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Arkansas and the U.S. Economy in the Late 20th Century: Reinventing Ourselves Inside Out for a Better Tomorrow

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Arkansas and the U.S.

ECONOMY

in the late 20th Century

REINVENTING OURSELVES INSIDE OUT

FOR A BETTER TOMORROW

by

D.P. Diffine, Ph.D.

Sharpening Our Razorback Edge

Arkansas and America have come a long way together; much is yet to be accomplished. Just 50 years ago, incomes in the south were 40 percent of the national average. Today, southern incomes are 80 percent of the U.S. average. Sixty-Six percent of us own homes, compared to 44 percent just 50 years ago. Living standards have improved greatly. In the mid-1940's, some 33 percent of the nation's homes had no running water, 40 percent had no flush toilets, 60 percent had no central heating and 80 percent were heated by coal or wood.

Arkansas is truly an ideal spot in our great land. Situated at the buckle of the Sunbelt, Arkansas is benefitting from the northeast-to-southwest shift of population in the United States. The migration from frostbelt to sunbelt, and the economic emergence of the southern tier of states, have thrust our Natural State into the middle of today's action. A full 50 percent of the U.S. population is within a 550 mile radius of Arkansas' borders. More than 1,000,000 people live within a one-hour's drive of our state Capital.

The entire mid-south has been an underdeveloped region in the past, but it is catching up; it has a better growth potential than any other region of the country. Future growth into the mid-south will probably come from the continued migration of manufacturing, and private-service industries to take advantage of our region's relatively lower wages, taxes, energy costs, land costs, and mild climate. Yes, as with a developing country, the south has reached the "take-off" stage of its economic growth. And we're Arkansas proud!

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The American Republic and American business are Siamese Twins; they came out of the same womb at the same time. They are born in the same principles; when American business dies, the American Republic will die, and when the American Republic dies, American business will die.

-- Josiah Bailey

The author expresses special thanks to the [illegible] Arkansas Policy Foundation, [illegible] Institute, the Arkansas Democrat-Gazette, the Arkansas State Chamber of Commerce, the Commission for Arkansas' Future, Entergy Corporation, the Arkansas Industrial Development Commission, along with the Heritage Foundation, the Competitive Enterprise Institute, and the Institute for Policy Innovation for their encouragement of research and publication of information on contemporary economic topics of interest to individuals, families, and businesses in Arkansas. We have a Razorback edge, let's keep it and sharpen it too.

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INTRODUCTION--A GRASSROOTS PERSPECTIVE

Arkansas and America have come a long way together; much is yet to be accomplished. Fifty years ago, incomes in the South were 40 percent of the national average. Today, southern incomes are 80 percent of the U.S. average. Sixty-Six percent of us own homes, compared to 44 percent just 50 years ago. Living standards have improved greatly. In the mid-1940's, some 33 percent of the nation's homes had no running water, 40 percent had no flush toilets, 60 percent had no central heating and 80 percent were heated by coal or wood.

On balance, Arkansas is truly an ideal spot in our great land. Situated at the buckle of the Sunbelt, Arkansas is benefitting from the northeast-to-southwest shift of population in the United States. The migration from frostbelt to Sunbelt, and the economic emergence of the southern tier of states, have thrust our Natural State into the middle of today's action. Fifty percent of the U.S. population is within a 550 mile radius of the borders of Arkansas. More than 1,000,000 people live within a one-hour's drive of our state Capital.

The entire Mid South has been an underdeveloped region in the past, but it is catching up; it has a better growth potential than any other region of the country. Future growth into the Mid-South will probably come from the continued migration of manufacturing, and private-service industries to take advantage of our region's relatively lower wages, taxes, energy costs, land costs, and mild climate. The national population is also expected to increase more rapidly in our region. Yes, as with a developing country, the south has reached the "take-off" stage of its economic growth.

In its recent Annual Manufacturing Supplement, *Arkansas Business,* our state's excellent financial weekly newspaper, provided the following business highlights:

> Principal industries in Arkansas are manufacturing, agriculture, forestry and tourism. Principal manufactured goods are chemicals, food products, lumber, paper, electric motors, furniture, home appliances, auto components, transformers, apparel, fertilizers, machinery, petroleum products, airplane parts, and steel. There are 208 Fortune 500 firms with operations in Arkansas. Four of the firms, Tyson's, Riceland Foods, Murphy Oil and Hudson Foods, Inc., are headquartered in Arkansas. Six Fortune Service 500 companies are headquartered in Arkansas: American Freightways, Arkansas Best, Beverly Enterprises, Wal-Mart Stores, Dillards Department Store and J.B. Hunt Transport.

Because ideas do have consequences, this book contains normative analysis of a number of contemporary areas of interest: (1) Commercial business climate; (2) Capital generation treatment; (3) Economic progress and development; (4) Small business works; (5) Global enterprise dynamics; (6) Tax code reform issues; (7) Measuring governmental effectiveness; (8) Incentive-based economic reform; (9) Gauging public sector efficiency; (10) Regulatory reform mandates; (11) Election and markets examined; (12) Education issues on the table; (13) Health care options; (14) Effective crime deterrence; (15) Energy economics and prosperity; (16) Environmental economics tradeoffs; (17) Quality of life factors; and (18) Bottom line concerns.

This book also draws on recent statistical reports and econometric abstracts from numerous planning commissions and development agencies. Contained herein is also a summary of findings and suggestions on areas of reforms and private sector initiatives that could bring fresh approaches to all the above mentioned challenges and thereby allow us to continue to call this the "Arkansas Decade." One may not agree totally with this book, nor should one feel obligated to do so. It is hoped that the reader will think about the points laid out in the book and then decide for himself. The reader is also invited to consult the Reference section for additional information.

Recently, *U.S. News and World Report* reported that their survey ranked the Arkansas economy among the *"Ten Best Off,"* in fact, in Third Place, among the 50 states. And so it was, that when this writer moved to Arkansas from the West Coast 25 years ago, a local realtor provided this sage advice, "Once you become an Arkansan, you can never leave." Now I know; count me in for the duration.

1. COMMERCIAL BUSINESS CLIMATE

In recent years, Arkansas significantly outpaced the nation and was among the top ten states nationally for percentage increases in output, employment and personal income. In examining how the 50 states stack up, according to the latest data from the U.S. government and Dunn & Bradstreet, Arkansas' composite rankings are derived from six (6) indicators listed below (the smaller the number, the better):

Category	State Rank
Income growth rate	8
Employment growth rate	9
Unemployment decline rate	13
Home price growth rate	5
Business bankruptcy rate	1
New business growth rate	23

Our National Ranking

As a result, the exclusive *"U.S. News World Index"* ranked Arkansas third in the nation comparing coast to coast economic recovery rates from the brief 1991-92 recession. However, the past is prologue. Just what is at stake for the future of our business climate? Josiah Bailey said it best long ago:

Commercial Business Climate

The American Republic and American Business are Siamese Twins; they came out of the same womb at the same time. They are born in the same principles; when American business dies, the American Republic will die, and when the American Republic dies, American business will die.

Regarding competitiveness of existing business, the 1995 Development Report Card for the Corporation for Enterprise Development ranks Arkansas among the 50 states as follows:

Category	State Rank
Trade Sector Strength	31
Change in Trade Sector Strength	39
Business Closings	18
Manufacturing Capital Investment	14

Mixed Scorecard Results

Today, Arkansas is a thriving rural center of commerce and agribusiness. True, in good times, the Arkansas economy may not always surge at the rate of the U.S. economy. However, we usually experience milder recessions than the rest of the nation. In recent years we have also maintained an unemployment rate below the national average. And wouldn't we know it, in hard times nationally, people eat more of our wholesome Arkansas chicken.

Even during the last national recession, Arkansas was recording near-record high levels of capital outlays for industrial growth, plant expansions, jobs, new facilities. Last year Arkansas added 25,000 jobs as California lost over 330,000 jobs. Several California businesses have relocated to Arkansas of late: R & G Sloane Co., Rohr Industries, Beverly Enterprises, Road Way Systems, and Sharper Image distribution. Quite recently, British Aerospace announced the relocation of its corporate headquarters from Washington D.C. to Little Rock.

According to *Arkansas Business,* the following is a breakdown of Arkansas' Gross State Product:

Manufacturing	15.0%
Finance, Insurance & Real Estate	14.1%
Services	13.5%
Retail Trade	9.5%
Transportation, Communication, & Public Utilities	11.3%
Government	10.4%
Agriculture, Forestry, & Fisheries	5.8%
Wholesale Trade	5.2%

Commercial Business Climate

Construction	4.2%
Mining	1.0%

Additionally, our employment distribution is as follows:

Manufacturing	21.2%
Wholesale and Retail Trade	19.1%
Services	18.8%
Government	15.0%
Self-employed, Unpaid & Domestics	10.1%
Transportation & Public Utilities	5.0%
Agriculture	3.9%
Finance, Insurance, & Real Estate	3.5%
Construction	3.4%
Mining	0.3%

Among the nation's 48 contiguous states, Arkansas' business climate usually ranks high in the South Central region and nationally in annual studies conducted by Grant Thornton Accountants and the Management Consultants, an international firm of Certified Public Accountants. With exports and foreign investments accounting for 13 percent of the Gross State Product, and over 50,000 jobs for Arkansas, it is also obvious that our commercial links to the rest of the planet are something we cannot ignore.

Commercial Business Climate

We have sent a president to Washington. We are called home for our nation's largest retailer. Technology-oriented companies are surfacing throughout the state. Arkansas' northeastern corridor is also being hyped as the next steel capital of the country. What sectors benefit from our native son's national prominence in the White House? Most probable candidates include, starting here at home, Little Rock specifically, and Arkansas, in general.

Arkansas can become a greater and more selective filter for additional federal grants and traditional projects. Tourism, publicity, agriculture, exports, industry relocation, utilities, delta initiatives, airline service, upgraded medical and military facilities--the list is endless.

Sustaining a Balance

Arkansas is a desirable place to live and work amid natural beauty somewhat free from urban pressures. Most future jobs in our state will come from small business, light manufacturing, food processing, tourism, technology, and services. Of course, the most significant customer for small business is big business. So, we'll continue to attract some capital intensive firms requiring greater worker skill levels.

Our state's relatively small population, approximately 2.4 million, does put us at some disadvantage in trying to attract the type of businesses which produce end products for consumers. Transportation cost-wise, these businesses would prefer demographically, and everything else being equal, to be in or near larger markets. Consequently, our forte remains somewhat with the more natural fit, the basic commodities produced from the land. We will, however, continue to do a brisk business in tourism, conventions, etc.

Continued economic and industrial growth is vital to the quality of life in our state and for the future of our children. This book is the most recent and viable venture to provide a coordinated private sector commitment to support public efforts through a plan to address specific goals and needs and concerns expressed by Arkansas. I hope to provide us with key guideposts in directing our economic development efforts.

The composite Arkansan appreciates the opportunity to have a good job and to keep it. The Arkansas worker wants to help his company grow, and quality-consciousness is a way of life. According to companies with multi-state operations, the Arkansan will have less absenteeism and more productivity than his counterparts almost anywhere else. Let's build on these good qualities.

Commercial Business Climate

Tough Questions To Be Asked

Opportunities abound for us to upgrade our economic lives in the Natural State. Taking the lead from the Commission for Arkansas' Future, and others, the following questions are posed as a basis for possible additional future research:

- How can we further encourage and assist entrepreneurs and small business people in creating, developing, and expanding their businesses.

- How can we strengthen property rights from arbitrary public sector restrictions?

- How can we identify and remove all unreasonable barriers to entrepreneurship?

- How can we continue to diversify our economic base?

- How can we increase the employment rate with emphasis on those areas of the state which have traditionally experienced high rates of unemployment?

Commercial Business Climate

- How can we match job training for the current and future work force with skills being sought by business and industry?

- How can we increase the investment in and improving our state's infrastructure such as water, sewer, waste management, and transportation systems, and our infostructure such as telecommunications, electronic information transfers and computer networks?

- How can we recruit and support businesses and industries which are environmentally responsible?

- How can we increase access to goods, human services and jobs in rural Arkansas?

- How can we address the changing needs of large corporate farmers and small family farmers?

- How can we link heightened entrepreneurship to expanding our export markets?

- How can we continue to develop a competitive edge and expand programs that promote global marketing of Arkansas goods and services?

- How can we further diversify Arkansas' economic base to promote the development, expansion and recruitment of industries and jobs, including the retirement and tourism industries?

- How can we be sure to obtain good government at a reasonable cost?

Business is good in Arkansas. It will get better as new capital-friendly policies create new jobs. Those new jobs will create more new needs, which in turn will create more new jobs. Such are the makings of real opportunities. So, there is plenty to do -- something for each and every one of us.

2. CAPITAL GENERATION TREATMENT

According to the Annual Manufacturing Supplement of *Arkansas Business*, tax incentives give the Arkansas economy a Razorback edge:

- Free Port Law - no tax on goods in transit or finished goods destined for out-of-state sales

- No sales tax on manufacturing equipment, pollution control facilities, or raw materials

- No property tax on textile mills

- Corporate and sales tax exemptions in Enterprise Zones

- Sales and use tax exemptions for major plant expansions

- Corporate and sales tax exemptions for day care facilities

There is also financing available for municipal and county industrial revenue bonds, general obligation bonds, state loan/guarantee programs, and development finance corporations.

Capital Generation Treatment

Regarding entrepreneurial energy, jobs, and income, the 1995 Development Report Card for the Corporation for Enterprise Development ranks Arkansas among the 50 states as follows:

Category	State Rank
New Companies	33
Change in New Companies	49
New Business Job Growth	34
Long-Term Employment Growth	18
Short-Term Employment Growth	10
Unemployment Rate	20
Unemployment Duration	16
Average Annual Pay	46
Average Annual Pay Growth	46

That Razorback Edge

A better future for Arkansas and America can be secured if we embark on a proactive course of significant reforms in several areas. With long-term growth and expansion prospects for Arkansas and the U.S. economy appearing uncertain, policy makers at both the state and national level should focus more of their energies on the direct correlation between economic performance and tax policy.

