetsova did not rush with her help. Most likely poisoning — such was the first in no way confirmed and verified diagnosis. After another 40 minutes surgeon Novikov came, examined Lena and noted that it was hardly anything like poisoning, and as for his surgical side, everything was normal.

But everything was not normal: they decided to send the child to the infection department. An hour had barely passed when nurse V.M. Emelianova, on the advice of the infectionist doctor V.I. Cherepanova, began to do a lavage of Lena's stomach. I note that Cherepanova herself did not examine the girl. Then, understanding that the matter reeks of a court, she proceeded to falsify matters and wrote that at 15:30 she allegedly carried out an examination... At 1800 hours death throes began and in the night Lena Medvedeva died. The post-mortem showed that there was no food poisoning, that they had treated her incorrectly and if you call everything not according to protocol but by its right name, they did not treat her at all, but observed as a child died."

—Steve Pejovich
—Charles Maurice

FEULNER HONORED AS FREE ENTERPRISE MAN OF YEAR

The Center for Education and Research in Free Enterprise at Texas A&M, in cooperation with the Board of Trustees of the Heritage Foundation, held a very special program April 2 to honor Ed Feulner Jr., president of the Heritage Foundation for his accomplishments in advancing the cause of free enterprise and personal freedom in the United States over the past decade.

At a banquet held at the Anatole Hotel in Dallas Feulner received the Center's first Free Enterprise Man of the Year Award for his role as a key player in the world of free enterprise ideas. That Feulner is deserving of the honor is evidenced by the fact that more than two-thirds of the 2,000 specific policy recommendations made by the Heritage Foundation to the Reagan administration in 1981 have now become public policy.

The evening awards program capped off a day of events starting at a luncheon for directors and supporters of the Center and the Heritage Foundation. The speakers at the luncheon were James C. Miller III, chairman of the Federal Trade Commission and Mark Fowler, chairman of the Federal Communications Commission. Next on the program was a jointly sponsored public policy seminar focusing on the economics of the Reagan administration. Attended by over 100 people, the first session, entitled "A Monetarist View of Reaganomics," featured Karl Brunner, Fred H. Gowan Professor of Economics at the University of Rochester and the University of Bern; Rawles Fulgham, executive director, Merrill Lynch Private Capital Inc.; and Thomas Saving, professor of economics at Texas A&M.

The second session, entitled "A Supply Side View of

Reaganomics," took a critical look at the policies of the Reagan administration and evaluated their performance. The Center was happy to have Stuart M. Butler, director, Domestic Policy Studies, the Heritage Foundation; Norman B. Ture, president, Institute for Research on the Economics of Taxation and former undersecretary of the treasury, 1980-81; and Gordon Tullock, Holbert R. Harris University Professor, George Mason University and editorial director, Public Choice Center, George Mason University, as its main participants.

After cocktails, the evening awards banquet, with over 280 friends of the Center and Heritage Foundation in attendance was a smashing success. Invocation was offered by retired Air Force Col. Glenn Jones, then letters of congratulation from President Reagan, Attorney General Ed Meese, Senator Phil Gramm, and Rep. Dick Arney were read.

Master of Ceremonies Mayo Thompson kept everyone entertained with his remarks and quips. Next, Lawrence White, chairman of the Center Board of Directors, and Arthur Blair, assistant to Texas A&M University President Frank E. Vandiver, offered greetings. After Feulner's accomplishments were recognized by celebrities Lewis Lehrman, chairman, Citizens for America, and William J. Bennett, secretary of education, the presentation of the award was made by H.R. Bright. Miller, joined the festivities as one of the Center's honored guests and took the opportunity to make a few remarks concerning Feulner and the status of free enterprise in Washington.

Feeling that one picture is worth a thousand words, the editors of *Pathfinder* have decided to share a few pictures of the policy seminar and the awards banquet.



James C. Miller III, chairman of the Federal Trade Commission and a former economics professor at Texas A&M, speaks on Reagan's finance program at the luncheon.



H.R. Bright, owner of the Dallas Cowboys, receives a Washington Redskins football jersey after presenting the Free Enterprise Man of the Year Award to Ed Feulner.



Center Advisory Board Member Maurice Acers explains how Secretary of Education Bennett should run the department at a cocktail party before the evening banquet.



Art Blair, assistant to Texas A&M University President Frank E. Vandiver, reads President Reagan's letter of congratulations to Feulner at the Free Enterprise Man of the Year Awards Banquet.



A new Aggie tradition was born when "The Aggie War Hymn" was played on the harp during the banquet.

