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CENTER FOR EDUCATION AND RESEARCH IN FREE ENTERPRISE
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AN INTERVIEW WITH STEVE PEJOVICH

Steve Pejovich has asked the board of directors and the provost of Texas A&M University to be replaced as director of the Center for Free Enterprise as soon as an acceptable replacement can be found, preferably as early as September 1, 1990. Steve became the Center's director in 1981. He came to Texas A&M after being dean of the Graduate School of Management and acting president of the University of Dallas. Steve plans to pursue full-time teaching and research as a professor of economics at Texas A&M.

Charles Maurice, coeditor of the Pathfinder, interviewed Dr. Pejovich to get some of his impressions of the Center's past, present and future.

Maurice: When you joined the Center in 1981, what were some of your impressions about the Center?

Pejovich: When I was appointed director of the Center for Free Enterprise, I thought that (1) the Center's financial position was very precarious, (2) the board of directors spent too much time discussing the financial affairs of the Center, (3) the Center did not have a well-defined set of objectives, and (4) the Center had only three established programs—the American Economy Institute, the *Pathfinder,* and summer research support for Texas A&M faculty members.

I felt that to become an academically respected institution, the Center's most immediate needs were: (1) to reduce its dependence on annual contributions, and (2) to develop a strong working board of directors. Those two tasks consumed most of my time during the first few years on the job.

Maurice: Since that time what has happened to the Center's financial position?

Pejovich: First of all, a strong financial base provides the ability to make long-term plans. To secure financial security for the Center—Les Appelt played an extraordinary role here—it was decided to raise the CFE's endowment from about $600,000 to $5,000,000, to create a one-year cash reserve, and to ask the Center's donors, whenever practical, to earmark their support for specific programs.

The endowment increased from about $600,000 in 1981 to almost $5,000,000 by 1989. This endowment includes four professorships and three graduate fellowships. Dividends, interest and other revenues are about $270,000 per year. The appraised value of real estate holdings is about $1,800,000. If and when this land is sold, the Center would become self-sufficient at its *current level of operations.*

Maurice: You mentioned that your other objective was to develop a strong working board

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of directors. Could you comment on how the Center's board of directors has changed? I don't mean changes in its members, obviously, but changes in its role and its philosophy.

Pejovich: In 1981, fund raising was just about the only topic discussed at the board of directors' meetings. There was little discussion about the Center's intellectual pursuits, its philosophy and aspirations for the future. Outside (business) directors felt that they had only one function to serve—to give their own money or raise it from friends.

Today, gifts from our directors are welcome, *but* the Center has a strict policy of never asking members of the board of directors for money. Directors know our financial situation, and they can always choose to help. Moreover, we want our outside directors to know that they have been asked to join the Center because of their position in the community, the respect they command, the knowledge they possess and the experience they have acquired.

By 1983, the Center's directors were spending most of their time discussing the Center's philosophy, objectives and programs. The board had a great deal to do with the direction the Center has taken.

A significant step was taken in 1982 when the National Advisory Board was formed to assist the board of directors in planning for the Center's future. Dr. Ed Feulner, president of the Heritage Foundation, became the first chairman of the National Advisory Board. The Center was able to attract a number of very prominent professionals and scholars. For example, at his confirmation hearings before the U.S. Senate, John Moore, deputy director of the National Science Foundation, explicitly requested to be allowed to remain associated with the Center.

I strongly believe that the Center has two very competent and active boards. Our directors are genuinely interested in developing new ideas and programs, monitoring their implementation and evaluating their performance.

In recognition of the Center's intellectual growth, Texas A&M's president has approved two important changes in CFE's structure: the Center has been moved from the College of Business Administration to the Office of the Provost, and the number of outside directors has been increased from five to 10 people.

Maurice: What are the Center's objectives now? How have they changed during the 1980s, over the period of time when you were the director?

