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CENTER FOR EDUCATION AND RESEARCH IN FREE ENTERPRISE
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NON-CIRCULATING

THE PHIL AND VLADY SHOW

You've got to hand it to the Soviets. Vile dey may be crude, at times, dey know just vere the decadent Vest is most wulnerable, and dey exploit its every veakness.

Consider how they have used Vladimir Posner to charm U.S. television audiences.

One of these days I expect to see the peripatetic Posner selling faux pearls and the latest snacker's jiffy-chopper on U.S. tv—"Only \$9.95, and if you order today, you get a free munchie-cruncher worth \$19.95; it lops, it slices, it dices, and it's guaranteed to last a lifetime or Comrade Gorbachev will give you your money back." In the meantime, Posner sells lies, and Phil Donahue and Posner's other good buddies on U.S. television just lap it up like those capitalist running-dogs enshrined in Communist folklore.

Never a harsh word from Posner. That would offend the sensitive, feeling, caring, blow-dried Donahue. Instead, Posner sits there and in flawless home-grown English—learned during his New York boyhood—tells the Donahue audience everything that Donahue audiences want to hear: about the new "open" leadership in the Kremlin; that the Soviets are ready and willing to chuck their nuclear weapons, if only the Reagan administration will go along; how they are keeping the peace in Afghanistan.

All those lies, said with a straight face on U.S. television, and Phil Donahue—well, he probably doesn't know any better.

It's not only the Western media that are being exploited by the Soviets, however. We recently learned that the Soviets are now manipulating the Western banking system as well.

Manipulating the media is easy because, unlike U.S. conservatives, the Soviets have easy access to the American media.

Manipulating the banking system is more of a challenge. But the Soviets are up to it and have quietly purchased several major Western banks, through which they are now funneling credits and loans to themselves.

Details of the Kremlin's subterranean money machine was pieced together by a former Reagan administration official and members of The Heritage Foundation's national security studies team. So far, it hasn't caused a ripple in Washington, which is extraordinary for a story of this importance.

The Soviet-owned banks are located in seven Western financial centers: Paris, London, Frankfurt, Zurich, Vienna, Luxembourg, and Singapore. Best-known of the Kremlin's holdings are the Paris-based Banque Commerciale pour l'Europe du Nord, better known as the Eurobank, and Ost-West Handlesbank in Frankfurt.

The scam is simple. Starved for Western currencies, the Soviets solve the problem by giving themselves loans. The loans, of course, are at discount rates and "untied" to any particular economic activity.

In fact, that's not the purpose of the loans at all. The purpose is to give the financially plagued Kremlin the cash it needs to carry on its peace-loving global activities.

Cute isn't it? But don't expect Phil Donahue to ask Posner about it. That wouldn't be nice.

—By Edwin Feulner
President, The Heritage Foundation
Heritage News Forum, #24, June 19, 1986



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THE CONSTITUTIONAL PROTECTION OF ECONOMIC FREEDOM

The Success of the Reactionaries

The success of the reactionary forces in this century can be summed up in simple economic terms. By 1929, government in the United States had established a claim to 12 percent of the national income. By 1960, the government's claim had grown to 33 percent. By 1984, it had expanded to 42.5 percent. In relative terms, the position of a U.S. citizen today is worse than that of a medieval serf who owed the state only one-third of his working time.

The statistos owe their success partly to capital accumulation and technological change, which raised national income over time. If people are better off in absolute terms, they may not notice that they are worse off in relative terms. But statistos owe their success mainly to the power of reaction in the 20th century. It is striking that it has required little more than a half-century to reverse a social revolution that has been in motion since the 12th century. When a "progressive" says that we cannot repeal the 20th century, all he is saying is that 20th century statist reactionaries have repealed the 19th and 18th centuries and have us on the road back to serfdom.

Many may reject this parallel. They may say that the United States has a democratic government controlled by the people, and that high taxes and big government merely reflect the voters' demands for public goods in the public interest. Such an argument is reassuring but problematic; the income tax, for example, was voted in under one guise and retained under another. Furthermore, it was the action of a past generation. For us it is an inherited obligation, as were feudal dues for others, and it is seen that way by the Internal Revenue Service.

When the U.S. government brought in the income tax in 1914, it gave assurances that it would fall only on the rich. Initially, the personal income tax burden rested on only 357,515 people—less than one-half of 1 percent of the population—whose incomes were much greater than average. The tax rates ranged from 1 percent to 7 percent. Only income in excess of \$186,500 (in today's dollars) encountered the first surtax bracket of 2 percent, and the top tax bracket of 7 percent was encountered only by income in excess of \$4.6 million (in today's dollars). The personal income tax soon found its way into the lower brackets as income thresholds were lowered and tax rates were raised. The growth of the personal income

tax can be summarized succinctly: between 1914 and 1982, the population grew 137 percent, but the number of individual tax returns grew by 26,666 percent.