In so doing, we can assist Arkansans and Americans to save and invest in themselves, their state and their country. Acting decisively, we can progress considerably toward unburdening future generations with today's federal debt and its spending commitments. In tandem, we can ensure that private sector investments will be in the pipeline to guarantee Arkansas' and America's future prosperity.

Today in Arkansas, industry receives a handshake, not a shakedown. From a corporate and individual standpoint, taxes in Arkansas are lower in two-thirds of the 50 states. State and local governments have aided the era of industrialization by providing incentives on the one hand, while exercising relatively tight fiscal controls on the other hand.

There are several economic development programs and policies which have spawned superb economic growth and progress in Arkansas since the mid-1980s. Michael O. Parker, Tax Specialist and Partner with the law firm of Davidson, Horne, and Hollingsworth has provided through their *Tax Advisory* the following excellent summary of the "big four" economic development inducement programs:

A. Arkansas Enterprise Zone Act of 1993 (Act 947 of 1993)
   - Refunds sales and use tax (state and local) on materials used in constructing project

buildings and on all project machinery and equipment.

- Grants income tax credits of up to $2,000 per net new employee.
- Requires endorsement resolution of city or county.
- Requires 25 net new employees for distribution centers; 50 for corporate headquarters; and 100 for office sector or trucking sector businesses. No new employee requirement for industries and certain R&D businesses.
- Not available if MIC credits (B below) are claimed on same project.

B. Manufacturer's Investment Sales and Use Tax Credit Act of 1985 (Act 529 of 1985)

- Grants sales and use tax credit of 7% of total project cost.
- Credits may be used or carried over for up to seven years.
- Credit may be used to pay up to 50% of a taxpayer's total state sales or use tax liability for each reporting period.
- Requires application to AIDC not less than 30 days prior to start of construction.
- Requires continuous operation in Arkansas for at least two years prior to application.

Capital Generation Treatment

- Requires project costing more than $5 million.
- Application disqualifies applicant for Enterprise Zone benefits (A above) on same project.

C. Arkansas Economic Development Incentive Act of 1993 (Act 788 of 1993)

- Authorizes Department of Industrial Development to negotiate financial incentive plan.
- Plan may set aside up to 3.9% of annual payroll for new permanent employees (5% in areas of high unemployment).
- Incentive funds may be used for employee training, infrastructure, or other designated purposes.
- Term not to exceed 10 ½ years from date plan signed.
- Benefits begin 12 months after hiring requisite employees.
- Requires 50 new permanent employees for corporate headquarters; 100 for industries, office sector businesses and distribution centers.
- Other tax incentive programs remain available.

D. Arkansas Economic Development Act of 1995 (Act 831 of 1995)

Capital Generation Treatment

- Authorizes Department of Industrial Development to negotiate financial incentive plan.
- Plan may grant income tax credits not to exceed debt service (principal and interest) paid for project financing.
- Credit may be claimed for 70% to 100% of income tax liability depending on average hourly wage.
- Term not to exceed 10 years from date plan signed.
- Refunds sales and use tax (state and local) on materials used in constructing project buildings and on all project machinery and equipment.
- Requires endorsement resolution of city or county.
- Requires 100 new permanent employees for industries, corporate headquarters, office sector businesses and distribution centers.
- Requires project costing more than $5 million.
- Benefits disqualify applicant from receiving benefits under any other tax incentive program for same project.

The above mentioned economic development programs have in the last decade contributed significantly to the creation of tens of thousands of jobs and billions of dollars in additional spending for plant and equipment. Did these tax credits cost Arkansas? No, they paid for themselves many times over.

Our Governor has also sold an impressive economic incentive program to the Legislature. As a result, the entire state of Arkansas is now one large enterprise zone with its respective tax credits incentive. Local municipalities, with the help of voters, are now be able to finance their respective campaigns to build the brick and mortar social capital necessary to attract industry. Other incentive and loan programs favor small business and the delta.

The creation of an economic environment in Arkansas and at the national level in which all enterprises and the people who do business with them can thrive and prosper has been a recurring item on opinion leaders' minds. A sustained high rate of productivity is the basis for a growing, healthy economy and a rising standard of living. It always has been, and it always will be.

In terms of reinvestment of earned capital, the U.S. has fallen behind other industrial nations. The economic factor that brought the U.S. to world industrial leadership some 100 years ago was a constant and massive investment in new and better tools. This also included our social capital--our infrastructure of highways, bridges, harbors, utilities, etc.

Capital Generation Treatment

Competitive Forces and Productivity

The highly respected profit incentive system was the dynamic force behind this growth in Arkansas and the country; the present low estate to which profit has fallen has arrested this growth. Any shrinkage in new tool investment will be accompanied by a reduction in output per man hour. Our level of capital spending does indeed bear direct relationship to unemployment levels, productivity gains, wages and corporate profits--the ingredients that determine the standard of living of both Arkansas and the nation.

Our prime competitor in world markets, Japan, encourages private investments to a far greater degree than the United States. Therefore, further measures are needed to stimulate the investments we need in new plants, new machinery, and new business ventures. When overseas competitors boost their productivity, they are more and more able to manufacture products at a lower unit cost than we are able. And that hurts all of us. It allows them to sell at much lower prices in this country a flood of consumer products, materials, industrial components, and so on. The list of these items is practically endless.

Productivity gains, positive changes in the ratio of output to input, are important because they are the only way to raise our standard of living and keep us competitive in international commerce. In our American economy, and since the 1960's, productivity increases have slowed at a faster rate than that of the other major industrialized nations. In the 1980's, the productivity of U.S. manufacturing kept pace with foreign competitors, however the service sector which employs 80 percent of the work force has had very small increases in productivity.

Overall productivity trends today are such that our standard of living now doubles every two generations, instead of one generation as in the past. That doesn't bode well for our children and their ability to care for us in our old age. The U.S. economy has low savings and high deficits; Japan's economy has boasted, for the most part, high rates of savings, investment, productivity, growth and prosperity.

International Costs at Work

Failure to find ways for Arkansas and the nation to reindustrialize and keep up with demand will mean the following: low productivity levels; fewer products; fewer new jobs available; shortages of materials and products with accompanying higher prices; a slower growing economy that will produce fewer gains in living standards; and loss of competitive position. No clearer message has been sent since Noah announced, "It looks like rain."

Countries which invest higher percentages of income and savings in new production facilities and educational facilities can and will undersell us in world markets. We need to remember what is at stake--employment, standard of living, prices, competitive advantage, etc. American productivity, although overall the highest, must be improved. Japan's rate of productivity improvement is twice our own. Several of our western trading partners rank ahead of the United States in current rate of productivity increase.

Today, the United States is importing 35 percent of all its automobiles. Jobs are exported when products of American businesses are not competitive with products manufactured in other countries. America is not as dynamic as she once was or can be. Incentives plus labor, business and government cooperation can combine to recapture our worldwide markets. Otherwise, the United States will continue exporting jobs whenever products of American businesses are not competitive with products manufactured in other countries. The world is our marketplace, not just Arkansas or America.

Interest Rate Dynamics

Of significant interest to Arkansans is that the United States, Germany and Japan have been waging a low-key, undeclared interest rate war that could at some point hurt employment and income here at home. The "war" is over capital. Since the early 1980s, the United States has soaked up surplus foreign capital to help finance the nation's budget deficit and to offset our low savings rate. Now, Germany and Japan have a growing hunger to use the savings of their citizens for their own pressing internal needs.

Capital Generation Treatment

Until the 1990's, the United States had a primary claim on the world's surplus capital. We need to pull in about $150 billion a year from foreign countries to close the gap between what Americans save and what they spend. Now, though, the collapse of communism has opened up new opportunities in Eastern Europe and caused investors around the world to see a chance to make money there. Investors from the Middle East and Far East are increasingly looking to Europe as a place to park their money. Even the Japanese are beginning to divert more capital to Europe. The fear is that, although the United States will still get its $150 billion, it will have to pay a higher price.

If there is more inflation in our future for Arkansans and Americans, we have all the more reason for interest rate reform. Tying consumer loans to the federal discount rate (plus 5 percent) doesn't reflect a bank's cost for money; it can also smother economic activity. The banking industry is correct in preferring the one-year rate on Treasury bills as an index, and eliminating the 17 percent cap. As things are, Arkansas ranks 16th in its measure of commercial bank deposits, but 45th in the ratio of loans to deposits--the true measure of lending.

Federal Reserve Chairman Greenspan finds himself in the unenviable position of either pushing up U.S. interest rates to keep capital pouring in from foreign investors or pushing interest rates down to keep the American economy growing. We Americans find ourselves startled by the degree to which our financial system could be affected by faraway political and economic events and foreign investors. We are no longer in total control of our own destiny. Boosting interest rates to keep foreign capital coming here could become counterproductive. The situation has become unbelievably complex.

3. ECONOMIC PROGRESS AND DEVELOPMENT

The Corporation for Enterprise Development in Washington D.C. recently ranked Arkansas' business climate as ninth in the nation. Arkansas receives impressive marks in the national study ranking short term employment growth, air quality, and financial disparity between rural and urban areas.

In general, Arkansas earned modest to excellent scores in most areas. However, Arkansas fared poorly and finished near the bottom in teen pregnancy, the number of scientists and engineers in the work force, the number of science and engineering graduate students, and the percentage of those attaining a college education.

Here is a partial breakout of those factors (others will be respectively cited throughout this book):

Category	State Rank
Economic performance	19
Business vitality	5
Developmental capacity	47
Small business culture	15
Small business assistance environment	9
Balanced fair tax and fiscal system	21

Economic Progress and Development

Our Manufacturing Forte

Many people believe that the manufacturing sector is becoming less important to the Arkansas economy. Actually, just the opposite is true. Manufacturing is very important to Arkansas as a generator of jobs and income. Does that make Arkansas more or less vulnerable to a recession? Regarding manufacturing intensity, we are ninth in nation. That may seem to make us more vulnerable to swings in the business cycle.

However, we have diversified into numerous recession-resistant industries. They tend to be less vulnerable to the business cycle. Arkansas' excellent performance in recent years (jobs, output and personal income gains, etc.) proves that. Our largest manufacturing employer is in food processing, the paragon of recession-resistant industries.

Over half the employees in manufacturing in Arkansas live in communities with a population of less than 2,500. The personal income derived from manufacturing has a great impact. According to the Arkansas State Chamber, for every 100 new manufacturing jobs created in a community, 64 non-manufacturing jobs are created: 45 jobs in wholesale and retail, entertainment and recreation; 7 jobs in transportation; 3 in finance, insurance and real estate; 3 in repairs and services; 3 in construction; and 3 in public administration.

With these payrolls, communities face better economic times. Local and state tax bases grow, services are expanded and there are more educational opportunities. The impact of manufacturing jobs in Arkansas is highly significant when total earnings are examined. All manufacturing employees earn about $5 billion; $3 billion went into small towns, as 60 percent of our manufacturing workers come from small towns. It's fair to assume that without these paychecks, many small towns would languish and lose population.

Arkansas' "Free Port Law" applies to finished inventories maintained by manufacturers located within the state and to goods stored in warehouses in transit through Arkansas to destinations outside the state. This law provides that all goods manufactured within the state and stored for shipment outside of Arkansas shall not be assessed for taxation in the State. Also, covered in this tax exemption are goods which are moving through the state and which may be stored in a warehouse, dock, etc., in transit to a destination outside of Arkansas.

Arkansas is one of 21 states which has passed the Right to Work Law. Among this nation's 50 states, and in the creation of new manufacturing jobs, non-agriculture jobs, and contract construction employment, the 21 states which ban compulsory unionism continue to outdistance the 29 states which do not have Right to Work Laws.

Economic Progress and Development

Taproots to the Land

The recent Annual Manufacturing Supplement to *Arkansas Business* cites our natural resources as follows:

Water--Arkansas has over 283,000 hectares (699,293 acres) of surface water; over 800 billion liters of high quality ground water are contained in aquifers capable of yielding over 2,000 liters per minute. There is a large network of navigable rivers with ports on the Mississippi, Arkansas and Ouachita Rivers.

Timber--Forests cover 7.16 million hectares (17.69 million acres), or more than half of the state. Pine woods make up 42 percent and the rest is mixed hardwoods, mostly oak. Timber growing, harvesting, management, transporting and processing are major industries in Arkansas.

Fossil fuel activity tracks somewhat with the Southwest:

Crude Oil	
Total production	8 million barrels (1990)
Reserves	60 million barrels

Natural Gas	
Production	164 billion cubic feet (1990)
Reserves	1,731 billion cubic feet (1990)
Coal and Lignite	
Reserves	0.4 billion short tons (1990)

Other minerals in commercial production are as follows:

Bauxite (#1 in nation), bromine (#1 in world), cement rock, clay, gypsum, limestone, novaculite (only producer in nation), quartz crystals (#1 in nation), serpentine rock, shale, silica sand, syenite, tripoli, dimension stone, crushed stone, sand, gravel and slate.

Arkansas' location and climate, economic as well as natural, have combined to position us at the right place at the right time. Population growth rates have been above the norm for the nation. Today, Arkansas counts manufacturing as a major economic factor; however, there are others. Agriculture continues to exert a major positive influence on the state. From cotton to soybeans, poultry to tomatoes, Arkansas is among the nation's top ten producers.

In Arkansas, agribusiness truly is big business. Each year, Arkansas leads the nation in production and exportation of both rice and commercial broiler chickens. The right kind of soil and the right amount of moisture come together in the southeastern quadrant of the state to make it the nation's rice bowl. The opposite, northwest corner of the state is the nation's poultry house.

Scientific growing methods have cut the growing time nearly in half to help feed Americans whose per capita consumption of chicken is growing 50 percent faster than that of red meat. Arkansas is second in farm chickens sold, third in catfish production, fourth in turkeys raised and cotton grown, sixth in eggs and seventh in soybeans. Timber accounts for one of every six manufacturing jobs.

Although there are big operations in agribusiness, the individual farmer still plays a key role. Literally thousands of Arkansas farmers grow commodities on contract for major companies; thus, avoiding the economic pressures that have forced most of their counterparts off the land they love.

Where Do We Go From Here?