Pejovich: By 1984, the board of directors formalized three fundamental objectives, which were approved by the president and the provost. First, the Center for Free Enterprise should be a *repository* of the existing knowledge in classical liberal philosophy, free-market economics and methodological individualism. Second, the Center should *transmit* the existing knowledge about the essentials and benefits of free enterprise to students, professional educators, civic and business groups, and public policy decision makers. And, third, the Center for Free Enterprise should seek to *expand* the stock of knowledge in classical liberal philosophy, free-market economics and methodological individualism.

The Center pursues its objectives through a set of programs in education and research. *The Center for Free Enterprise is committed to its objectives, but not to any of its programs.* The latter are merely methods for pursuing the former. All programs must be effective in conveying the free enterprise message and be academically sound. On the basis of those two criteria, current programs are annually evaluated and new programs developed.

Maurice: I know there has been a big increase in the number and the scope of the Center's programs, but will you elaborate on this development?

Pejovich: In the early 1980s, we developed several new programs. Two criteria were used to evaluate new programs: their cost-effectiveness in serving CFE's objectives, and their academic standards. Some of those programs have survived the test of time; others have not.

For example, to pursue the objective of expanding the stock of knowledge, the Center substituted two annual academic conferences (by invitation only) for the summer research support of Texas A&M faculty members. Also, to serve the objective of transmitting existing knowledge, the Center replaced the annual conference for editors of Texas newspapers with several programs for Texas A&M students and young faculty members.

Maurice: In light of the changes made in 1980s, how do you think the Center is regarded in the intellectual community?

Pejovich: The Center for Free Enterprise is recognized internationally for its *commitment* to the principles of free enterprise and for its academic *standards.* Let me give you some evidence. First, we have strong links with the Heritage Foundation, the CATO Institute, the Washington Legal Foundation, the Center for Study of Government and Business, the Intercollegiate Studies Institute, the Public Choice Center and the Institute for Humane Studies. We choose our friends on the basis of two criteria—commitment to classical liberal philosophy and intellectual credibility.

Second, the Center has been receiving financial support from a number of foundations that are known for their emphasis on high academic standards.

Third, the Center has been able to secure the participation of the best-known scholars at its various activities—the scholars who decline more invitations than they accept.

Finally, we receive invitations to participate in activities that range from speaking to the Republican Women in Hearne to participating in the most selective academic and professional activities around the world.

Maurice: Now that you are stepping down as director, what are your thoughts about the future of the Center? Have you any advice to the new director?

Pejovich: I strongly believe that the Center is well positioned to become the most prestigious academic think tank in the Southwest and a leading intellectual influence in the nation. To accomplish this, the Center must preserve its philosophical integrity, raise its academic standards even higher, and maintain its visibility in the intellectual community.

Assuming that the University and the board of directors accept this challenge, the Center's new director will have to identify *specific* administrative, financial and academic requirements for making CFE an intellectual lighthouse.

In regard to administrative requirements, I strongly believe that the most effective way to kill an idea is to appoint a committee to look into it. And the most effective way of killing an institute is to appoint a committee to supervise its activities on a project-by-project basis. Those basic premises of methodological individualism have passed the test of time.

It is essential that the CFE director has freedom of action within the policy guidelines set by the board of directors and approved by the Provost. Given this requirement, the director must be chosen for his proven commitment to *academic standards,* for his demonstrated adherence to the *principles of free enterprise* and for his *positive attitude toward risk taking.*

The role of the board of directors should be to set CFE policy and to evaluate the director's performance. Most important, the Center's activities must be evaluated on the basis of only two criteria—*academic quality and the adherence to the principles of free enterprise.*

The Provost must have the right to veto any policy, to hire and fire the director, and to control all financial transactions of the Center. He also must bear the ultimate responsibility to the board and the Center's donors for safeguarding the philosophical integrity of the Center.

Finally, I truly believe that the Center's objectives are well-defined and should not be tampered with.

Maurice: One final question about the future. You didn't mention any specific programs when you answered my last question. Would you comment on the direction you feel the Center's programs should take during the 1990s?

Pejovich: Certainly. I believe that the Center's reputation depends upon the quality of its programs and their consistency with the objectives of the Center. First, and possibly foremost, the *programs must have academic content.* The major distinction between American liberals and conservatives in higher education is (in my opinion) liberty without responsibilities vs. liberty with responsibilities. CFE programs should always reflect this distinction. Instead of selling free enterprise the way liberals are selling higher taxes and social welfare, the Center should *teach and research* the consequences of private property rights, contractual freedom and limited government.

