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Pathfinder

CENTER FOR EDUCATION AND RESEARCH IN FREE ENTERPRISE
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NON-CIRCULATING

HOW WE REALLY WRITE OUR EDITORIALS

The Pathfinder ran this editorial in October 1983. In the past three-and-one-half years, we have received many requests for reprints. Because our readership has changed and grown, because the topic is as relevant now as it was then, and because we liked it, we decided to print it again.

Many readers have asked, "How do you write your editorials? After some serious thinking and soul searching, we have decided to tell the truth. Once a week after work we hold our editorial meetings at the Dixie Chicken. The Dixie Chicken is a place near the Texas A&M campus. It reminds one of beautiful Latin Quarter cafes in Paris. The Dixie Chicken is especially popular with young Aggies who spend night after night there, discussing the virtues of classical Greek Literature and its effect on Western civilization. After a few drinks and some gossiping about University affairs, Maurice and Pejovich settle down to work. Here is our conversation as it really occurred. The only change we made in the tape is that we eliminated the numerous expletives from Chuck Maurice's language.

Pejovich: Chuck, what should we write about in the next issue?

Maurice: Well, perhaps we should do a paper about foreign trade.

Pejovich: Why foreign trade?

Maurice: I have just heard something about those Japanese imports—that they are causing problems and maybe it will be something to write about.

Pejovich: What do you mean, you just heard about it? It has been a problem for years. Don't you read the newspapers?

Maurice: I only read the sports section.

Pejovich: Maybe we should write about Japanese imports because the information that we usually get from the media is wrong.

Maurice: What do you mean?

Pejovich: Well, they tell us how those Japanese imports are hurting our economy.

Maurice: Well, those Japanese imports take jobs away from Americans.

Pejovich: Let's talk about that. How do Japanese imports hurt us?

Maurice: Well, whenever a Japanese car is sold in the States one less American car is sold.

Pejovich: And?

Maurice: People who make the American cars lose their jobs.

Pejovich: But why does a customer buy a Japanese car instead of an American car?

Maurice: That's simple. It costs less or it lasts longer, which is the same thing anyway.

Pejovich: Look, Chuck, it's not only that the consumer gets more utility and saves some money by buying the Japanese car. That extra money he saves is then used to buy things that he could otherwise not afford. By buying a cheaper car he has some money left to buy other things, which helps create jobs elsewhere.

Maurice: I guess that's true, but how about jobs lost in the car industry?

Pejovich: Let's think about it. An American buys a Japanese car. Some people in Detroit lose their jobs. What do Japanese do with the dollars they get in exchange for their cars?

Maurice: Well, they can either store them or spend them.

Pejovich: Let us suppose they spend those dollars. What happens?

Continued on next page



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From page one

Maurice: Well, they either buy something that we make or invest here.

Pejovich: So it creates jobs, right?

Maurice: I guess you are right. Let's see what you are saying. What you are saying is that whenever we buy Japanese cars we lose jobs in one industry but jobs are created somewhere else eventually.

Pejovich: Yes, and we end up being better off.

Maurice: Well, we end up being better off, I presume, because not only are jobs created elsewhere to offset those that we lose, but the consumer also is better off because he gets a car he likes better and money to buy other things.

Pejovich: You're getting it, Chuck.

Maurice: That doesn't seem to be the only problem with foreign trade.

Pejovich: What other problems are there?

Maurice: Well, they tell us that whenever Japanese sell their goods in the United States they can underprice our producers because their government subsidizes their exports.

Pejovich: Yeah.