In Arkansas, perhaps as in no other state, it is appropriate to observe that population growth and economic development have become one of those "Which came first--the chicken or the egg?" propositions. All newcomers do indeed arrive complete with multiple needs for housing, services, and retail establishments, etc. Little Rock, our state's capitol city and hub of our air, rail, highway and waterway networks, lies about halfway between Chicago and Houston and is somewhat east of center between Los Angeles and New York. We even have our own President now.

When it was in operation, the Commission for Arkansas' Future established a priority goal for economic vitality by diversifying Arkansas' economic base to promote the development, expansion and recruitment of industries and jobs, including the retirement and tourism industries. Their recommended strategies were these:

1. Develop programs to train the private sector and local leaders in the skills and information needed to plan and manage sophisticated economic development efforts;

2. Develop a long-term plan for infrastructure investments, assign priorities to the most needed projects, and identify innovative funding sources;

3. Stimulate business and industrial lending among the state's financial institutions, including a thorough review of the impact of the usury ceiling; and

4. Strengthen job training programs to match the rising demands of employers.

A Full Court Press

Economic progress is very important to all Arkansans. With it, our children don't have to relocate, our communities continue to grow, and our infrastructure can be upgraded. The Arkansas Industrial Development Corporation (AIDC) is right on the money in reminding us that no federal or state government program can be effective in promoting economic progress without a tandem program of civic development sparked by the enthusiastic support of community leaders.

The Arkansas Municipal League recently published an item entitled "My Town."

> My town is the place where my house is found, where my business is located, and where my vote is cast. It is where my children are educated, where my neighbors dwell, and where my life is chiefly lived. It is the home spot for me.
>
> My town has a right to my civic loyalty. It supports me, and I should support it. My town wants my citizenship, not my partisanship; my friendliness, not my dissensions; my sympathy, not my criticism; my intelligence, not my indifference.
>
> My town supplies me with protection, trade, friends, education, schools, churches, and the right to free moral citizenship. It has some things that are

better than others. The best things I should seek to make better; the worst things I should work to suppress. Take it all-in-all, it is my town, and it is entitled to the best there is in me.

Progressive leadership in Arkansas is especially important at the local level. In any community, the question is often asked, "What does the Chamber of Commerce do?" There are those who believe the Chamber gathers statistics, prints attractive brochures, answers inquiries, and advertises "what a great place this community is to work, live, and enjoy life." The Chamber does all those things.

All of those jobs are important, but they aren't the reasons the Chamber exists. They are "fringe benefits" of the Chamber--the things the Chamber does as a matter of course, because those jobs need doing--and the Chamber is good at them. There is one main reason for the Chamber to exist: to do whatever is necessary to keep the area's economic condition at a level where businesses will risk their resources here in hope of making a profit. Everything else is just frosting on the cake--a means to the end.

In any city, the profitable operations of business is the source of all other benefits. Only by succeeding in this fundamental goal, can the Chamber provide the jobs and produce the wealth to finance all the governmental, civic, educational, cultural and charitable needs that a city is faced with every day.

Economic Progress and Development

The chamber of commerce is a catalyst -- a common vehicle through which business and professional people work together for the corporate good of the community. A prime example is found with the strategy followed in my town. The Searcy Chamber Board recently developed a Five-Year Master Plan of 24 goals to promote sound economic growth for business and agriculture, along with efforts to improve the economic well-being and quality of life for all residents.

The Searcy Chamber's Leadership Institute identifies and motivates potential leaders; acquaints them with community needs, problems and opportunities; offers a forum of exchange of alternative methods for dealing with those needs, problems and opportunities; and challenges potential leaders with community involvement and decision-making.

In the past four years, the Arkansas Industrial Development Commission has sponsored 23 "Quality First" programs in Searcy. Over 400 Quality Management students have graduated, representing 60 companies and yielding $15 million in savings to local businesses. Searcy's pioneering "Quality First" program is a model for others in the mid-south.

A program of civic development has been sparked by the enthusiastic support of the Searcy Chamber of Commerce. Industry has been attracted to the city by its progressiveness and interest which is evidenced by financial support of new industry through the Searcy Industrial Development Corporation.

The Searcy Industrial Development Corporation (S.I.D.C.) is a legally organized corporation sponsored by the Searcy Chamber of Commerce. The S.I.D.C. works with the Industrial Development Committee of the Searcy Chamber of Commerce in providing information for industrial prospects to help them arrive at a decision as to whether or not to locate in Searcy.

The established industries in Searcy are prospering. The Searcy success formula has been SL + CCC = GP; meaning, Sound Leadership plus Concerned Cooperative Citizens equal Growth and Progress. When an individual industry decides to locate in Searcy, the S.I.D.C. is responsible for all legal aspects of any agreement between the industry and the Chamber of Commerce, city, or private individual who may be selling land for use by the industry.

The S.I.D.C. may purchase, lease, rent, or sell and receive bequests or donations of real or personal property. It has the power to make contracts, borrow money, issue bonds, and loan money required in the establishment or expansion of an industry within the city. Financing for the new industries is available through issuance of Act 9 and Act 49 bonds.

Entergy Corporation and the Teamwork Arkansas taskforce are correct in noting that many factors enter into the competitive search for industry: a quality labor force (including skills of employees and the wages they will demand) ...ample transportation...proximity to customers and raw materials...a business climate that makes it easy to operate...low energy costs ...and availability of existing "spec" buildings for prospects.

As neighboring states get more competitive and step up their industrial outreach recruitment, Arkansas must keep the incentives to attract and retain industry: (1) the investment tax credit, (2) those statewide enterprise zones, (3) continued infrastructure development, and (4) more quality management training.

In the spring of 1995, the Natural State joined 35 other states in launching a conservative, non-profit, non-partisan, public policy research, information, and advocacy organization. The shift of focus away from Washington for solutions to public policy and social problems began during the Federalist-leaning Reagan years. By persevering with principle rather than politics, the state-based research organizations have gained credibility.

The new Arkansas Policy Foundation (APF) has now joined the other state-organizations dedicated to developing, researching, distributing, promoting, and educating at the state and local level for a better tomorrow. Free market ideas are being applied at APF; innovative solutions will then be delivered to state and local media outlets, presented to local civic groups, and distributed through books and position papers to other grassroots organizations.

Because ideas do have consequences, the APF Board commissioned an Opinion Survey whose coverage blanketed the Arkansas business and civic community. The responses of these leading opinion-shapers should shed considerable light on their perceptions about a number of contemporary areas of interest.

The Arkansas State Chamber of Commerce and the Associated Industries of Arkansas (ASCC/AIA) have launched "Project 2000," a strategic plan with a vision for a good business climate in Arkansas:

> Overall. Arkansas will be competitive nationally and internationally with new and expanding industry. Strong business leaders will work cooperatively with government in maximizing the state's resources to produce high quality jobs. Research and development companies will help keep Arkansas competitive.
>
> Workforce and Jobs. Arkansas will have a broad base of educated citizens constituting a readily available quality work force. Training programs and the state's educational system will help ensure that every employable Arkansan will have a job at or

above the national pay level. A high quality work force will forster growth of "quality" jobs.

Business Climate. A free enterprise spirit will pervade Arkansas. The state will promote business development with pro-business attitudes and policies. The legislative, executive and judicial branches of government will work with business. Public policies will protect the environment without over-regulating business. Government will be committed to the economic well being of Arkansans and will allow business the freedom to operate with a minimum of red tape. Government regulations, tax policies and environmental enforcement will be fairly administered creating a level playing field for business and industry.

Infrastructure. Arkansas will have a sound infrastructure with good transportation and utility systems to support economic development.

The strategic plan, as spelled out in the *Arkansas Newsletter*, positions the ASCC/AIA as the leading advocates for business and industry in Arkansas. The organizations would serve as a high profile leader of the business community respecting and reflecting the diversity of Arkansas' business and public policy leadership. The ASCC/AIA would be perceived as the organization to lead the business community into the twenty-first century with a strong and unified voice for business and industry on consensus issues.

We must indeed do more with all resources at our disposal. We are past the point when it is adequate to sell ourselves in the competitive marketplace as "nice place to live, work, and enjoy life," for our neighboring states are also claiming that. But it is a good start, for sure.

4. SMALL BUSINESS WORKS

On the eve of the Reagan Revolution, this writer, representing both Arkansans and Americans, presented the following still-relevant testimony before the House Committee on Small Business Holding Hearings on HOUSE RESOLUTION 1306, SMALL BUSINESS IMPACT ACT to require the preparation of small business impact statements in connection with federal agency rules and HOUSE RESOLUTION 1745, SMALL BUSINESS REGULATORY RELIEF ACT to amend the Small Business Act to provide regulatory flexibility for small business in certain instances so that the effect of regulation matches the size of business regulated:

Mr. Chairman and Members of the Subcommittee:

I am appearing today on behalf of small businesses and an economic system in which a person should be "free" to be anything he wants if he has the “enterprise" to do it. Although I'm more of an academic entrepreneur, I speak to you to represent real enterprisers -- some of whom I've served in the past as a Small Business Institute faculty adviser.

As sincerely as I know how, I wish to plead the case of the small business person who, in all honesty, doesn't know if he's being a crook or a martyr when it comes to complying with federal regulations and the attendant paperwork.

I would like to tell you about a county executive in the Mid South who was asked by a federal installation if the latter's employees could park at the nearby and usually deserted county airport. Our hero requested an environmental impact statement, in triplicate: "How many cars; during what hours; the average EPA rating for vehicles involved; and an affirmative action report on all personnel involved--preferably back at least three generations." Now that's news. Man bites dog!

The fundamental soundness of our economy is each business' responsibility to operate under its own steam -- to know that it can survive and profit only if it produces something consumers want and are willing to pay for. There are risks involved. Our economy is filled with skeletons, large and small, of those who tried and failed to meet this exacting standard.

It must be recognized that Federal regulatory policies often work a hardship on the small firm that the large firm is able to escape. Large firms have at their command a myriad of resources: lawyers, accountants, and a bureaucratic organization that enable them to absorb the impact--and indeed to deflect it -- of Federal regulations. The small firms possess none of these advantages.

I would remind you, as have others, that all regulatory policy should have categories. And without retreat on regulatory objectives, there should always be consideration of cost and reporting requirements for the small firm. By treating large and small alike, one treats them differently.

Once created, regulatory agencies tend to be self-perpetuating -- promulgating more regulations, seeking rulings or test cases against smaller firms before seeking out the big ones, and generally trying always to improve their prestige and "batting averages" before Congress in order to secure larger appropriations for the following years.

According to the National Federation for Independent Business, the impact of regulations is disproportionate in three ways: (1) discovering regulation, (2) understanding regulation, and (3) paying for regulation. This disproportionate impact means that in order to remain competitive with large firms, the small business must cut back in some manner.

The small business can reduce earnings (implying less "take-home" or reduced business investment); it can reduce overhead in some cases (such as cutting employment); or, it can go out of business. As the NFIB has pointed out, if the two former are undertaken with any frequency or if one action is particularly severe, the latter is inevitable. Small firms simply cannot absorb a continually deteriorating competitive position.

The Darling of American Capitalism

I am concerned because it is the small businesses that provide most of the jobs in this country. There are more than 13 million smaller enterprises in the United States. Individual enterprises may be small, but together they form one of the main components of our national economy. Small business currently makes up 95 percent of all commercial and industrial entities in the United States, and employs 60 percent of the labor force.

We count on these same small businesses for 48 percent of our total business output, 43 percent of the Gross Domestic Product, and more than half of our important industrial inventions and innovations. And strong flow of private investment back into smaller companies must be regained if we are to take advantage of their highly labor-intensive potential.

A company may be forced to reduce its size, forced out of business, or be forced to lower the benefits it offers for many reasons: (1) if it cannot or will not invest in new, modern tools and/or adopt modern management methods; (2) if its goods or services are not of competitive quality; (3) if its workers refuse to use modern, labor-saving devices; and/or (4) it cannot economically comply with increasingly restrictive federal regulations.

Our Dual Economy

It is still common to find new developments coming from small businesses instead of from the research labs of large corporations. Small businesses are not tied to existing technology. They are more prone to experiment, to innovate, and most important of all, to take risks.

Small business is what really makes our free enterprise system work, by keeping it lean, tough and competitive. Small business serves as an effective counterweight to the power of the large corporations, and helps to keep our system democratic. The question is, how long will small business be able to perform this role? More precisely, how long will government allow it to perform this role?

I agree with the United States Industrial Council on this:

Small business is slowly but inexorably being squeezed out of our economic system, and all the pressures but one -- the upsurge in product liability lawsuits -- are being applied by government. Heavy government borrowing from private banks has made it difficult for fledgling enterprises to obtain loans. High taxes and inflation are eating into other sources of investment capital. Increases in the minimum wage are putting labor out of reach for many employers. But the biggest single problem that small businesses face is the government regulations.

Since the mid-1960s, federal regulation of business has tripled. For the large corporation, this added burden is an expensive nuisance, but for the small business, it is a life-or-death struggle. The owner-operator of a small firm cannot possibly keep up with all the standards and rulings that are churned out by the bureaucrats in Washington, and he often cannot afford the legal advice and extra clerical help he needs to cope with them.

In the same way, he often lacks sufficient funds to redesign his product, change his method of operation, or otherwise bringing his business into line with federal requirements. Consequently, he has no choice but to sell out to a larger company or to close his doors. It is no accident that during the same period in which federal regulations doubled, the number of business bankruptcies also doubled -- and most of the casualties were small businesses.

The Fourth Branch of Government

Examples abound of the government's intrusion into the private sector. A small 5,000-watt radio station in New Hampshire spent $26.23 to mail its bulky application for license renewal to the Federal Communications Commission. One milk plant, licensed by 250 local governments, three states and 20 other agencies, reported that it was inspected 47 times in one month.

There are those who argue that business is a special interest that stands apart from society as a whole --that "The People" are not affected by regulations. In reality, every person who works for a business, every person who buys products and services, as well as those who invest in businesses, are affected by the excessive and often ill-conceived policies of the regulatory agencies. A review of the impact of some of these policies underscores the need for a serious reappraisal.