For the past decade and a half, taxes in the United States have grown much faster than wages or prices. From 1970 to 1983, the average wage rose 148 percent, the consumer price index rose 157 percent, and the tax burden rose 241 percent. The 241 percent growth in the tax bite exceeded the 233 percent growth in the total production of goods and services (GNP) and the 226 percent growth in total national income. Taxes far outpace the growth in real income. During 1984, federal receipts grew by 12.4 percent. The entire economy grew by 7.2 percent, and 3.9 percent of that growth was a result of inflation rather than an actual increase in the production of goods and services. Last year, U.S. taxpayers paid \$151.4 billion more in taxes than they spent on the three basic necessities of food, clothing and housing.

All of us have been born to the statist gospel. As recent experience under the Reagan administration has shown, clamors for tax reduction are translated into proposals for tax reform, which are further transformed into proposals for securing more revenues for government.

Taxes and the Constitution

Today, having witnessed constitutional governments grow in size and power far beyond the scope of the absolute monarchies of the past, we have learned that taxation should be treated explicitly as a constitutional issue. An income tax should be explicitly prohibited on the grounds that it is a direct violation of economic liberty. At the same time, the demands of the modern rapacious state for revenues must be acknowledged. The Constitution should specify both the form and the amount of taxation that are permissible. I would recommend a uniform value-added or expenditure tax, and I would specify that at no time could the revenues of the state exceed 20 percent of the national income.

Such constitutional protections do not preclude the redistribution of income. When governments are large, as modern governments are, income redistribution takes place primarily through the expenditure side of the budget. It is certainly possible to design government spending programs or income-transfer and income-support programs such that only the poor can qualify for them. A proportionate tax paid by all but spent only on the poor is redistributive. Indeed, even a regressive income tax can, through the expenditure side of the budget, result in the redistribution of income from rich to

poor. Therefore, there is no honest reason for the ideological left to resist the constitutional protection of economic liberty.

Indeed, there is every economic reason for the left to support it. During most of our history, we had no income tax and no social safety net. Nevertheless, we absorbed wave after wave of penniless immigrants while the poverty level in the United States simultaneously declined. Today, we are being overrun by illegal aliens, who, not being citizens, do not qualify for welfare benefits or income-redistribution programs. They come and work and prosper. They have gained enough political clout to have bills introduced in Congress that would grant them citizenship. Sooner or later, these bills will pass. There are millions of illegal aliens in the United States, and none of them have found income redistribution necessary for their success. The people who cannot get anywhere seem to be that part of the native population that is born into welfare programs.

Of course, a government could always evade a constitutional limit on revenues by running budget deficits and financing them by borrowing or printing money. Therefore, it could be appropriate to constitutionally limit expenditures in addition to revenues and to specify that borrowing be limited to capital projects that add to productive social investment.

A constitution that prohibited the direct taxation of income and placed a limit on the government's claim to the national income would be a wondrous document. It would displace the U.S. Constitution as the model for the free world. It would revive the spirit and culture of freedom everywhere in the worn-out West, and it would infuse the country, so blessed, with principles that could make it the greatest nation on earth.

This article is an excerpt from a speech by Paul Craig Roberts at a "Symposium on the U.S. Constitutional Experience" in Rio de Janeiro, Brazil, sponsored by the American Bar Association and the Institute of Brazilian Lawyers. The full

speech was printed in the Cato Policy Report, May/June, 1986, and is available from the Cato Policy Report, 224 Second St., SE, Washington, D.C. 20003. Dr. Roberts is William Simon Professor at Georgetown University.

THE CONFERENCE SERIES HONORING A NOBEL PRIZE WINNER IN ECONOMICS

The Center for Education and Research in Free Enterprise at Texas A&M University and the Walter Eucken Institute from Freiburg, Germany, will sponsor a joint program entitled: The Hayek Symposium on Knowledge, Information and Competition. The purpose of this program is to maintain and enhance research interest, especially among younger scholars, in those areas of scientific inquiry that have been central to Professor Hayek's intellectual concerns for more than six decades.

The symposium will be an annual four-day event held in Freiburg. The first conference is scheduled from June 20 through June 23, 1987. Professor Hayek will serve as the honorary chairman of the conference series.