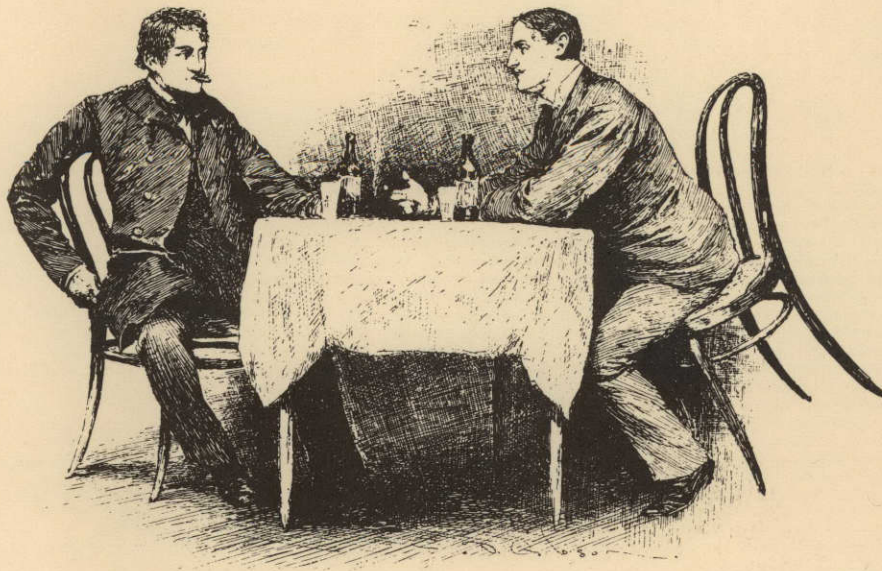
Maurice: What?

Pejovich: Look, suppose you go to buy steak that costs \$5 to produce but somebody else pays \$2 so you only have to pay \$3.

Maurice: Hey . . . I'd really like that.

Pejovich: Why?

Maurice: Because I get \$5 worth of goods for \$3 so I have \$2 to spend for something else.



Pejovich: Right. Now think about those Japanese subsidizing their product. Who pays for that subsidy?

Maurice: I guess Japanese taxpayers.

Pejovich: So their taxpayers are subsidizing our consumers.

Maurice: My god, that's right. They produce something; they have to use up resources; and, in order to sell in the United States, their taxpayers pay part of the price. And we consume those goods below their cost?

Pejovich: Right!

Maurice: That's a wonderful deal! Could we talk other countries into doing that?

Pejovich: I wish our government would wise up and do just that. We could be subsidized by the rest of the world and live even better than we live now.

Maurice: But what if people abroad don't spend the money to buy goods here? What if they hold on to the money?

Pejovich: If they hold the money, what good does it do for them?

Maurice: No more good than any other piece of paper.

Pejovich: So, being less than stupid, they will spend it eventually.

Maurice: Right. Let's have another beer.

Pejovich: Chuck, I think you are right. We should write this editorial on foreign trade. People should realize that imports don't cause jobs to be lost. They don't cause inflation, and they let us consume more than we could have consumed otherwise.

Maurice: Yes, I think that's true. Also, it would help us to keep our business firms and unions in check.

Pejovich: How?

Maurice: Look, suppose our government decides to impose restrictions on imports; this means that our domestic firms will have less competition to worry about. If we have no competition from abroad, firms could raise their prices and unions could ask for higher wages.

Pejovich: That's true. So let's summarize this. Foreign trade makes the consumer better off because he consumes what he wants and still saves some income to buy other things.

Maurice: Right. It also destroys no jobs. It takes jobs from one industry, but it creates the same or even more jobs elsewhere.

Pejovich: Why more?