As Murray L. Weidenbaum, director of the Center for the Study of American Business at Washington University, has concluded, "The public needs to grasp the notion that government regulation is a potent and expensive medicine. It needs to be taken very carefully, in limited doses and with full regard for all the adverse side effects -- inflation, unemployment, loss of productivity, delay in getting new products, and loss of capital formation."

Inventiveness lies at the heart of America's high standard of living. With 5 percent of the world's people and 7 percent of the world's land, we produce 25 percent of the world's goods and services. The increasing intrusion of regulatory agencies into every aspect of our economy is tending not only to waste valuable resources and decrease productivity but also to stifle America's inventiveness and dynamism.

Yes, Congress should periodically review the need, soundness and fairness of regulatory statutes and evaluate the rules and regulations formulated by the regulatory agencies. Probably the most urgent need for change in regulatory processes is in the area of cost-benefit analysis. It hardly seems improper to suggest that benefits of regulations should be weighed against costs before they are applied.

For instance, when farmers complained about the lengthy applications and $10 check required by the Environmental Protection Agency for a permit to discharge waste water, the Commission undertook to determine the cost effectiveness of its action. They discovered it was costing the agency $15.09 to process each $10 check and $270.10 to process each application.

According to James J. Kilpatrick, the cost of government regulation ordinarily is computed in two ways -- what it costs the government to enforce its rules, and what it costs the private sector to comply with them. A third price is paid, says Murray Weidenbaum. This is the unreckonable cost of what we don't receive.

Anyone who believes that regulatory costs are something that are ordained at enactment ought to thumb through the <u>Federal Register</u>. There is a small telephone directory's worth of standards and procedures spelled out in the <u>Federal Register</u> every day. It is important to remember that most of those standards and regulations impose some kind of cost on somebody..

Federal regulations issued daily throughout the year, except December 25, are 200 pages thick -- and it's the law of the land. Business people have to hire lawyers at $200 an hour to read it daily to see if it applies to them.

What to Do Now

To treat large and small business as the same is both irrational and unfair. As a first step towards reversing the tide against small business, I agree with the NSBA in recommending institution of "two-tier" systems of regulations and laws in the areas of antitrust, patent and regulatory policy.

Let us not forget why the small business community is the darling of American capitalism: The ability of small business to give personal service and provide quality goods and services; to provide an alternative to large corporations for both consumers and employees; to police the marketplace through competition between many companies; and, not least, to provide an outlet for the independent and adventurous spirit that is the hallmark of the small business entrepreneur.

I wish to point out that big business is, to a large degree, dependent on small business -- small business is the supplier of the products which larger companies assemble into finished products. Sound development of the small business community is necessary for economic growth of the economy overall.

Therefore, all government agencies should begin or increase their efforts to ensure that their regulations and the application thereof do not have a disproportionate economic impact on small business. All government agencies should make a concerted effort to reduce the record-keeping paperwork burden placed on small business. Particular attention should be focused on simplification, standardization and non-duplication of existing regulations and requirements.

Agencies should have to identify alternatives for the proposed regulation, and choose the least costly. The agency would have to justify choosing a more expensive alternative. A "sunset" provision should require that once every 10 years an agency must review regulations having an impact on the economy of $100 million of more.

Twice a year each agency should have to publish an agenda of major regulations expected to be acted upon, and projected dates for action. An agency contact, telephone number and address should be listed for each regulation. These agendas should enable you to get the jump on new regulations before they are proposed.

The economic impact statements should be done by the promulgating agency itself. Objectivity could be greatly enhanced by direct small-business participation. And the agency review should conform to a standard method approved by the Congress. The Federal Register should be indexed for small business interests. In it should be increased inclusion of small business representation on regulatory and advisory commissions.

I agree with the Small Business Legislative Council that, as part of its oversight function, Congress must determine whether agencies it has created are issuing rules and regulations contrary to law, inconsistent with legislative intent, and going beyond the statute it is supposed to implement. When an agency does commit abuse, the damage to small business subject to such rule or regulation may be irrevocable. Therefore, the review period of 60 days or longer is essential.

What else, then, can be done to help small business survive in our increasingly regulated economy? Create special exemptions from regulation for small business, particularly in the area of time-consuming and often irrelevant paperwork. Require that federal agencies investigate and report on the likely impact of new regulations on small business before such regulations are promulgated. Reimburse small companies for legal expenses incurred while challenging government regulations in court, if such a challenge results in a verdict against the government.

The self-perpetuating regulation industry must be confronted at the sources of its mandate, so that you might transform the burden of overregulation into a manageable and even positive force. Yes, all laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost.

But let's go further. Officials at decision-making levels in regulatory agencies should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself. Unlike ineptitude, conflicts of interest can be curbed, if need be, by vigorously enforced criminal penalties. Regulatory bodies should all the more be subject to real periodic Congressional review, to limit their life spans.

I would like to have made some modest and uncomplicated proposals. They would amount to little more than requiring the regulatory industry to operate by the same rules as the industries they regulate. Any corporation that ignores either economies or competence for long simply ceases to exist -- and that is precisely the right fate for a good part of the regulatory system.

I would conclude with a word of caution regarding regulatory reform. Baron Von Frankenstein was a man who meant well. Death distressed him, and with the best intentions he sought to "re-create life." Using transplants, he made a dead man alive--produced an unnatural creature who was at first benign but rapidly deteriorated into a fiendish monster.

Let's be super-careful to do only those things that continue to give decent life to the system that supports us -- our economic horn-of-plenty that we call free enterprise.

5. GLOBAL ENTERPRISE DYNAMICS

Mexico got into serious economic trouble in 1994 as a result of a precarious decade when the country's debt grew significantly faster than its Gross Domestic Product. At this writing, Mexico is bouncing back and working through the negative externalities that resulted in the short run. By shrinking its budget deficit, holding to a tight money policy, Mexico has reduced inflation and returned its stock market to precrisis levels. As Mexico has begun repaying her loans, the long run looks positive and should be examined accordingly, along with other very significant alphabet organizations which form trading blocs.

"What do you think of NAFTA?," asked Congressman Tim Hutchinson (R-AR) in late 1993, as we had a delightful conversation during his recent visit to our campus. "Well," I replied, "if you want a short answer--here it is: NAFTA is going to save our economic hide for the next generation and beyond."

Short answers are often simplistic; but as the earth rotates, it's obvious that our planet is evolving toward three major trading blocs: the Americas; a United Europe; and the Pacific Rim. Thanks to NAFTA, although it was happening anyway, our trading bloc will be the largest. From the Yukon to the Yucatan, it involves upwards of 400 million people and $7 trillion in goods and services.

Yes, we are well into a new era of our continental prosperity. Prior to the recent pro-NAFTA vote in late 1993, the unification process was well advanced. Since 1987, Mexican imports from the US had tripled. During that period of time, tariffs on U.S. goods flowing into Mexico fell 90 percent. Today, Mexico is our third largest export market, behind Canada and Japan.

NAFTA Too Good To Be True?

Quietly, in the last half decade, 400,000 Mexican export-related jobs have been added to the U.S. work force. That is why most state governors were near unanimous regarding the NAFTA controversy. The governors have seen positive job growth--a significant net gain. Certainly, there will continue to be those who would parade joblessness of some Americans before the TV cameras. However, the conditions which led to NAFTA have already proven to be a significant net job gainer.

Will there be some unskilled jobs lost to Mexico? A nominal amount. But let's remember that 80 percent of our unskilled workers in America are producing services, not manufactured goods. After a few more years, we will see that most of the low skill and medium skill jobs lost to Mexico were, in fact, lost not by America but by more direct competitors of Mexico--other developing nations.

Environmentally, Mexico City is like the Los Angeles basin: 20 million people in a close metropolitan area surrounded by mountains, creating a natural basin for smog. Industry is jammed up against that in horrible conditions. NAFTA allows industry to move up and out to other enterprise zones.

One of the more visible opponents to NAFTA said in 1993 that, "Mexico needs us--we don't need them." That's the point --we'll sell much more to them than we will buy from them. In fact, we don't have to wait for the results. Between 1987 and 1993 America moved from a $5 billion trade deficit with Mexico to a $5 billion trade surplus.

Under the process that was formalized by Congress, NAFTA contains rules to insure that benefits occur only to North American companies. NAFTA retains stringent US trade remedies for dumping products and it grants US investors in Mexico and Canada equal treatment with local investors. NAFTA also establishes a process for harmonizing health, safety, and industrial standards at tough US levels.

GATT -- NAFTA on Steroids

What about GATT? The General Agreement on Tariffs and Trade dates originally back to 1947. GATT is NAFTA on steroids. More than 120 nations have just gone through seven grueling years to develop the most comprehensive agreement which will significantly eliminate national tariffs, subsidies, quotas and other forms of protectionism.

Just as with the NAFTA, GATT should result in all the good things that free market economists have been preaching about free trade: more products, lower prices, rising standard of living, more jobs, reduced trade barriers, improved diplomatic relations, elimination of monopolies, and may even make the weather perfect every day.

That's what GATT is all about. It was created to set fair and common rules for the ways in which each country must conduct its trade with others. Just as GATT has come into the limelight, we will see it go through a metamorphosis, with its successor organization to be called the World Trade Organization (WTO).

Much has been accomplished since former President Reagan launched the new round of GATT discussions in 1987. One could say that the benefits from the GATT pact would be similar to these outlined in greater detail by NAFTA. We should always remember that it may take years, and even decades, to fully play out, and that these agreements were still at best, formulated by fallible, mortal human beings.

The APEC Trading Bloc

Lesser known is APEC. A new organization, dating back to 1989, APEC stands for Asia-Pacific Economic Cooperation Forum. The members of APEC encompass the single largest chunk of USA foreign trade: Australia, Brunei, Canada, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and, of course, the United States.

All combined, the Department of Commerce lists goods and services traded within APEC as on a par with the near $400 billion worth of goods and services traded between the NAFTA partners. APEC has resulted in open and constructive dialogue between these key nations. Again, the results are likely to be freer trade, more regional economies developing, and above all, the preservation of peace in our times. As we look to formal agreements which will come out of the APEC meeting in Seattle, there is certainly a lot of common ground on which to develop treaties and accords.

As Arkansas Governor Jim Guy Tucker attended that conference in Seattle, we received word that Arkansas exports to Malaysia alone grew from 1.2 million in 1989 to 29.8 million dollars in 1992, according to the numbers provided by the Arkansas Industrial Development Commission. Arkansas exports to Taiwan nearly tripled in that same three year period, and combined exports to all APEC member nations are now pushing $400 million a year.

Resources, Markets and Borders

In the Nineteenth century, the French economist Frederick Bastiat put it this way, "if goods do not cross borders, armies will." One has only to think back over the decades and centuries to recall the wars, large and small, that flared up over the issue of resources and markets. So, although it may be too soon to fully tell, this writer says "Three cheers for NAFTA, GATT, and APEC!" We will all be the better for them.

The next question is, "What does the United States do now in order to make sure that we remain on the leading edge of all aspects of these new relationships, to gain maximum benefit?" First of all we need to look at a mixed bag of circumstances. It is estimated that the economic impact of GATT for the World Economy would be in the range of $500 billion, including an increase in economic output of $110 billion in the United States. Also factored in would be an increase of 1.4 million jobs in the United States over the next decade.

As the United States is in a very significant position, compared to most of our trading partners, we have a great deal to benefit as the biggest exporter in the world. Our own markets are already the most open to imports. America's grain growers will potentially gain a massive foothold nearly everywhere.

6. TAX CODE REFORM ISSUES

American investment has lagged behind our major trading partners. Why? We have hamstrung profits. Money goes where it will make money. Money has no nationality, and American investment does not have to stay in America where profits are being penalized. How pervasive is the effect of taxes on savings and new capital? Taxes reduce spendable income. Taxes reduce ability of individuals to save. Taxes reduce ability to buy capital goods. Taxes shift individual and business spending to government spending.

Why isn't this crucial problem taken seriously by Arkansans? Because most people do not realize how important modern power tools are in multiplying productivity, lessening inflation and increasing real income. Most Americans overestimate the size of profits--the reward for those whose savings and investment pay for these tools.

The Tax Reform Act of 1986 eliminated the 60 percent exclusion for capital gains. In so doing, the maximum tax rate on capital gains income was effectively increased from 20 percent to 28 percent. The stated goal was to increase revenue to offset individual and corporate tax rate reductions. This did not occur. Contrary to the optimistic governmental projections, instead of generating additional federal revenue, capital gains receipts fell and remain lower than they were in 1985 when the economy was a third smaller.

The Capital Gains Tax

All investors, Arkansan and American, should be allowed to reinvest capital in the U.S. on a tax-free basis. There should be no distinction between long-term and short-term investments. Investors should be able to operate rationally in the economy, without having to unduly consider the tax consequences of their decisions. Germany, Japan, Taiwan, South Korea, Hong Kong, and Singapore allow their investors to reinvest, and accelerate the compound growth of their respective economies.

In this regard, the United States and Canada are out of step and out of touch. Lower capital gains taxes will consistently yield higher rates of economic growth. The results of a recent study by the Institute for Policy Innovation suggest some specific principles that a pro-growth tax policy should follow:

- Labor and capital should be taxed more equally. Because capital is currently taxed at a much higher rate than labor, tax rates on capital need to be lowered.

- Marginal tax rates of labor and capital should be brought closer to their average rates.

Policies that focus on the last dollar, such as lower tax rates or investment incentives, are preferable to ones that focus on the first dollar.

- As tax rates on capital are approximately 50 percent higher than they are on labor, there should be a reduction in the amount of capital gains included in taxable income;

- Increase the availability of Individual Retirement Accounts which lowers the tax rate on capital because earnings on capital held in these plans is taxed only once;

- Liberalize tax depreciation rules to lower the effective tax rate on both corporate and non corporate capital.

A rate reduction will not reduce the tax revenues of the federal government. A lower rate will stimulate the sale of assets whose price has increased. A lower rate will increase the value or price at which stocks can be sold. A lower rate will stimulate the economy and thus increase revenues from other tax sources. It should be very easy for us to support reduction in the tax rate on capital gains because it is pro-growth and pro-jobs.