THE MYTH OF GOVERNMENT JOB CREATION

A perennial and admittedly partial "answer" to the poverty problem offered by the Washington establishment is government jobs programs. Throughout 1985 the topic of government jobs programs will be widely and thoroughly discussed in the nation's high schools, as the issue of poverty has been chosen to be the focus of the 1984-85 annual high school debate competition. One of the main resolutions to be debated is "whether the federal government should provide employment for all employable United States citizens living in poverty."

It is impossible for the government to "provide employment for all employable United States citizens living in poverty" through government jobs programs. This year's high school debate resolution that the federal government "should" do this is a red herring: the resolution assumes as true something that is demonstrably false, and focuses the debate on whether or not that objective should be pursued.

Government can only alter the composition of employment through jobs programs, not expand its size and scope, and in the final analysis those programs destroy more jobs than they create. The only means of creating jobs is private sector economic growth. Increased government spending, on jobs programs or any other programs, deters economic growth, for when more of the nation's wealth and resources are allocated by government there is necessarily a smaller share available for allocation by private citizens. The growth of government therefore expands the extent to which wealth is redistributed in society — how

the pie is sliced — whereas private sector growth actually creates jobs and wealth and enlarges the size of the pie. This is why, if job creation is the objective, the solution is a reduction in the size or scope of government — not the creation of new jobs programs, which would only hinder economic growth even further.

Just how important economic growth is to the objective of job creation can be seen by reviewing the recent record of the American economy. During 1983 the private sector created more than 4 million new jobs, the largest one-year employment increase in the nation's history. This occurred despite the absence of any new government programs to promote leaf raking, road paving, or ballet dancing. Even the much-maligned manufacturing sector of the economy added more than 1 million new jobs in 1983 and continued to expand during 1984. In fact, the manufacturing sector expanded even faster than the service sector: employment in the former rose by 6 percent in 1983, as compared with only 2.4 percent in the service sector. How economic growth has helped some of the most economically depressed areas is apparent in the 150,000 new jobs in Michigan during 1983, where unemployment fell from 17.3 percent to 11.9 percent; the 186,000 new jobs in Ohio, dropping unemployment from 14.1 percent to 10.5 percent; and the more than 110,000 new jobs in Pennsylvania.

These statistics are especially impressive when one compares the recent performance of the American economy with that of the economies of Western Europe, where there are a great-

er number of such socialistic policies as proportionately larger welfare systems, higher taxes, and more extensive government jobs programs. While 4 million new jobs were created in the private sector of the American economy in 1983 alone, there has been a net reduction in the total number of jobs in England, France, West Germany and Italy over the past 15 years.

Finally, there is a moral issue that must be addressed in the debate over government jobs programs. Many people consider it unjust and immoral for government to harm one group of citizens only to benefit another, which is precisely what government jobs programs — and almost all government programs — do. By depressing the private sector of the economy, some citizens are thrown out of work so that politicians can win votes and campaign contributions by giving government jobs to others. Those hurt in this way are difficult for the average citizen to identify; they themselves often do not know the real reason why they lost their jobs. On the other hand, the beneficiaries of government jobs programs are clearly defined and highly visible. Because of this, the proponents of government "job creation" are able to deceive the public and convince it to support such programs politically and financially.

—Thomas J. DiLorenzo
Professor of Economics
George Mason University

(This analysis is excerpted from the study, "Myth of Government Job Creation" by Tom DiLorenzo, available for \$2 from the Cato Institute, 224 Second St. SE, Washington, D.C. 20003)



PRODUCT QUALITY IS FOCUS OF CENTER'S SAN ANTONIO SEMINAR

Product quality: Information, regulation, or litigation?

In recent years, product quality has received increasing attention in the public policy arena, with particular emphasis on the quality dimension that affects the health and safety of the consumer. Noting the number of deaths and injuries that are "product involved" many consumer advocates have argued that the market is providing incorrect product quality and that the government ought to intervene by (1) directly providing the consumers with additional information on the quality characteristics of the various consumer goods, (2) regulating some minimum level of product quality, or (3) imposing additional liability on the producers.

There is, however, no unanimity on this issue. Instead, there remain several difficult questions: Is there evidence that consumers are appreciably misinformed about the quality characteristics of the products they purchase? Put another way, is consumer protection necessary? If consumer protection is desirable, which form — information, regulation, or litigation — is preferable?