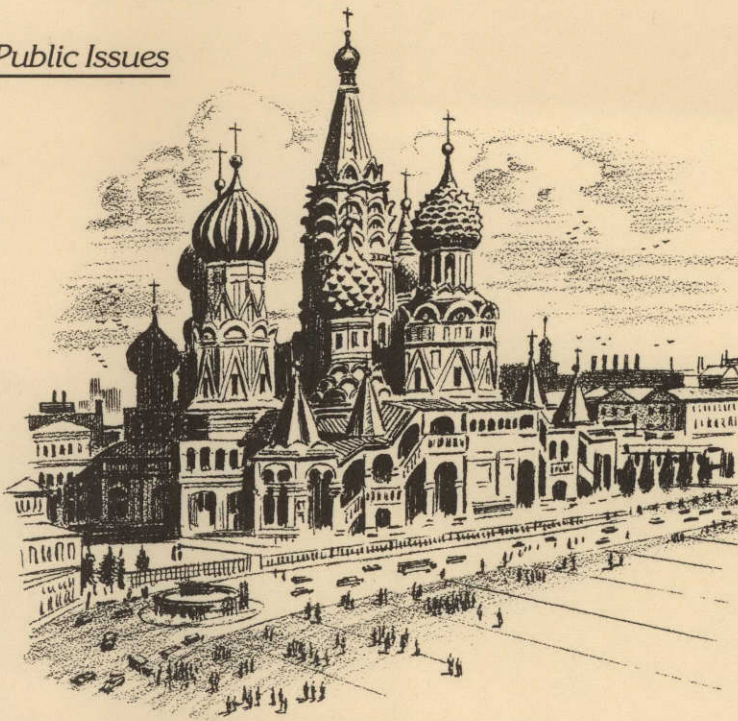
Maurice: Because the subsidies that foreign governments may give to their firms help the American consumer. He pays less for goods than it costs to produce them, so he has more money for other things.

Pejovich: Yes, and finally, free trade with foreign countries will help reduce the power of our firms and unions.

Maurice: Sure it would! Competition is the greatest disciplinarian that man has ever invented.

Pejovich: Well, I think we finally agree.

Maurice: I am glad you see it my way. Now go and write the first draft.



WHY SOME SOVIET REFUGEES GO BACK

Recently, a group of Soviet refugees returned to Russia. It was not the first time political dissidents changed their minds. It's happened before and will again.

Most Americans find it difficult to understand the attitudes and motives of those Soviets who choose to return to their native land. Why should they prefer the regimentation of life in the U.S.S.R. to the political freedom in the United States, the dullness of social life in Russia to the right to choose their own lifestyle in America, and the life of shortages, economic deprivation and lines to the economic opportunities of capitalism? We end up feeling either guilty for not doing enough for political refugees or angry at them. In either case, we are merely reflecting our lack of understanding of their motives, hopes and aspirations.

Certainly, some of the refugees, particularly older ones, returned because they missed the familiar Russian culture, familiar places, and old friends and families. For many, the adaptation to a new land and its strange culture must have been extremely traumatic. They were willing to give up our freedom

for familiar surroundings. But there may well have been another strong reason that they returned.

We have no grounds for assuming that *all* political refugees from the U.S.S.R. (and elsewhere) come to the United States looking for political, civil and economic freedom. Most of them do, and they are quick to embrace the American way of life. However, some refugees are neither politically nor socially nor historically prepared to accept the costs and benefits of life in a free society.

They leave Russia because they oppose communism, but, and this is an important point, they are not willing to give up their traditional life, customs and preferences. Political refugees from Russia are philosophically at home with a benevolent government that promises to look after them. That is, many Soviet refugees come to the United States merely to escape the oppressive socialist regime. They are neither ready nor willing to accept the freedom of choice, self-responsibility, self-determination and other aspects of life in a free society.

Instead of accepting the United States as is, some politi-

cal refugees want the United States to accept them on their own terms. It is then predictable that a few political refugees will be disappointed in the West and decide that the benefits of their traditional forms of life and economic security—even at a low level—exceed the cost of accepting Soviet rule.

The conference on "freedom fighters," which was recently held in Dallas, exemplifies this point. Political dissidents and a number of American anti-communists who attended the conference were quite critical of the United States' treatment of political refugees. While the Soviet government, the point was made at the conference, takes good care of political dissidents from the West, political refugees from the East are largely left alone to look after their own social and economic well-being. The message was clear: We should take care of political refugees.

The message is wrong. It demonstrates that some Soviet dissidents are unable or unwilling to understand behavioral implications of the political, civil and economic freedoms upon which the American way of life rests. The United States is about leaving people alone.