There are also important international considerations. Only the United Kingdom has a higher rate, and many countries do not tax capital gains at all. If the United States is to remain competitive internationally, we must reduce the tax rate on capital gains.

Flat Tax Fever

The idea of a flat rate tax is very seductive. There are also two schools of thought on this issue, and most people were absent both days. The flat rate tax seems so clean, neat and right--like apple pie, motherhood and solar energy. The flat rate tax is really a two-edge sword--neither all good nor all bad. It could mean the end of a maze of deductions that seem to let the rich escape some taxes and yet, in the process, compel the rest of Americans to pick up the slack.

Taxes can be complicated and fair (treating every situation differently as needed), or taxes can be simple and unfair (treating everyone the same when they are not; therefore, discriminatory). Our original income tax in 1913 was a flat tax: one percent of the income above the first $3,000; and only the wealthy professionals were in that bracket. Observing what has happened since then with taxflation--average Americans being bumped into higher tax brackets (indexed in 1986) -- of greater concern than the actual bracket selected would be this: how easy would it be to raise the bracket?

According to Norman Ture, former Under Secretary of the Treasury for Tax and Economic Affairs, the outbreak of "born-again" enthusiasm for the flat tax among Washington politicians may simply reflect Congress's "urgent desire to find some way of increasing Federal revenues in a manner that will convince taxpayers good things are being done to them even while additional taxes are being extracted."

A less publicized but equally critical problem with the flat-tax proposal concerns the proposed blanket elimination of deductions. If a flat-tax proposal results in the elimination of such deductions, it could stifle private sector alternatives to government programs. Further, a truly flat rate might benefit the rich. And alas, the poor would probably then receive a tax credit to keep from being hurt. That leaves the middle class to carry the burden. Revenue collections at the Arkansas state government level could also experience a significant shortfall.

The jury is still out on this issue. It will need further study, for there is a sizable built-in lobby in favor of the status quo: accountants and tax lawyers for whom the current, complex tax code is a full employment policy.

Domestic Taxation Wedge

What can Arkansas business people do? Business people must make clear to all in their sphere of influence the fact that profits create new jobs, enable business to improve the quality of its products and services, provide vital tax funds for essential community services, and make possible the upgrading of employees, control of pollution, and even make strides in solving some social problems.

Tax Code Reform Issues

Let's change the tax laws so that business can be more certain to recover the cost of research and development, thus reducing the risk of losing money on efforts that, by their very nature, must prove disappointing in many cases. America must develop a better climate for investment by making it advantageous for people to invest. Existing tax laws don't do this. Specifically, we need a tax system that would allow business to deduct faster the costs of putting up a new building or buying new machinery.

Depreciation under present law is a complicated system that puts a damper on investments. It needs to be replaced by a system of simple and rapid deductions designed to generate investment funds that lead to new jobs and foster economic growth. Let's allow industry also to write off the cost of investments in new plant and equipment more rapidly.

Technological advances are meaningless unless put to work. People also need to be encouraged to save more and to invest more--directly through the stock market or indirectly through savings institutions. In a number of countries, some money that is put into savings accounts is exempt from income tax.

Tax Code Changes

Is better control of government spending a must? Yes. Increasing deficits require borrowing by the government; and government borrowing takes away from the amount of loanable funds available for corporate borrowing--there's just so much available. And what about the tax code? Lower tax rates on corporate earnings are necessary. We need to continue and expand tax credit for productive investment. Let's also remove the double taxation of corporate profits. Lower the capital gains tax to bring us in line with our trading partners.

We need allowance for more rapid, more realistic depreciation, to recover investment in equipment sooner, for new investment. Recovery of a large portion of cost of pollution control by providing a tax credit for required investment is a must. We should make time schedules more realistic and related to overall problems. Where possible, let's reduce regulation of business where gains in safety and health are small relative to the costs of achieving them.

Both in Arkansas and at the national level, politicians will nearly always be politicians. They survive by catering to special interest groups throughout the land. As long as we allow it, our politicians will literally spend money as if there were no tomorrow. When the day of reckoning does come, their track record indicates a propensity to raise taxes or borrow the money to cover their fiscal folly. Proof positive is that it doesn't seem to matter who is president or which party controls Congress.

We have lost our requisite self-discipline to resist voting ourselves more and more benefits from the public trough. One real hope is to change the system's rules, so that politicians can still be politicians without dragging an insolvent economy over the edge. With a federal budget approaching 1.5 trillion dollars and chronic triple digit deficits, isn't it imperative that stronger fiscal controls be exercised?

7. MEASURING GOVERNMENTAL EFFECTIVENESS

The decade of the 1980's began for Arkansans and Americans with a noxious mixture of double digit inflation, high interest rates, chronic unemployment, declining productivity, slow economic growth, diminished defense capability, and a sagging national self-image. Almost categorically, the next ten years witnessed a phenomenal turnaround of the above mentioned indicators.

All of this good news has been accompanied by record debt of the personal, business, and governmental kind. So, the debate goes on. "Are we undertaxed or overspent?" Can we continue to try to stand in a circle with our hands in each others pockets and all expect to get rich? Time will tell.

Regarding tax and fiscal system index measures, the 1995 Development Report Card for the Corporation for Enterprise Development ranks Arkansas among the 50 states as follows:

Category	State Rank
Total Tax & Fiscal System Score	16
Fiscal Stability & Balanced Revenue	15
Tax Fairness	40
Fiscal Equalization	6

Measuring Governmental Effectiveness

Where Do We Stand?

How does Arkansas specifically compare in revenue and spending matters? According to the Washington Research Council, which examined major categories of revenue and expenditures for state and local government expressed on a per capita basis and as a share of personal income, here is where Arkansas stands among the 50 states:

Category	State Rank	Per Capita Rank
Revenue from Federal Government	13	23
Total Taxes	37	48
Property Taxes	47	48
Income and General Sales Taxes	10	31
Current Charges	26	40
Total General Expenditures	35	51
Public Welfare	17	30
Interest on General Debt	41	48

Taxation at the state level and constitutional law found themselves as strange bedfellows in mid-1995, as have interest rate ceilings in times of economic inflation. Under our 1874 reconstruction era Arkansas Constitution, the earliest a constitutional amendment can go to the voter is next year.

Measuring Governmental Effectiveness

Our 120-year-old constitution bars lawmakers from proposing any amendments outside of regular legislative sessions. That provision makes Arkansans unable to respond to crisis situations. Such was the case in June 1995 when the state Supreme Court struck down a 1981 state law authorizing local option sales taxes to impose a full, one-cent county wide tax for general operations and to be shared with cities in those counties on a per capita basis (there was no sales tax when the 1874 Constitution was drafted).

Had the court not reversed itself several weeks later, it could have cost Arkansas' city and county governments many millions of dollars and, in some cases, 20 percent of their operating budgets. Hear the words of Thomas Jefferson: "In questions of power...let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution." Whether or not this applies at the state level is now being contentiously debated in Arkansas, as we try to be realistic.

Debt Burden Legacy

To ensure that today's debt and spending commitments do not unfairly burden the children of Arkansas and America, should our government act now? This is the message coming from the Congressional Bipartisan Commission on Entitlement and Tax Reform. Otherwise we will perpetuate the long-term imbalance between the government's entitlement promises and the funds it will have available to pay for them:

- Although the short-term fiscal outlook has improved, the long-term situation requires immediate attention. For the next 5 years, the Federal deficit is projected to average 1.5 percent of the economy, its lowest level since the 1970's. After 1998, however, Federal spending is projected to grow faster than revenues which will cause Federal deficits to rise rapidly.

- In 2012, unless appropriate policy changes are made in the interim, projected outlays for entitlements and interest on the national debt will consume all tax revenues collected by the Federal Government.

- In 2030, unless appropriate policy changes are made in the interim, projected spending for Medicare, Medicaid, Social Security, and Federal employee retirement programs alone will consume all tax revenues collected by the Federal Government. If all other Federal programs (except interest on the national debt) grow no faster than the economy, total Federal outlays would exceed 37 percent of the economy. Today, outlays are 22 percent of the economy and revenues are 19 percent.

Measuring Governmental Effectiveness

Representative Jim Saxon, Vice Chairman of the Congressional Joint Economic Committee, has gone on record as saying that economic expansions do not die of old age. Rather, they are killed off by misguided government policies. Indeed, the 1980s taught a very valuable lesson.

The experience of the Reagan revolution demonstrated that the economy performs admirably when government reduces its size and scope relative to Gross Domestic Product. There are, therefore, important areas where the Congress should act: first, reduce taxes (especially taxes on capital); second, reduce spending; and third, reduce regulatory burdens. Otherwise, the government continues to grow at the expense of the private economy.

Derail The Federal Gravy Train?

How can Arkansans give momentum to a movement that would derail the federal gravy train? There is a saying going around these days in Washington, D.C. that ". . . all the king's horses and all the king's men will never be able to cut government spending again." The legacy of fiscal irresponsibility is that runaway, big spending government is out of control. And it's a bipartisan problem. Neither political party seems to know what to do about it. Even leaders with relatively clear sets of principles find it politically difficult to make those tough policy decisions that are required to turn the state of our economy around.

Measuring Governmental Effectiveness

Again, at the heart of the current debate is this question: "Are we undertaxed or overspent?" In the 1980's, federal revenue, taxed at significantly lower rates, rose approximately six percent annually. Federal spending grew through the decade at an annual rate of nearly nine percent. That is, for every $1.00 increase in revenue, spending increased $1.50. The question answers itself. We are a nation of people who, individually and collectively, can't balance our checkbooks. And we want more from government than we are willing to pay for in taxes.

Has deficit spending ever snapped any country out of a business slump? Not really. A recovery comes when businessmen, sensing fresh consumer demand around the corner, start ordering new goods and building up inventory. As the process picks up steam, production rises and men and women go back to work.

Every American must be made aware that government excesses--especially growing government regulation and the government borrowing often takes four out of every five dollars from the long-term capital markets (thus leaving only 20 percent of available capital for investment in industry)--are destroying the dollar, threatening our free enterprise system and eroding our personal freedom.

The basic economic truth is that in the long run, far from "creating new jobs," deficit spending actually throws people out of work. When the government spends more than it takes in, it borrows the difference by selling bonds. Money raised from the floating of bonds would otherwise have been available to private borrowers, business people who need cash to build new plants and purchase new equipment, thereby opening up new jobs. To add just one employee to the work force requires an investment of about $50,000. By hogging the supply of credit, the government elbows private firms out of the market. Strapped for funds, businesses languish and unemployment rises.

Stimulating demand through Federal spending has spawned evergrowing numbers of special interest groups. And should it be a surprise that each of these groups has vigorously guarded "its" so-called share of the Federal government's budget? After all, we now call them "entitlements." We need better control of government spending.

Do we really think we can all continue to stand in a large circle with our hands in each other's pockets and all expect to get rich? Certainly not. Do we need a safety net to catch those unfortunate individuals who have fallen through the cracks? Yes. However, we certainly shouldn't turn it into a bed for those who refuse to climb up and out.

Office seekers in Arkansas, as in other states, know that many voters realize that increased Federal spending, without corresponding increases in taxation, will cause an inflationary bias. Candidates and voters alike also know that such a practice can lead to recession and unemployment. And so, politicians, whose actual policies and programs would oblige a significantly larger Federal budget, are apt to camouflage this fact.

No Free Lunch Served

Alas, there is no free lunch. Everything has a cost that must be paid by someone, sometime, somewhere. In the past three decades, the Federal government has been doling out money for many programs that had never been part of its responsibility earlier. If such money, heretofore thought of as "free," could potentially be reduced through a line item veto amendment, the "victims" would be complaining about economic and social injustice. If those programs are in fact important, then couldn't the would-be casualties petition their state legislatures for similar programs? Some of the programs might no longer be so important, if the citizens were asked to pay for them directly.

Nearly a decade ago, the governor of Illinois said he would put off a line item veto of funds for a mental-health center if the legislature found equal savings somewhere else in the budget. This give-and-take process is certainly helped along by the stark reality that states cannot legally resort to printing press money to cover their deficits. It might have been better for all Americans if our leaders of those past decades had the resolve to go even farther and start the process toward an honest-to-goodness balanced budget amendment.

The typical version of a balanced budget amendment would require Congress to enact each year a budget whose outlays did not exceed expected revenues. Peacetime deficits would be allowed only with the consent of three-fifths of both houses. Wartime deficits could be approved by a simple majority. Congress would increase spending substantially from year to year--but only if it were willing to vote for higher taxes. Without such a vote, revenue increases would be held to a pace no greater than the nation's rate of economic growth.

Congress should address the problems in the tax code. The current tax system is too burdensome and intrusive. Further, technology is making the current tax system obsolete. "Future taxes," says Lawrence Hunter, Chief Economist for the Joint Economic Committee, "should be capital friendly, simple to administer, broad-based, and limited in scope."

[illegible] balanced budget amendment.

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[illegible]

8. INCENTIVE-BASED ECONOMIC REFORM

Have the chickens come home to roost in Arkansas and America? At odds today are the neo-classical, incentive-based economics and the Keynesian, demand-side economics, sometimes alluded to as "flow through" and "siphon off" approaches respectively. Six decades of education based on demand-side economics have understandably caused this approach to be deeply imbedded in the thinking of our elected leaders, scholars, and the media. Therefore, an understanding of incentive-based economics is still beyond the grasp of many today, even though it is pure, vintage Adam Smith.

The ideas of John Maynard Keynes have dominated the last six decades, and his theories have been imposed on western democracies. What were his basic premises? He preached that prosperity would be the result of increased consumer demand and increased government spending through an inflated currency. Keynesian "siphon off" policies have drained away the private sector's vitality. The notion was that we could continually prod the economy into prosperity through force feeding it with annual budget deficits. That created a noxious mixture of slow growth and chronic price increases that we call "stagflation."

Those results should have knocked Keynesian economics off its pedestal. But it hasn't happened. Why? Another type of deficit, this in our export/import trade, is the prime reason that those chronic, triple digit Federal budget deficits have not spawned more inflation during the last decade. Those trade deficit dollars have flowed back into the American economy as foreigners have been purchasing our government and corporate debt.