To address these questions, The Center for Education and Research in Free Enterprise hosted a conference involving many of the recognized experts in product defects/product liability. Co-sponsored by the Department of Economics at Texas A&M and with additional funding provided by 3M and Sears, the conference was held in San Antonio March 22-23. The conference featured a diversity of views. Included as speakers were: George W. Douglas, commissioner, Federal Trade Commission; Terrence M. Scanlon, chairman, Consumer Products Safety Commission; Steven Wiggins, Department of Economics, Texas A&M University; Henry G. Manne, director, Law and Economics Center of Emory University; Mark Silbergeld, Consumers Union; G. Earl Parker, Manville Corp.; and David Flory, Energy and Commerce Committee of the U.S. House of Representatives.

In addition, panel discussions permitted the participants to interact on issues including the degree to which consumers can actually determine the quality contained in a product and the current trends in products liability common law.

Center National Advisory Board Chairman Edwin Feulner was honored as Free Enterprise Man of the Year during April. See story and photos on pages 3 and 4.

Advisory Board member Moore named deputy director of NSF

We are very pleased to note that John H. Moore, an economist and associate director of Stanford University's Hoover Institution and a member of the Center's National Advisory Board, has been nominated by President Reagan to be deputy director of the National Science Foundation.

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

U.S./SOVIET MILITARY BALANCE SUBJECT OF NEW PUBLICATION

A new book, *Altering America*, covers the strategic arms limitation talks and the Reagan defense program. Edited by Charles Tyroler II, a member of President Reagan's Intelligence Oversight Board, the book contains the publications of the Committee on the Present Danger since its inception in November 1976. The committee was formed "to alert American policy makers . . . and the public to the Soviet military buildup and its implications and the unfavorable trends in the U.S.-Soviet military balance."

Copies may be obtained for \$16 (paper) and \$28 (cloth) from Pergamon Press, Maxwell House, Fairview Park, Elmsford, New York 10523.

COMPUTER SIMULATIONS AVAILABLE TO EDUCATORS

Two simulations of life in the Great Depression are now available for classroom use. These elaborate programs were written and programmed for the Apple computer by two middle school computer classes. Players can choose among five different characters — a nurse, a laborer, a lawyer, a restaurant owner and a farmer — as they make decisions about shopping, investing, job seeking, migrating, etc. Each simulation is richly illustrated and has a playing time of about 15 minutes. For an unlocked disk with one simulation on each side, send \$5 to the Portland Middle School Computer Club; c/o Michael Roessler; 306 Brush Street; Portland, Michigan 48875.

POLLUTION IN AMERICA: THE TROUBLE WITH TRASH

Series on Public Issues #7

Pollution in America! The Trouble With Trash

By S. Charles Maurice and Charles W. Smithson

Reviewed by Ellen Lane, Stephenville High School

The authors define and describe the pollution problem in America as a long-standing one, ranging from the pre-industrial revolution in Britain to the present time. Americans became actively involved in the search for a solution to the pollution problem in the 1960s. Primarily, this interest came about because of the rapid growth experienced by the cities that subjected more and more people to the effects of pollution on a daily basis. The feeling that "we could afford" to do something about "cleaning up" the environment added to the interest in doing so.

The authors limit their discussion to four forms of pollution. Air pollution is the type most Americans can relate to, since scientific evidence has linked air pollution to lung cancer, emphysema, pneumonia and other respiratory diseases. Acid rain is one of the most recent concerns in regard to air pollution. The second form of pollution discussed is water pollution, ranging from rivers, streams and lakes to contamination of ground waters with organic industrial chemicals. The third form of pollution is ground pollution, closely related to the problem of contaminated aquifers, and generally taking the form of toxic waste from dumps or underground burial sites. Noise pollution is another form of pollution, in which at least 15 million Americans are exposed to harmful noise levels, both in the workplace and on our highways.

The authors discuss the spillover costs, more commonly called externalities, of the pollution problem. They then turn to a discussion of property rights and social costs. The question "What is the optimal level of pollution for a society?" is demonstrated with graphs of the total cost of pollution, marginal costs, total benefits and marginal benefits from pollution.

The authors suggest possible solutions to the problem of pollution; since the basic problem is one of assigning property rights, the best recommendation is to set up a market for pollution rights, assign property rights and let the market solve the pollution problem.

I feel that this is one of the most comprehensive, easily understood analyses of the pollution problem it has been my privilege to review. The problem(s) are clearly presented, the graphs are easy to read and understand, and the solution(s) to the problems seem reasonable. I feel that this work could be used in any senior-level high school course in economics as well as in college-level classes. It would be excellent as an additional in-depth resource in economic issues.

SUBSCRIPTIONS

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