Soviet refugees who come to the United States seeking new forms of life quickly learn to appreciate the benefits of individual liberty, self-determination and self-responsibility. They leave socialism and come to the United States in order to have a chance to be left alone. Political dissidents who come to the United States because they only want to escape socialist regimentation of life and oppression might end up being disappointed. They bring with them the mentality they were supposed to leave at home: When you have a problem you go to the government.

Those people have no reason to feel betrayed by the United States. Their perception of America betrays them.

—Steve Pejovich
Charles Maurice

NEWS FROM THE SOVIET UNION

Dzherman Gvishiani, who is considered by many observers to be an advocate of economic reform in the Soviet Union, has been relieved of his post as a deputy chairman of the U.S.S.R. State Planning Committee (Gosplan).

The Soviet journal for agit-prop workers, *Argumenty i Fakty* (No. 43), has published an article describing the suffering of Soviet emigres in the United States. The article suggested that the FBI regarded any native of the Soviet Union living in the United States as a "subversive element." The article also said that a special network of labor camps was being built in the United States for these subversives.

The December 13 issue of the labor newspaper, *Trud*, provided details of a corruption scandal at the Bolshoi Theater. A double bass player named Aleksandr Leonov complained that the orchestra's manager, A. Panyushkin, had demanded that Leonov turn over part of his hard-currency payment for a foreign tour in 1983. Soon afterward, Leonov was dismissed from the orchestra. The reason given was for declining talent.

Lithuanian Catholics are preparing for this year's celebration of the 600th anniversary of Lithuania's conversion to Christianity. Soviet authorities are taking precautions. An intensive propaganda campaign will attempt to play down the role of Lithuania's spiritual heritage.

The newspaper *Moskovskaya Pravda* recently expressed concern about the growing number of drug users among Moscow school children and the lack of attention given to the problem by teachers and school directors.

SOME ECONOMICS AND ETHICS FOR THE CLERGY

It is especially difficult these days to be a good Catholic and a good economist. The National Council of Catholic Bishops has just released the third and final draft of the pastoral letter on economics, and it is, sad to say, woefully misguided.

My list of the most serious economic errors in the pastoral letter includes the following.

1. The economic system as it exists in the United States is really not an ideology. It is a set of behavioral relationships. The fundamentals, like the laws of supply and demand, apply even in socialist countries, because they describe basic human activity. This means that you cannot alter the way people behave by simply rewriting the principles of economics, any more than you can make the sun orbit the earth by revising the laws of astronomy.

2. Poverty is not created by wealth. Thus, poverty cannot be eliminated by destroying wealth. Employing force to obtain resources is theft, regardless of who does it.

3. The reasons that people are poor and the ways to help them are highly individual. If there were easy solutions, which could be imposed at a high level, then they already would have been instituted. After all, there has been no shortage of experimentation. The bishops correctly point out that it is wrong to blame the poor for their poverty. But it is equally unhelpful to blame the affluent.

4. Voluntary exchange is never exploitation. It is always beneficial to all parties to the transaction. Otherwise, it would not take place.

5. The Protestant ethic is to work hard and earn the rewards associated with that hard work. By contrast, there is a new official Catholic ethic, called the avoidance of consumerism. It admonishes people to earn only enough for the bare necessities as long as there are other people who have less.

If the more productive people stop short of contributing to their utmost, how can the economy produce the extra goods and services needed to alleviate poverty?

The condemnation of the economic system as an evil pursuit of consumerism is, in my view, the major problem in the bishop's pastoral letter. The bishops are trying to dictate a huge distortion in the consumption patterns of individuals. While we need not worry that the attempt will be successful, the attitude does hinder the needed dialogue between the clergy and the laity.

When firms lose touch with the demands of their customers, they find out about it from their salesmen in the field and from their stockholders. The management either starts producing services that are better suited to the demands of the customers or it shuts down the unwanted operations.