Incentive-based economics, in its simplest form, is the application of price theory to the economy. It has its foundation in the belief that the free market is stable and, if the government keeps its hands off, the result will be an efficient allocation of goods, services, resources, and income. Far from being new and unsound, the basic principles of incentive-based economics have been standard operating policy through most of America's history. Its legacy has been the phenomenal development of American capitalism.

One needs only to contrast that early American record, and Great Britain's wonderful achievements in the 19th Century, to the Keynesian legacy of falling productivity, persistent inflation, relatively high tax burdens and the quantum leap in the size and scope of government and its debt in the past 60 years and ask which policy was the fluke, which one was unsound, and which one failed?

The problems with the American economy are not the result of malicious actions by mean people. Rather, the problems are the cumulative toll of well-intentioned folks who either have not done their homework or have not considered the long run consequences of short run, quick fix policies. As I tell my students "it's not just the crook in business you have to worry about -- it's also the honest fellow who doesn't know what he's doing. He can hurt you, too."

Incentive-based Economic Reform

Nothing Heals Like a Tax Cut

Incentive-based economics is as ancient as that 2,500 year old "Aesop's Fables" about "The Goose That Laid the Golden Egg." In the fable, some well-intention folks want to catch and kill the golden goose to get the rest of those golden eggs. However, sounder minds prevailed. The people in that tale learned that it was in their long run interest to nurture and stroke that golden goose. The result would be more golden eggs in perpetuity.

Adam Smith, author of An Inquiry Into the Nature and Causes of The Wealth of Nations, in 1776, was one of the first to propose an incentive-based theory that stood apart from mercantilist protectionist economics. His principles were not followed by government leaders until Britain's Prime Minister Gladstone formally embraced them in the latter half of the 19th century. History was to then record that his program was indeed highly successful.

Prime Minister Gladstone's program did involve sizeable tax reductions, rapid economic growth and the elimination of budget deficits. Recognized as the dominant view of fiscal macroeconomic policy of its day, this approach can hardly be indicted today for being radical or new. Incentive-based economic principles are rooted in classical macroeconomics.

Incentive-based Economic Reform

Incentive-Based Economics

It really isn't difficult to trace through the logic of incentive-based economics. A reduction in tax rates is like a raise in pay which results in higher savings, lower interest rates and higher investment. Corporate tax rate cuts and/or increases in the investment tax credit, combined with accelerated depreciation allowances, improve business investment by increasing average after-tax rates of return.

Higher business investment results in productivity increases, more output per unit of input. The transfer of resources from the government sector to the private sector increases productivity rates still further, since productivity gains in the government sector are usually nominal.

The subsequent increased rates of economic growth provide the needed factory capacity to create additional goods and services demanded because of the tax cut. The result is balanced economic growth with neither shortages nor surpluses. Reduced tax rates result in lower demands for wage increases, because real income has risen as a result of the tax cut. With the wage-price spiral somewhat broken, lower inflation results in an increase in real income.

Consumer spending, output and employment, will subsequently be on the rise. Lower tax rates give individuals more incentive to work, and quite naturally the result is more and better work being performed. The private sector's productive capacity is further increased, and the underlying inflation rate is reduced further.

Cuts in Federal spending and stable money supply growth are both vital to our economic success. So, another cornerstone to it all is a central bank policy that holds the line on money supply increases. This, in tandem with more goods available for purchase, would throttle the inflationary problem of too much money chasing too few goods.

In large measure, the remarkable resurgence of Japan and the former West Germany to become the third and fourth largest economic powers can be attributed to tax policies which encouraged growth. Japan and the former West Germany have fairly low rates of tax on earnings and profits. It is incentive-based economics personified: a narrow tax base and low rates of direct taxation promote rapid economic growth which results in high and ever-increasing tax revenues.

These low tax rates bring about high rates of real economic growth, resulting in rising revenues which can be made available for public sector spending for well-run social programs. At the same time, welfare states like Sweden rely on high tax rates, and continue to labor under serious economic difficulties. Critics of tax cut plans still say that it will be making 250 million Americans the guinea pigs for an untested economic theory. That hardly seems to be the case, in light of economic history. Pay your money, and take your choice.

A Republican -- Democrat Connection

Incentive-based economists enjoy pointing out that prior to former President Reagan, the last real growth-oriented politician in the United States was President Kennedy. Mr. Kennedy launched a very abrupt change in economic policies in the United States, cutting taxes the most on those who earned the most.

Mr. Kennedy believed that no person has ever truly prospered by trying to pull down another. His point was that we don't work just to pay taxes; we work to have what is left after taxes. Furthermore, entrepreneurs don't look at factories with humanitarian motives; they are looking for rate of return on investment. Nobody saves to go bankrupt; we save to augment our wealth.

Mr. Reagan told the nation that federal tax reductions will not be held hostage to spending reductions. In fact, Mr. Reagan clearly said that "government revenues will increase as the economy grows. . .because the economic base will have been expanded by reason of the reduced (tax) rates." Mr. Kennedy in his 1963 Economic Report of the President made the same point as follows: "Tax reduction thus sets off a process that can bring gains for everyone". . .and explained why "reducing taxes is the best way open to us to increase revenues."

What about the issue of helping the poor to cope with the hardships of life? Here, Reagan and Kennedy share sharply different views from the Keynesian redistributionists. Time and again, Kennedy remarked that the best form of welfare was still a good, high-paying job. This notion was characterized by the phrase that "A rising tide raises all boats" and that a growing economy elevates the standard of living of the poor, along with the more affluent.

Redistributionists turn the Kennedy "rising tide" phrase on its head and refer to the same policies as "trickle down" economics. A better term would be "flow through." Reagan, remaking Kennedy's point stated: "Our aim is to increase our national wealth so all will have more, not just redistribute what we already have which is just a sharing of scarcity."

Flow-Through Economics

So-called "flow-through economics," can be a sound economics. In a market economy, taxable revenues are created by the deployment of capital. If we don't penalize those who have the capital by high tax rates, the benefits do "flow through" the economy. Such has been the very positive heritage of our American Industrial Revolution. In the 1963

Economic Report of the President, Mr. Kennedy put it this way:

> Tax reduction thus sets off a process that can bring gains for everyone, gains won by marshaling resources that would otherwise stand idle--workers without jobs and farm and factory capacity without markets. Yet many taxpayers seem prepared to deny the nation the fruits of tax reduction because they question the financial soundness of reducing tax when the federal budget is already in deficit. Let me make clear why, in today's economy, fiscal prudence and responsibility call for tax reduction even if it temporarily enlarged the federal deficit--why reducing taxes is the best way for us to increase revenues.

It looks as if we need another strong R & D effort to get us back on track. By R & D we mean "Republican and Democrat." After all, there is plenty of blame to go around for both parties.

9. GAUGING PUBLIC SECTOR EFFICIENCY

As voter demands mount for accountability and cost control, the attitude toward governmental operations is also being modified. John Naisbitt in his *Trend Letter* reports that as angry taxpayers reject tax hikes to maintain or increase services, government is trying to emulate business by doing things smaller, cheaper, better, and smarter. Both states and cities across the U.S. are acting less like public benefactors and more like businesses.

> Most prominent in the U.S., the trend is growing stronger as the federal government moves toward shifting more programs and burdens to the states. That's forcing state and local governments to do more with less. Public bureaucracies rarely have been breeding grounds for efficiency and productivity, but that's changing. Elected officials realize they have no choice but to change the system, so they're trimming staff, bidding competitively, eliminating waste, and cracking down on fraud and abuse.

Anti-poverty programs, because of their magnitude, head the list of concerns. As a proportion of our state's population, 6.8 percent of Arkansans receive aid from the public sector. The U.S. average is 7.6 percent. In terms of per capita federal aid to Arkansas' state and local governments, we rank 21st among the 50 states. Of course, as a nation, we all seem to want more from government than we are willing to pay in taxes. That doesn't bode well for the future.

When reporting poverty statistics, the Census Bureau ignores all sources of wealth and income other than money income. Thus, such major benefits as food stamps, Medicaid, and housing and energy assistance have no effect on the reported poverty rate. These results create aberrations such as the Institute for Policy Innovation (IPI) has cited (Alice would have loved this "Wonderland"):

- 91 percent of those defined as poor own a color TV;
- 56 percent of the poor own a microwave oven; and
- 40 percent of those in poverty own their home, with 71,000 "poor" people owning homes worth more than $300,000.

Poverty Unmasked

What causes poverty, asks IPI researchers? Several factors cause people to suffer poverty levels of income. First, there is genuine lack of economic opportunity. A person may simply be unable to find a job, or to find a job that pays a high enough wage to support a family. Then there are those who are obviously incapable of supporting themselves because of illness or handicap, either temporary or permanent. But others have simply opted out of the system, either because they have realized that the state will provide them a living without any effort on their part, or because they have decided to do things other than work, such as attend school or engage in some other activity.

One would imagine that the majority of poor persons either are unable to support themselves, or simply cannot find a job. However, IPI analysis of Census Bureau and Bureau of Labor Statistics data presents us with the following discouraging data: 61 percent of those defined as being below the poverty level are attributable to behavioral decisions, rather than incapacity or lack of opportunity.

This observation is critical in analyzing any proposal for fixing what ails the current welfare state. Most of the resources of the welfare state are being consumed by persons other than those for whom it was designed. The overwhelming evidence is that transfer programs are ineffective as a means of moving people into the labor market.

When President Clinton formed the Bipartisan Commission on Entitlement and Tax Reform, he asked 32 Members of Congress and distinguished private citizens to address the most challenging fiscal issues facing the country. Here is how Commission Chairman J. Robert Kerrey put it in the Interim Report back to the President:

> The message is simple, yet disturbing. America is at a fiscal crossroads--if we act, we can help ensure continued growth and prosperity, but if we fail to act,

we threaten the financial future of our children and our Nation. This Report demands action. If the country does not respond, Americans 10, 15, and 20 years from now will ask why we had so little foresight. Mr. President, the target is ambitious and there are no easy answers. But turning back is not an option. Reform is critical to America's future.

Toward Insolvency?

One concern of the Commission was that to ensure that funds are available for essential and appropriate government programs, the Nation cannot continue to allow entitlements to consume a rapidly increasing share of the Federal budget:

- Entitlement spending and interest on the national debt together consume more than 60 percent of Federal outlays today (47 percent for entitlements and 14 percent for interest), double the percentage of just 25 years ago.

- The Congressional Budget Office projects that entitlement spending and interest payments together will exceed 70 percent of total Federal outlays by 2003 (58 percent for entitlements and 14 percent for interest).

- Accordingly, by 2003, unless appropriate policy changes are made, less than 15 cents of every dollar the Federal Government spends will be available for non-defense discretionary programs that can raise productivity and contribute to economic growth.

To respond to the Social Security Trustees' call to action and ensure the long-term viability of Social Security, the Commission urged that spending and revenues available for the program must be brought into long-term balance. Any savings that result should be used to restore the long-term soundness of the Social Security Trust Fund:

- Social Security is an important source of support for many of the Nation's citizens. Today, the poverty rate for senior households is about 13 percent, but without Social Security, it could increase to as much as 50 percent. Social Security provides 90 percent or more of the total income for almost half of the senior households below the poverty line. Half of all American workers do not have employer-provided retirement programs and must rely upon Social Security and their own savings.

- Once the baby boom generation begins to retire in 2010, the cash flow surplus from Social Security will rapidly decline. By 2013, Social Security benefit payments will exceed the tax revenues dedicated to the program. After 2013, the cash flow shortfalls in Social Security will cause the total Federal deficit to increase rapidly unless appropriate policy changes are made.

Budget Cuts and Workfare

Despite much talk of "draconian cuts" during the Reagan years, reports Heritage Foundation's Peter J. Ferrara in Issues '94, welfare spending is at an all-time high by every measure and is projected to continue soaring in future years. Since the start of the War on Poverty, federal, state, and local governments have spent $5 trillion on means-tested welfare assistance for the poor--more, even when adjusted for inflation, than America spent on World War II.

And despite the increase in spending, the poverty rate is about the same today as in 1965 when the War on Poverty began. Consequently, growth of "behavioral poverty" among the poor--unemployed, high rates of illegitimacy, family breakup, and long-term and even intergenerational welfare dependence--have worsened material poverty.

Is workfare a good substitute for welfare? "Yes," says Lawrence M. Mead, The Brookings Institute, in his statement before the Subcommittee on Trade, Productivity, and Economic Growth, Joint Economic Committee, U.S.

Congress. "No," says Morton H. Sklar, in his statement before the same subcommittee.

Mead argues that the fundamental problem with AFDC is that welfare mothers are not obligated to work. Since few of these recipients of welfare aid have experienced the discipline of the workplace, they become disinterested and discouraged with all that happens around them. They give up the right of self-determination. They slip out of the American mainstream and get caught in the backwater eddies of "welfare dependency."

Sklar does not reject the importance that Mead attaches to work experience. Rather, he argues that blaming all the problems of welfare on a lack of a work obligation is a "gross misconception." He finds that the problems of those who are welfare dependent are far more complex. Those who seem trapped are those who are least able to compete in the marketplace. They are poorly educated. They have low skill levels. In short, they are the least likely to benefit in a fundamental sense from short-term work experience.

Reasonable Options Available

As we consider further research, the following are conservative reform ideas which surfaced recently in several national polls:

- Require unemployed fathers to work;

- Take money out of the paychecks and tax refunds of fathers who refuse to make child support payments that a court has ordered;

- Require all able-bodied people on welfare, including women with small children, to work or learn a job skill;

- Require teenage mothers to stay in school to receive any welfare support at all;

- Deny welfare to legal immigrants until they are citizens;

- Replace welfare benefits with tax credits and strengthen child support enforcement;

- Require teenage mothers who are unmarried to live with their parents in order to receive welfare;

- End increases in welfare payments to women who give birth to children while on welfare; and

- Give additional assistance to unwed mothers on welfare who marry.