CFE programs should reflect our comparative advantage in education and research. After eight years of experience with a large variety of programs, I know that our resources produce the best results when we use them to run top-level academic conferences at which new ideas are tested, when we expose our young faculty members to senior scholars, and when we open new horizons and a few doors for our brightest students. The Center should continue to work with opinion makers such as the media, the clergy and legislators. The mix of programs however, should emphasize the academic market.

CFE programs should avoid debates. It is simply unproductive (a waste of money) to invite those who do not share our ideas to participate in our programs. Ideas, concepts and theories are continuously tested and debated in the intellectual marketplace. The role of the Center for Free Enterprise should be to improve our chances in that competition. The most efficient way to accomplish this objective is to use our scarce resources to pull together those who share our respect for a society of free and responsible individuals, to give them a chance to cross-fertilize their minds, and to help them to strengthen their arguments *before* they meet the competition in the market for ideas.

CFE programs must not be ideological. Whatever we do, some people will always accuse us of being ideological. This argument comes from two different sources in the academic community. Some people are openly hostile to the principles and ideas of free enterprise, but do not possess the analytical skills to question our propositions on scholarly grounds. Predictably, their approach is: "if you can't prove them wrong, call them names." For example, a faculty member told me once that we are selling ideology. I asked him which specific activity he was referring to. He said that he had better things to do than read our stuff. People in this group are intellectually dishonest and academically incompetent. They have earned a right to be ignored.

The other group is intellectually honest, but uninformed about the difference between ideology and analysis. We are all ideological in the choice of topics that we want to look into. I reveal my preference when I choose to analyze the constitutional amendment against an income tax in Texas. Liberals reveal their preference when they talk about higher marginal tax rates for the rich. The crucial issue, however, is what we do with those ideas and concepts. We could try to hard-sell them to others; or, we can analyze them and look into their testable implications. The latter is scholarship. And that is what the Center has consistently tried to do and what it must do in the future to earn its credibility and reputation from those whose opinions count.

I've tried to answer your questions in general terms, but let me end by saying a few words about the Center's current programs. In terms of our objectives, the most effective programs are: academic conferences, programs for young faculty members and students, and the American Economy Institute. All other programs should be reevaluated.

The importance of academic conferences cannot be overstated. They contribute to *new knowledge* and increase our *academic reputation*. Academic conferences are limited to about 20 carefully selected scholars. These conferences give them a place to present their current research, an opportunity to test their ideas on their peers and a chance to modify them before submission to academic journals. For example, Texas A&M professors (Al H.) Ringleb and (Steven N.) Wiggins presented a paper at our conference in Freiburg, received a lot of critical comments, which would have been difficult for them to get otherwise, and used them in rewriting the paper. *The Journal of Political Economy* has accepted this paper for publication. At another conference in Freiburg, Viktor Vanberg, a promising young scholar, presented an impressive paper on the relationship between Buchanan's and Hayek's thoughts. Viktor is now a full professor at the Public Choice Center at George Mason University. I presented a paper at the Liberty Fund Conference in Dallas. Subsequently, the *Cato Journal* asked me for permission to publish it, while the National Bank of Hungary paid for my trip to Budapest to discuss it at the conference, "Hungary Into the Nineties."

Maurice: Thank you very much, Steve. I have really enjoyed working with you on *Pathfinder* over the years. I congratulate you on your performance as Center director and wish you well on your return to full-time teaching and research.

Public Issues

WHY BASHING THE FED DOESN'T PAY

Inflation has been stuck in the 4 percent to 5 percent range since the mid-1980's. At this rate, prices double about every 15 years and the purchasing power of the public's cash balances is cut in half. The loss in value is transferred to the government just as if a direct tax had been levied on cash balances.

Also with inflation, corporations replace their machinery and other productive capital at ever higher prices. Since corporate depreciation allowances that provide for the replacement of productive capital are not corrected for inflation, inflation also acts as a tax on productive investment and raises the cost of capital. The problem is most acute for manufacturing firms that have little debt outstanding.