The Catholic church is not immune to that kind of market pressure when it loses touch with its consumers, namely the laity. The evidence is abundant. Parishes are less and less the centers of community life. There are fewer children in the church schools. The contributions in the collection baskets are not keeping pace with the incomes of the congregations.

It is obvious that there is a serious lack of communication on economic issues between the laity and the hierarchy of the Catholic church. There are several actions that I believe will help.



First, economists do not know precisely what works to improve the lot of the poor. However, we have a long list of what has not worked. Those policies should not be pursued, even though many are prominently featured in the pastoral letter.

Second, the people who probably know best how to help the poor are the poor themselves. It certainly does not help to erect regulatory road blocks to their activities or to initiate free services in competition with them so that they are driven out of business.

Third, it should be recognized that people tend to contribute more to those they know intimately, and less to perfect strangers. The church has an important obligation, therefore, to convince the potential donors that the funds will be spent prudently to reduce the suffering.

Finally, something has to be done to improve the basic economic awareness of the clergy so that its interaction with the laity will be more effective.

—By James L. Johnston

[Mr. Johnston is an economist for a large company in Chicago and is the volunteer chairman of the Economic Education for Clergy.]



WHO SHOULD BAIL OUT THE BANKS?

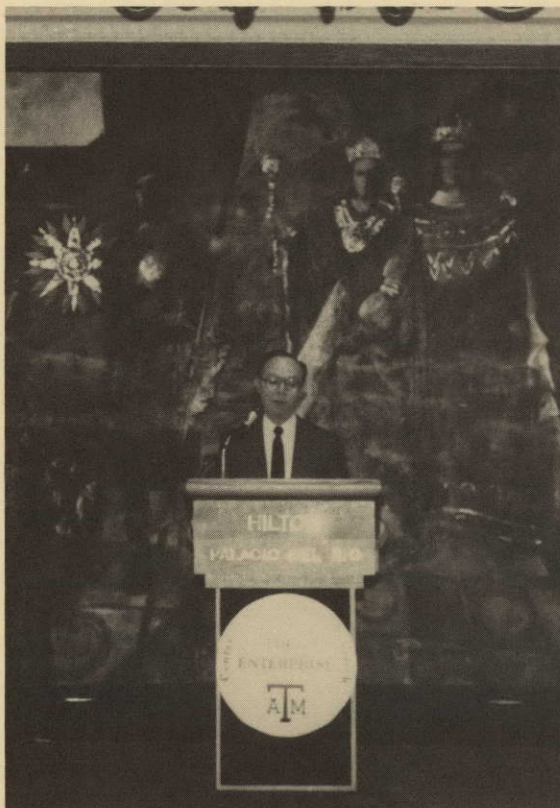
Summary of Dr. A. Meltzer's paper to be published in Martin Geisel's and Steve Pejovich's book on deficits (see announcement in this issue).

The answer to the question "Who should bail out the banks?" is really very simple: no one. Failure, of course, means bankruptcy. There is major confusion here. That major confusion has to do with the fact that bankruptcy does not destroy the physical assets, it eliminates the management.

So why is there so much financial fragility in the United States? One of the most obvious reasons is disinflation. Yet there are other reasons to cause us to look deeper. The government has over-insured the banking system. Little incentive exists, on the part of most customers, to evaluate carefully the bank under consideration. Next, no system exists for marking loans to their market value. The loans are marked at full value until the bank is in trouble, and then the loans are all marked down at once. Finally, there is no relation between the

insurance premium that the bank or financial institution pays and the amount of risk that it undertakes. Competitive private insurance should be allowed to take over this market and get the government out of the insurance business. The government should become the lender of last resort.

In summary, banks should be treated like any other kind of institution. When they fail, stockholders should take the loss, and the uninsured depositors should take the remaining loss in proportion to the amount of assets they might get back. That would encourage people to be careful about banking and give them some incentive to learn about the risks of banking. Of course, it would give bankers some incentive to be concerned about the kinds of risk they take.



Dr. Allan H. Meltzer, John M. Olin Professor of Political Economy and Public Policy, Carnegie-Mellon University.