Because of its perverse incentives, the welfare system in America has failed to cure poverty. By providing substantial subsidies to those who are not working, and by withdrawing those subsidies when households try to leave welfare and earn their own incomes, it discourages work and encourages non-work; and by providing substantial subsidies to single mothers with children, it discourages marriage and encourages illegitimacy.

The key to reform, and it is well-documented in the above mentioned Heritage Foundation Study, is to reverse these incentives by providing essential assistance in a way that promotes rather than undermines work and stable families.

10. REGULATORY REFORM MANDATES

An Arkansas company may be forced to reduce its size, forced out of business, or be forced to lower the benefits it offers if it cannot or will not invest in new, modern tools and or adopt modern management methods; if its goods or services are not of competitive quality; if its workers refuse to use modern, labor saving devices, and/or if it cannot economically comply with increasingly restrictive federal regulations.

Although free, competitive markets can provide us with a "full-service" economy, we have, unfortunately, a state religion in the country. It's the Federal Bureaucracy--the highest power to which to appeal in the minds of most. The federal government's role in the last 60 years has shifted from that of "protector" to that of "provider," from referee to quarterback. The rising regulatory burden has profoundly negative consequences for the economy.

Regulation is like taxes: it raises the cost of consumer goods and services; it lowers wages and increases unemployment; it dampens business investment; and it reduces technological innovation. The evidence provided by the Institute for Policy Innovation strongly suggests an inverse correlation between regulation and economic performance. According to their recent study, whenever regulations increase, investment activity appears to decline.

What is the private sector best at achieving in Arkansas and the nation? The private sector should be free for creativity and innovation. No economy that has prevented private profit seeking planning based on the wishes of the customer has ever achieved a high level of prosperity in terms of material blessings.

And what toll does the public sector exact? It is impossible for government to interfere with a balanced and integrated market system without creating unreasonable distortions, many of which are invariably counter-productive. Government solutions frequently reward the inefficient and penalize the productive which the market will not allow.

Government is subject to the influence of special interest, rewarding those who find political favor and penalizing those who do not. The intrusion of government into the market always creates enormous "confusion penalty." Government solutions, when successful, are always extremely costly. The growth of unchecked regulation has struck at the very heart of business investment, productivity and the formation of new jobs.

A Life of Its Own?

Once created, regulatory agencies tend to be self-perpetuating--generating regulations, seeking rulings or test cases against smaller firms before seeking out the big ones, and generally trying always to improve their own prestige and "batting averages" before Congress in order to secure larger appropriations for following years.

According to the National Federal for Independent Business, the impact of regulations is disproportionate in three ways: Discovering regulation, understanding regulation, and paying for regulation. This disproportionate impact means that in order to remain competitive with large firms, the small firm must cut back in some manner.

What is the philosophy of public sector regulator? On the one hand, he is usually convinced that business is bad, and that big business is very bad. However, he is also frequently convinced that people in general are not very smart. Because of their task orientation, regulatory employees are likely to have only a limited knowledge of the industries they regulate. In fact, it frequently seems that they pay little attention to the effects of their actions on the basic purposes of business and industry--to provide goods and services for the public.

There are presently more than 80 federal regulatory agencies and commissions and over 100,000 government workers whose job is to interpret and implement regulatory laws passed by Congress. Salaries paid employees of federal regulatory agencies total $5 billion a year--and are rising steadily.

Few would disagree with the announced goals of these agencies--clean air, safe working conditions, pure food and drugs, clean water, equal opportunity for all in the job market. There is a growing body of evidence, however, that the regulatory agencies are frequently not achieving their goals and that the costs of pursuing their objectives often exceed benefits to society.

Increased federal regulation is damaging the business system in Arkansas and across the country, causing managements to curb or to abandon the decentralized business approach. Why is that happening? Front offices are so uneasy over government rules that they're directing divisions and branches to clear everything with home base. The result? The people in the field now make fewer decisions on their own--spend more time on regulatory paperwork, less on making and selling products.

With a recentralizing trend, top officials also are hobbled. And for a similar reason--more time and money are devoted to handling compliance with regulations, less to devising creative marketing strategies, other plans. Managers are looking over their shoulders, obsessed with legal hazards, the risk of suits or charges by the agencies, consumer or environmental groups. Preoccupation with regulatory issues inhibits the development of aggressive line personnel and spawns an air of timidity that balloons the number and cost of staff positions that add little to profit.

Recapture the Mandate

What could be done to downsize government in Arkansas and at the national level? Agencies should have to identify alternatives for the proposed regulation, and choose the least costly. The agency should have to justify choosing a more expensive alternative. A "sunset" provision should require that once every five years an agency must review regulations having an impact on the economy of $100 million or more.

Twice a year each agency should have to publish an agenda of major regulations expected to be acted upon, and projected dates for action. An agency contact, telephone number, and address should be listed for each regulation. These agendas should enable you to get the jump on new regulations before they are proposed.

Yes, there should be passage of broad-based legislation to reform the regulatory system, by way of imposing cost justification requirements upon the regulators prior to implementation of regulations and I recommend that the same requirements be placed upon the legislative process. The self-perpetuating regulation industry must be confronted at the sources of its mandate, so that one might transform the burden of over regulation into a manageable and even positive force. Yes, all laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost.

Should we go further? Yes. Officials at decision-making levels in regulatory agencies in Arkansas and at the national level should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself. Unlike ineptitude, conflicts of interest can be curbed, if need be, by vigorously enforced criminal penalties. Regulatory bodies should all the more be subject to real periodic Congressional review, to limit their life spans.

Political leaders in Congress are followers of public opinion; usually they are not themselves opinion-leaders. They will enact legislation allowing the free market to operate only when it becomes politically profitable to do so. Only in this way will politicians unknowingly act for America's long-range economic good.

Restore the Balance

Arkansans, and our fellow Americans alike, can press our leaders to diminish government controls which tend to distort normal market practice, raise costs, and decrease needed profit. We must recognize the needs for adequate profits. We should require federal agencies to undertake an analysis of the economic consequences of regulations they propose. This would include an analysis of the impact of the regulations as reflected in increase in consumer prices--a significant cause of inflation.

Regulatory Reform Mandates

Both in Arkansas and at the national level, all laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost. Officials at decision-making levels in regulatory agencies should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself.

We need a commitment to a comprehensive plan for dismantling regulations that have been impeding the competitive process and for modifying others that have been running up costs and prices unnecessarily. There should be a plan of legislation scheduling reductions of business taxes in each of the next five years--the reduction to be quite small in the first two years but to become substantial in later years.

There should be the establishment of a uniform procedure for Congressional review of the activities and regulations of "independent regulatory" agencies (those agencies which are not in the Executive branch but are arms of Congress), which may be contrary to law or inconsistent with Congressional intent, and permitting either the House of Representatives or the Senate to prevent an objectionable regulation from going into effect by passage of a simple resolution.

Regulatory Reform Mandates

Finding Common Ground

The vast majority of Arkansans and Americans agree that some government regulation is desirable and necessary. Susan Eckerly of the Heritage Foundation points out that, most highway traffic regulations, for example, save lives and improve the flow of traffic with minimal costs. Such regulations obviously provide a huge net benefit to everyone, but regulations also can be both counterproductive and harmful to society in at least three circumstances:

1. When the total costs imposed clearly exceed any benefits;

2. When the regulation serves merely to reward a powerful special interest at the expense of the public; and

3. When the goal can be accomplished through less costly, alternative regulatory requirements or through other means.

Good public policy requires basic reforms in the regulatory process that will eliminate harmful and counterproductive regulations and retain beneficial ones. Representative Jim Saxon, Vice Chairman of the Congressional Joint Economic Committee points out that the U.S. economy has largely been spared the ravages of statism that have plagued other industrialized countries. The result is the most productive economy in the world. For too long now, government has squandered the hard-earned fruits of workers' labor and stifled the spirit of entrepreneurs.

The American dream is eluding too many Americans. The combined weight of forty years of government bureaucracy and taxation has shifted dollars from families to policy makers. The new majority, Saxon states, seeks to redirect government policy so that government can provide an environment for economic growth. The guiding principle to achieve this "prosperity-friendly" environment is to make government smaller and less invasive.

Arkansans and Americans can also carefully build a constituency for creative capitalism. If we will adhere to the principles that result in sound and balanced growth, we can realize the goal of bringing all of our people into the economic mainstream.

Something for Everyone?

Although it may seem obvious, few people really connect their subsidy as someone else's tax. As President Clinton said in his 1992 Inaugural speech, "It is time to break the bad habit of expecting something for nothing ..."

Today, most people in other lands would love to bundle up all of their tribulations and swap without hesitation for

America's problems. Nevertheless, on the domestic political economic agenda, there are a considerable number of concerns to those of us in the private sector. How soon and how hard will the markets hammer at these dilemmas, tradeoffs and so-called mandates? Time will tell. Chronicled in this section, with a minimum of commentary, are over sixty (60) prime contributors to our collective insomnia. Let us list them.

Increased costs, from any source, could force more companies to do the very thing that most Americans dread -- move off shore to survive. Cuts in capital gains tax could occur, but only after proving five years' ownership. A new capital gains tax is possible on inherited property later sold, with profits taxed at original cost of the asset. The business sector is also pushing for capital gains tax cut for new businesses. Some industries are pushing for subsidies on high-tech projects. Other groups are pressuring for a national research and development agency.

At the workplace, spending specific amounts on employee training may be mandated through a 1.5 percent tax on payroll. Indexing the minimum wage to inflation is also on the table. Congress might pass a Federal override of right-to-work laws. The employer's right to hire permanent replacement workers during a strike could be eliminated. Surging Workers' Compensation costs are clobbering business people.

Regulatory Reform Mandates

Spending on health care has tripled in a decade and yet the problem has grown worse. Granting up to 12 weeks family leave without pay (except that fringe benefits be continued) -- this is now the law for companies employing more than fifty (50) employees. Employers could be required to provide extended health care coverage. Employer-paid health insurance could be taxed. Universal medical coverage is a hot issue. The medical community now pushes for it. It would mean more fees, less quality, more red tape and possible mandated limits of income of health care providers.

The basic chemicals industry is catching pressure from foreign competitors and tighter environmental laws. Safety standards on the job may be tightened through Labor Department actions. Cleaner-burning fuel may be mandated through tougher enforcement of existing rules. Market-based environmental issues may gain new initiative, that is, taxing heavy polluters into seeing the incentive to use newer, cleaner technology. The FDA will likely have the food industry provide greater clarity with more accurate labeling.

A global recession could dampen our strong export markets, throttling back our recovery. Higher taxes are likely on foreign companies doing business in America. A stronger dollar could hurt our foreign investments but also funnel appreciating dollars into the America's recovery. Any tilt toward protectionism could endanger freer trade, leading to greater inefficiency and higher costs at home. U.S. Trade policy and our foreign policy is linked as never before to gain reciprocity through tough negotiations. A possible civil war in Russia might destabilize global financial markets. U.S. taxpayer aid may be funneled to Russia's crumbling oil industry to assist them in generating hard currency down the road.

Professionals in all areas may, in the name of diversity and accountability, be pressured to extend gratis patronage and service to the public interest. School reform may call for greater accountability and a retargeting for funds to low income programs, along with greater sanctions for poorly performing systems. Births out-of-wedlock have doubled in a decade and prison population has nearly tripled. Anti-poverty programs of the past 30 years have created second and third generation wards of the state.

Overproduction occasionally clogs the pipeline with unsold goods and services, as firms increase output in an attempt to generate more debt-reducing revenues. Airlines could be re-regulated to stem the flow of red ink from leveraged buyouts gone bad. The consumer electronics industry is experiencing saturated markets as aging baby boomers cutback to save for their childrens' college expense. Railroads are in decline, tied to a slump in industrial commodities. Commercial property is overbuilt. Office vacancies and white collar unemployment have both risen in the past 10 years.

Financial institutions may be pressured to reduce foreclosures and consider extending moratorium on installment debt collection on the unemployed. Banking may be pressed to open up new vistas -- community development banks funneling loans to rural areas and inner cities. Revision of FHA policies could raise insurance limits and liberalize underwriting rules to broaden the base of affordable housing. HUD may channel more aid to urban homeless in a policy change. Reduced tax deductions for home mortgages could also be considered. Interest rates could rise as markets anticipate growth in Federal spending, affecting the cost of capital.

Federal spending nearly doubled in the first decade. Federal deficit spending is hogging the supply of credit, elbowing some private firms out of the market, indirectly aggravating both the deficit and unemployment. Government deficits are two times larger than they were in 1982. Americans pay more total dollars in taxes of all kinds now than 12 years ago. Few, even with the best of motives, understand the perverse nature of tax increases.

A new 36 percent top rate on Federal Income Tax could accompany state income tax increases as Federal assistance dries up. A national sales tax along with increased gasoline taxes may also be considered. Estate tax minimums could be dropped from $600,000 to $200,000. There may be increased taxes on the Social Security benefits for upper income seniors, along with a means test. Increased taxes, in general, could result in capital flight to off-shore investments.

Regulatory Reform Mandates

Excessive debt -- personal, business and government -- is throttling back the pace of this recovery. In ten years, we have doubled the percentage for Gross Domestic Product that goes toward interest on the national debt. Quick fix programs could lead to expensive, long run policy problems. There are those who preach that this is 1932 all over again. It definitely isn't by nearly every measure. Nevertheless, the Federal government might tilt toward even more economic planning. And all the while, "We, the People" are clamoring for smaller Federal budget deficits.

The overriding economic policy dilemma? Whether to emphasize economic growth or redistribution of wealth (or, somehow, both). A great many of today's so-called policy "mandates" have broad public support, but they do affect labor costs, productivity, product prices, competitiveness, jobs, standard living, market share, profitability, tax revenue, etc.

Could we, above everything else, eliminate that Federal budget deficit? Certainly. It's easy -- put Uncle Sam on a diet. Declare a Budget Crisis; freeze Federal spending at 1994 levels. Veto any spending legislation which would exceed the new across-the-board caps on spending. Instantly, we would have a balanced budget. Spread the misery evenly; none will like it -- all will accept it, if there were no exceptions. There would then be forced, automatic spending cuts when spending targets are exceeded. Forty four states now do that.