The symposium will be administered by Edwin J. Feulner, Jr., and Neil McLeod on behalf of the Center for Free Enterprise. The senior academic board of the symposium will consist of four American and four European scholars. The board will be responsible for the academic standards of the conference series and for its contribution to the areas of Professor Hayek's primary concern. American members of the academic board of the symposium are Professors Alchian, Brunner, Buchanan and Meltzer.

Participation in the symposium will be by invitation only and is limited to 20 scholars recommended by the academic board and approved by the directors. Preference for presenting papers will be given to research in progress by assistant and associate professors. The symposium will provide an opportunity for the invited authors to discuss their research with other participants before sending papers to learned journals. Subject to the authors' permission, the Center for Free Enterprise and the Walter Eucken Institute will publish selected papers in *The Hayek Symposium Series*.

All travel and hotel expenses for symposium participants will be paid by the Center for Free Enterprise and the Walter Eucken Institute.

For more information about the symposium, write to:

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and Research in
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FREE ENTERPRISE MAN OF THE YEAR AWARD

"When our kids and our grandchildren grow up and look at this situation and realize what we've done to them, ask yourself: 'Will they ever forgive us?'"

Posing that question was J. Peter Grace when he whirled into Texas to be honored by the Center for Education and Research in Free Enterprise as "Free Enterprise Man of the Year." The "situation" to which he referred is the federal government's "out-of-control spending" that he blames on a majority in Congress.

If unchecked, free-spending congressmen are going to saddle the nation with a \$13,000,000,000,000—thirteen-trillion-dollar—debt by the year 2000, contends Grace, who is in a particularly good position to make a meaningful assessment. Accompanying that \$13 trillion debt will be annual interest of \$1.5 trillion and an annual deficit of \$1.96 trillion, he charged.

"Your kids are going to grow up and inherit this some day," Grace told participants at a glittering banquet at the Anatole Hotel in Dallas June 25. "Did we inherit this from our parents? Hell no—nothing like this."

"We don't have to be apathetic," concluded the leader of the presidentially appointed cost-control commission that has come to bear his name. He left little doubt that he thinks the solution is to support members of Congress—and those who want to be members of Congress—who are fiscally conservative.

"Two-thirds of them are downs," Grace said of current members of Congress. Among those that he excluded are the 147 who compose the so-called Grace Caucus, with whom he was to meet in Washington the next day to discuss the filing of

14 bills that would save the government billions of dollars.

Prominent among the lawmakers in Grace's favor is Sen. Phil Gramm, who praised the W. R. Grace Company chief executive officer in a videotape shown during the banquet.

Gramm noted that President Reagan's charge to Grace was "extraordinary: to look at the federal government as a businessman would look at a company and ask: 'How could I run it better, how could I save money?'"

"You must have felt like a mosquito in a nudist colony to have that opportunity," Sen. Gramm joked in directing that portion of his remarks to Grace.

President Reagan also made a video visit, calling Grace a "champion of enterprise" and a "star player on America's team."

Grace called President Reagan a "nice guy," but he said the President has no power at all to cut spending.

"Forty-three governors have line-item vetoes over their budgets, but not the President," he observed.

"Congress is the culprit," he stressed, referring both to the run-away budget and lack of line-item veto authority.

"It is incredible how they waste money," concluded Grace.

The fiery congressional critic treated the Texas audience to a private showing of his company's banned-by-the-networks commercial calling attention to excessive federal spending. The 60-second television commercial is set in the next century and features the same theme that Grace expanded on at the banquet: an accusing but desperate young boy is trying to understand how the broke nation got itself in such a dismal mess, with an old-timer—perhaps a grandparent or maybe a congressman—simply saying, "We had no idea. . . ."

On hand in person to join in honoring Grace were Dr. Carl Raba, Jr., of San Antonio, chairman of the center's board of directors; Rawles Fulgham, executive director of Merrill Lynch Private Capital, Inc., who served as master of ceremonies; David G. Eller of Houston, chairman of The Texas A&M University System Board of Regents; H. R. Bright of Dallas; Jack Rains of



David Eller, chairman of The Texas A&M University System Board of Regents, speaks at the banquet while J. Peter Grace listens.



J. Peter Grace, center, receives the Man of the Year Award from Carl Raba, chairman of the board of directors of the Center for Free Enterprise, and Ed Feulner, president of the Heritage Foundation and last year's Man of the Year.

Houston; Dr. John Moore, deputy director of the National Science Foundation; Dallas City Councilman Jerry Rucker; and Dr. Edwin J. Feulner, Jr., president of the Washington-based Heritage Foundation.

Feulner, the 1985 recipient of the center's "Free Enterprise Man of the Year Award," had the honor of making the formal presentation this year.