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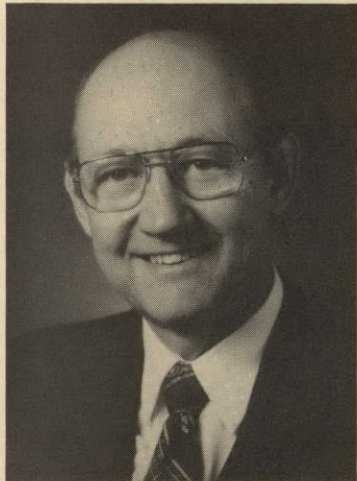
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LAWRENCE WHITE SCHOLARSHIP



Lawrence White

Lawrence D. White, former chairman of the center's board, died December 17, 1986, in Fort Worth. White, a Fort Worth native, graduated from Carter-Riverside High School in 1943 and Texas A&M in 1947. He founded Lawrence D. White Associates Inc. in 1967. In the mid-1960s he was selected as the leading architect for the Tarrant County Convention Center. The Texas Senate in the early 1970s selected White as chief remodeling architect for the Texas Capitol. White's work at the building spanned 15 years. White

received the Air Force's Outstanding Design Award of 1976 for Fort Worth National Bank's facility at Carswell Air Force Base.

In recognition of Larry White's contribution to the center, its board of directors has renamed the future teachers of economics scholarship program the Larry D. White Scholarships in Economics.

NEW PUBLIC ISSUES SERIES BOOKLETS

The center would like to announce three public issues series brochures:

The Texas Mandate for Higher Education by Larry E. Temple. Mr. Temple is currently the chairman of the Select Committee on Higher Education and chairman of the Coordinating Board, Texas College and University System.

Free Markets: What They Do and How They Work by Dr. Thomas R. Saving. Dr. Saving is professor and head of the Department of Economics at Texas A&M University.

The Oil and Gas Industry Yesterday and Today: A Lesson for Tomorrow by Milton R. Copulos. Mr. Copulos is senior analyst for Science, Technology

and Natural Resources at the Heritage Foundation in Washington, D.C.

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Pathfinder would like to apologize for the misspelling of the name in our previous issue of a dear friend, Caroline Muhlfenzl.

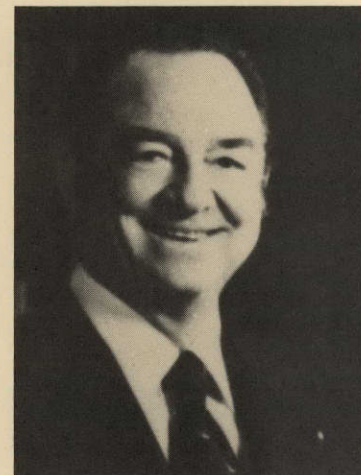
— • —
The center congratulates Ellen Garwood, our supporter, on the recent publication of *The Undying Flame: Mariano Moreno of Buenos Aires*. *The Undying Flame* has been a life-long work for Mrs. Garwood, and tells the story of 19th century Viceroyalty of the Rio de la Plata (later Argentina) and Moreno's leadership of the struggle for independence.

SOON TO BE PUBLISHED

— • —
Martin Geisel, dean of the School of Management at the University of Texas at Dallas, and Steve Pejovich (editors), *What Are All Those Deficits About?* Essays in this book were written for intelligent laymen by some of the nation's top economists such as A. Alchian, A. Meltzer, W. Niskanen and T. Saving. The issues covered are foreign trade deficit, budget deficit, national debt and bank

debt. The cost of the book will be \$5.95. A discount of \$1 per book will be given on orders received before April 15, 1987. High school teachers will receive the book free upon request.

NEW DIRECTOR



Maurice Acers

Maurice Acers, a member of the center's national advisory board, joined the board of directors on September 1, 1986. A background of more than 50 years of experience in government, private business and the practice of law qualifies him to champion the cause of free enterprise. We thank Maurice for joining the center's board of directors.

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