The only way to avoid these costs is to reduce inflation until prices are stable and then keep them stable. Absolute stability is not possible in a free economy and, fortunately, it isn't necessary. As a nation, we can achieve nearly all the benefits of price stability if, on average, prices fluctuate modestly from month to month or year to year and are widely expected to remain stable. Stability, in this sense, should be our goal.

To achieve that goal under current conditions, the Federal Reserve must keep the growth rate of the money that it directly controls—called the monetary base—about equal to the maintained average growth rate of real output. Unless that happens, long-term control of inflation will not be achieved. Recently, Federal Reserve officials, including Chairman Alan Greenspan and President Lee Hoskins of the Cleveland Fed, have taken the remarkable step of advocating price stability as the Fed's main goal. Just as important, the Fed has brought the annual growth of the money base into the range that is consistent with stable prices. If the Fed keeps money growth where it has been for the past year, we will be close to price stability in about two years.

The Bush Administration favored a return to price stability when the president took office. Recent statements, however, suggest that much of what was said then has been forgotten. First the president's spokesman and then the president have taken turns urging the Fed to lower interest rates. Translated, that means faster money growth, a "temporary" setting aside of the goal of price stability. The administration, facing congressional elections next November and a possible recession this winter, seems willing to defer the return to price stability, perhaps indefinitely. It would like more monetary stimulus now, lower interest rates and, perhaps, a lower value for the dollar.

This is a mistake—an often-repeated one—but a mistake nonetheless. Faster money growth now will not permanently lower long-term interest rates and may not lower them at all. As soon as people recognize that the Fed has turned from its commitment to achieve price stability to pursue other objectives, interest rates on long-term securities will rise. The

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rise will reflect the belief that inflation will continue and may even increase.

Experience here and in other countries bears this out. Countries with the lowest rates of inflation have the lowest market interest rates, and countries with the highest rates of inflation have the highest interest rates. The way to bring interest rates down, therefore, is to stick to the monetary policy that the Fed has followed. If the president wants interest rates to fall and remain lower, he should support, not oppose, the Fed's anti-inflation policies.

There is a paradox. The more effort the Fed (or the President) gives to trying to hold interest rates down by raising money growth, the higher the interest rates are likely to be. If the administration and the president truly want lower interest rates, they should stop bashing the Fed.

They would be wise to do so. Recent Fed policy has been remarkably good. Since Greenspan became chairman in the summer of 1987, year-to-year money growth—measured broadly or narrowly—has been reduced to a modest, non-inflationary rate. Early in Greenspan's tenure as chairman, the Fed moved to offset the inflationary monetary policies of 1985-86, part of the Fed's and Treasury's mistaken efforts to lower the value of the dollar. Because the effects of money growth on inflation operate with a lag of two to three years, the mistaken policies of 1986 contributed to the rise in inflation last year. By the time inflation began to rise, however, the Fed's disinflationary monetary policy had been in place for two years, so the 1989 increase in inflation was modest.

With midterm congressional elections, administration anxiety, a possible recession and rising unemployment in the next few months, Fed bashing is bound to increase this year. If the Fed gives in to the political pressure and lets money growth increase, we will have returned to the stop-and-go policies of the 1960s and 1970s that produced even higher inflation and unemployment each cycle. Interest rates will rise, and the dollar will depreciate.

If money growth remains at last year's annual rate, this year will be the beginning of the end for the inflation of the past 25 years. Much of the work as been done. A recession, if it should occur, is likely to be short and, in any case, cannot be avoided by monetary actions taken now.

Part of the costs of getting inflation down have been paid or soon will be. Some pain must still be borne as real estate prices and other inflation hedges adjust to reflect lower expected inflation. The benefits are within reach. It would be a shame if they are thrown away once again.

—Allan H. Meltzer

Meltzer is John M. Olin Professor of Political Economy at Carnegie Mellon University and a visiting scholar at the American Enterprise Institute. This article was written for the Los Angeles Times.

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