He opened his remarks by observing that during the time the banquet had been in progress—an hour—the federal government had spent \$114 million and added eight and one-half pages of regulations to the *Federal Register*.

"If those are numbers that you don't know, I can assure you that our honoree knows," Feulner said. "He is a connoisseur of figures. Statistics are second nature to this man."

The Heritage Foundation president emphasized, however, that Grace does more than read figures: "He acts on them."

Feulner pointed out that nearly 600 of the Grace Commission's recommendations have been enacted.

"His work has proven that the words 'waste, fraud and abuse' are more than empty political rhetoric because they carry a price tag in the hundreds of billions of dollars," Feulner pointed out.

Eller also cited Grace's public and private service and contributions to society and the free enterprise concept.

"When it comes to effectiveness, we can all learn from you," he told the honoree. "You have obviously excelled in business and industry, and you have excelled in service to your nation—our nation," Eller said. "We applaud you and salute you and thank you for accepting the challenges—and for showing the way to get results and be productive."

Rains, calling Grace his "contemporary hero," said the honoree "exemplified what we had in mind when we created the center." Rains was a member of the center's original board of directors.



J. Peter Grace tries on a new hat, a gift from H. R. Bright.

"You have embodied our motto: "Gig 'em, quipped Rains, referring to Grace's approach to big spenders in the federal government.

Bright pointed out that Grace's cost-cutting commission used "hard-headed business judgment" to come up with 2,478 "rifle-shot" recommendations.

"These were not abstracts, but rather actions that could be understood and executed—specific outlines directed against specific targets to save money by a variety of means," Bright noted, adding that Grace "acts like a Texan."

"What Mr. Grace has done could possibly save our country," Bright concluded.

Moore said several Grace Commission recommendations relating to research and development are already being incorporated at the National Science Foundation.

He gave "great credit to Peter Grace that the job was so thoroughly, carefully, imaginatively and quickly done."

Even so, Moore said Grace's governmental service "may really be less significant than his life's work of building W. R. Grace Co."

"Work of people like Mr. Grace has made this nation the richest and freest in the history of the world," he said.

The second-most-honored individual at the banquet was Dr. Steve Pejovich, the center's director, who headed the team that planned and staged the obviously successful program—and who unsuccessfully tried to stay in the background. His on-going energetic and effective free enterprise work was cited on several occasions.

—Lane B. Stephenson
Director, Office of Public Information
Texas A&M University

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**PEJOVICH BOOK TRANSLATED;
COMMENTS ON CONFERENCE**

Dr. Steve Pejovich's book, *Fundamentals of Economics: The Property Rights Approach*, has been translated into Spanish. (*Fundamentos de Economía: Un Enfoque Basado en los Derechos de la Propiedad*). The book is available from Fondo de Cultura Económica, S.A. de C.V. Av. de la Universidad, 975;03100 Mexico, D.F.

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Recently, Dr. Pejovich spoke at a conference for public school teachers in Columbia Lakes, Texas. A few days later, Dr. Jackie Browning received a letter from Robert Turner of Ball High School in Galveston. We would like to share this letter with our readers.

Dear Dr. Browning:

I just finished hearing a speech from Dr. Pejovich here at the seminar. It is amazing

how listening to him brought back many fond memories of last summer at A&M. He mentioned that the institute was in its second week. I thought of you being confronted by all those students wanting you to draw "some more of those little lines."

This past school year was a *very good* year for me. I can honestly say that I sent 110 students on to higher education with an understanding of economics and the free market system. Thank you, once again, for giving me an understanding of economics and taking away my fears.

I hope you have an enjoyable summer and an excellent 1986-87 school year. You are thought of often, and with great appreciation for your efforts.

Sincerely,
Robert Turner

**WHAT ARE ALL THOSE
DEFICITS ABOUT?**

The Center for Free Enterprise and the School of Management, University of Texas at Dallas, will jointly sponsor a one-day conference on "What Are All Those Deficits About?" The focus of the conference will be on the most important current social and economic issues.

William Niskanen, President of the Cato Institute and former member of the Council of Economic Advisors, will present a paper on *The Balance of Trade Deficit*. Professor Allan Meltzer from Carnegie Mellon University and the co-founder of the Shadow Open Market Committee will speak on *Who Should Bail Out the Banks?* Professor Armen Alchian from the University of California at Los Angeles will discuss the national debt. Dr. Thomas Saving, head of the Department of

Economics at Texas A&M University, will talk about the *Budget Deficit*.

The conference will be held at the Loew's Anatole Hotel in Dallas on October 31, from 10 a.m. to 4:30 p.m. Admission is open and free. Seating is limited and will be reserved for those who preregister early. For information about the conference and preregistration, write to:

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