If a sustained period of growth could cure many of our current ills, what else could be done to sustain the economic recovery if there is to be any possibility of funding even a few of those entrees on the domestic political economic menu? We could reform the Tax Code, thereby recreating investment through more incentives, especially in real estate, and lowering taxes on capital gains. Additionally, we could bring back more liberal IRA's, to allow greater numbers of people to accumulate savings free from taxes.

What should business people do, especially now? Increase profit margins, perhaps selling off operations which heretofore produced returns below the cost of capital. Find more ways to do more with less -- we're talking productivity. Lock in low cost credit terms, possibly refinancing current debt.

Alas, conservative economists, a small but capable and humble minority, should do well even in these times of change and uncertainty, if they continue to qualify themselves to explain to others these matters regarding tradeoffs and opportunity costs. Remember, in the economics profession, we give people a number or a date -- never both.

11. ELECTIONS AND MARKETS EXAMINED

According to Greek mythology, Pandora, the first woman on earth, was given gifts by all the gods. One gift was a box which they warned her never to open. Not being able to resist her curiosity, Pandora raised the lid and all of life's troubles, sins, vices, and diseases immediately escaped. Pandora quickly closed the lid, preserving only "hope," mankind's last refuge.

We can be Arkansas-proud to be the home of the President of the United States. Frankly, as we went through the fall 1992 election season, the average American had a basic question about each of the three major candidates. Looking at Mr. Bush's ideas, some wondered how much good they would really do. Mr. Perot's proposals left others wondering how much pain they would cause. Mr. Clinton's positions caused many to ponder how much they would cost.

Beyond that, we are a people of contrasting feelings. We distrust government, and yet we expect more from it. Presidents really can't control the economy very much. Would we really want it any other way?

The recession was worldwide, and we fared better than most of our major trading partners. Ironically, and this is true for any leader, if he takes the credit for the prosperity, he must also accept the blame for the hard times. Its your basic two-edged sword: when one takes the credit for the sunshine, he must also accept the blame for the rain. In this century, and during an election year, when the economy has been doing poorly or is in decline, the party in the White House has lost control of the White House 75 percent of the time.

No Contest In The End

We can certainly credit President Clinton for doing his homework very well on the 1988 election. Mr. Clinton is to be commended for having the great courage to launch his campaign at a time in 1991 when the incumbent was exceedingly popular. Mr. Clinton also appealed to a broader cross section of people than did Mr. Bush. It was obvious that Mr. Clinton's campaign got a faster start and was better organized than the rather late and labored effort put forth by the incumbent.

To many voters, it seemed that Mr. Bush had combined Reagan rhetoric and Carter economics. Many Americans knew that the Election might be over when, during the second debate, Mr. Bush said, "I know the economy is bad." Then he gestured frustratingly toward his wife in the audience and announced in past tense that "It's too bad that Barbara wasn't running this year--She could have won the election." There, we saw it--the handwriting on his lips.

On balance, the economy wasn't bad by most indicators. The 1991 recession ran for 10 months, and unemployment never exceeded 7.5 percent. That's a far cry from the 1981-82 recession which lasted 16 months and had unemployment rates pushing 11 percent. No, George Bush was not Herbert Hoover, and 1992 was not 1932. More on that later.

Historically, Americans have, more often than not, opted for divided governments: a Congress from one party to serve people's specific interests and a President from another party to guard the frontiers. That has certainly been true for five of the last six presidential elections, Mr. Bush did capably preside over the end of the Cold War. He adeptly restabilized the Mid East. He also superbly brought the NAFTA Treaty to fruition. He has our profound thanks, and we wish him well.

Market Reaction To Elections

Institutional investors and Main Street Americans do tend to view Presidential candidates differently, and this partially explains the performance of the economy during an election year. Typically when a Republican wins, the business sector views this as a positive thing and the market surges from Election Day to Inaugural Day. Then, the investment community realizes the problems are somewhat real and won't be going away easily, so the market remains in the doldrums over the next calendar year.

Traditionally, when a Democrat wins the White House, the investment community initially reflects the attitude "that things are going into the tank"; the market then declines modestly from Election Day through Inaugural Day. By then, most people notice that the sun rises and sets with great regularity, and that our problems, by world standards, are fairly minor.

In the post-war era, Democratic and Republican presidencies have performed similarly on the average. Averages are deceptive, the Republican average was pulled down as Mr. Bush unfortunately witnessed the slowest four-year period of growth during his watch. The 1980s did bring us a long period of expansion, approximately 20 million new jobs, tax cuts and then tax increases.

Throughout the past decade, federal tax revenue increased about six percent a year at the same time federal spending was growing at about eight percent a year. The deficits are a symptom of that. We are not under-taxed, we are over-spent. It is a R&D problem. By R&D we mean Republican and Democrat.

There is certainly enough blame to go around. Why else would Ross Perot have been so popular? We are a nation of people who are unwilling or unable to balance our check-books. The economic recovery was throttled by the fact that there is a lot of debt to be worked through the system: individual and family debt, business and corporate debt, and of course, government debt.

Tradeoffs Always Felt

In economics we deal with tradeoffs. Increased taxes and increased costs of environmental regulations could force more companies to do the very thing that most Americans dread--move off shore to survive. That process has been going on for some time and should be part of Economics 101 for candidates of all parties.

Other economic lessons come with the perverse nature of higher taxes: (1) they leave consumers with less money to spend, save and invest--throttling back the recovery, and (2) few people really connect their subsidy with someone else's tax--sometimes known as the "No Free Lunch" fallacy.

The economic recovery was weak at first. One does not get out of the hospital and immediately go directly to play three sets of tennis. Excess capacity in the pipeline will slow down the rate of growth for at least the next year. Nationally, as consumers read about the possibility of new and different taxes, that put a damper on consumer spending. The current unemployment rate could also be aggravated by additional defense related cutbacks.

Our presidents have to keep alert to many interest groups with foreign and domestic agendas which compete for the President's attention. Every administration also has warring factions even within its own Cabinet. This tends to chew up American presidents, age them prematurely, and frequently throw us into a cycle of one-term presidents. Think about it, only two presidents in the last half century have been afforded the luxury of a second term: Eisenhower and Reagan.

Even Mr. Reagan suffered from being tugged several directions simultaneously. For most of his career lifetime, he was a successful actor. To do that, one must please people. However, he had some deeply held conservative beliefs. There comes the dilemma: how does one please people and also hold to one's beliefs?

This writer has always said that economics is the only game in town. The concerns of the voting public this election year have pretty well proven that. Learning economics won't make us millionaires nor will it keep us out of the soup line. It will simply give us a better understanding of how we got there. Most in my profession would pragmatically prefer to be neither optimistic nor pessimistic, but rather correct.

In many ways America in general and Americans specifically are better off than people of other lands. In some other ways, both the country and Americans collectively are worse off. So, it has been neither the best of times nor the worst of times. Frankly, on several fronts, the economy is not as bad as some would make it out to be. Nor is it as good as we would like it to be. It's a bit like the economist who, with one foot in the oven, and the other in the freezer, announced "On the average, things are not too bad."

For The Record

The American economy is on a rebuilding binge that will run for the next two decades. During this era of restructuring and implementing of new ideas, we will, in both goods and services, be able to compete with any other nation in the world at a profit.

We are better off when looking at the reduced number of countries that are called Communist today. We are also better off if we look at the reduced ratio of Federal employees to private sector employees. The per capita income gains of the last decade, in real dollar terms, have been healthy. The Dow Jones index has seen a massive increase the past decade. Infant mortality has dropped significantly and life expectancy is up.

On the other hand, we have doubled the percentage of Gross Domestic Product that goes toward interest on the National debt. Federal spending has also nearly doubled in the last decade. Spending on health care has tripled and yet the problem has grown worse. Births out of wedlock have doubled in a decade, and the prison population has tripled in 15 years. Americans pay more total dollars in taxes of all kinds now than 15 years ago, and yet we still wonder how to get good government at a reasonable cost.

The past is prologue. The future is a place we haven't been before, but that's where we are going to spend the rest of our days. And now, what began as a national blind date in

1992, has blossomed into both a courtship and a mixed marriage of the Executive and Legislative branches.

I am not a prophet nor the son of a prophet. Nevertheless, the current administration will need to continue to get a handle on the problems and concerns of the voting public -- health care, jobs, welfare, the deficit/debt dilemma -- or by 1996, as Machiavelli would put it, "What a year to have an election."

The Bad News Was Wrong

This section of the chapter was written just 10 days after the stock market melted down some 500 points on October 19, 1987. As many investors and observers are today asking if such a major correction is once again in the cards, the reader should find this section quite reassuring regarding the long run:

> The following is a popular poem of our age, describing the typical "white-knuckled" investor:
>
> Breathes there the man with soul so dead,
> Who to himself hasn't said: "Before the stock
> market fell out of its bed -- Maybe I should
> have quit, when I was ahead!"

We need to put things in perspective. The national media, and many brokers themselves, have been far too negative about stock market events of this Fall. If gloom-and-doom were nutritional, some of them could feed the world.

Back in 1982, the Dow stood in the low 800s. In the next five years, there was a stampede into stocks. Why? As inflation declined, investors, who once sought refuge in tangible assets, such as real estate and gold, had moved massively into financial assets. The dramatic decline in interest rates had pushed yields on bonds and money-market accounts far below their highs. That had shifted a lot of money into stocks.

Determined to keep the economic expansion going, the Federal Reserve had been pumping significant amounts of money into the financial system. As a result, Wall Street concluded that a recession was unlikely.

Takeovers, mergers and leveraged buyouts greatly enriched shareholders, at the same time significantly shrinking the number of shares available. The result: More money seeking fewer shares -- the classic definition of price inflation. Mutual Funds may have been the biggest factor of all. A great number of new mutual funds poured billions into the market, creating a huge new demand for stocks.

Then, in 1987, the Dow went up 800 points in 8 months (January through August) -- a gain you would hope for in a decade. Investing had become gambling. Just as earthquakes precede tidal waves, our market panic triggered selling waves on foreign exchanges. When we sneeze, the rest of the world gets pneumonia.

There has always been a classic battle raging on Wall Street between the "profit takers" and the "bargain hunters." When the "profit takers" prevail, the Dow plunges. When the "bargain hunters" go to work, buying up stocks that are considered at sale prices, another "floor" or plateau is reached.

It has long been said, "A bull can make money in the Stock Market; so can a bear, but not a hog." Prices and price-earning ratios were too high. The October 1987 stock market panic was a huge correction of the January-August runup, fed by fear and hysteria. Uncertain times will result in wide swings in the market (both directions). Program trading added to those big Wall Street price swings.

Individual investors make up only 20 percent of the market. Many hold on to paper losses, as their income comes from dividends. It was the institutional investors who panicked. Many traders panicked, being too young to have ever been a bear market.

There are events that typically coincide with the ending of a bull market and the beginning of a bear market: sharply rising interest rates (especially short-term rates), tight money policy by the Federal Reserve, recession, and stocks tending to get overvalued relative to bonds.

Liquidity is the fuel that runs a bull market. Until the Fall, 1987, all measures of liquidity -- except for stock valuation -- pointed to continued strength. However, most of these turned negative, suggesting that the market was weakening.

Growing business activity increased the demand for credit and absorbing liquidity. Restricted credit resulted from the Federal Reserve Board's efforts to check inflation. The increased supply of stocks spread demand too thin. Over-optimistic investors had done all their buying and used up all their cash. The collapsing dollar further reduced liquidity as foreign investors' gains were paid out in a depreciating currency.

All of the signs of a dying Bull Market were there, if we were alert. A rise in the discount rate -- such as we had recently seen for the first time in more than two years -- almost always hurts stock prices. It usually takes two consecutive increases to cause stock prices to tumble. That happened.

Watch the headlines. When the media keeps reporting that investors are euphoric about the continued growth of the stock prices, it's time to get out of the market. Optimistic reports about the strength of the market always trail the actual situation.

In the past, bear markets have begun soon after the average dividend of the Dow Jones Industrial Average fell below 3 percent. When the Dow hit 2722 in late August, dividends were at their lowest levels in history -- about 2.5 percent.

Watch insider selling. These insiders have a strong track record of getting out near the top. Look for big patterns when the majority of insider sales exceeds all insider buying. It's usually time to get out of the market when the ratio is three sales to one buy.

Historically, when the stock market races ahead despite major warning signs, the runup is followed by a sharp decline in stocks. Investors get into Money-Market Mutual Funds, CD's Treasury Bills, and the sun still comes up tomorrow.

There are strategies for single stocks. To lock in value, place stop-loss orders on all individual stocks. Selling floors are good insurance policies and should be 10-20 percent below the current price. Raise the floor whenever the stock's price moves significantly higher.

It's time to sell a stock when dividends decline. Once a company drops its dividends below the average of the previous five years, many investors believe the stock is overpriced. When that happens, consider selling. When the price of a stock rises, but not as fast as overall market is climbing, many investors will sell. Consider doing the same, because the price is likely to decline even farther.

Are we experiencing a rerun of 1929? Definitely not. So many things are in place now that were not in place then. Transfer payments now are half the federal budget, and these build a floor below which purchasing power cannot go.

The Federal Reserve learned the hard way, in 1928-1932, that you don't crunch the money supply severely by one-third, to try to cool off an over-heated economy. That is not happening today. The early 1930s were the high water mark for protective tariffs. The Fed is not severely crunching the money supply as it did in 1929. We now have the FDIC, and the

SEC. None of those institutions were in place in 1929.

Investors in 1929 had not diversified. Today, investments are widely diversified. In 1929, loans were called on a 10 percent margin and heavily leveraged investors had to sell at a loss to cover their loans, feeding the decline. Today, with a 50 percent margin requirement, we can swallow our losses and hang on.

Significant other differences do exist between now and the 1930s. A big change in the economy is that only 20 percent of non-farm jobs are in the cyclically sensitive areas, such as mining and manufacturing. Services growth has never declined in the post war, and it makes up about 80 percent of the jobs now, compared to 58 percent in 1929.

There really is much to feel good about today. Many of the problems besetting the stock market currently are not really problems at all, but rather conditions. These conditions solve themselves over time in dynamic societies like ours. The 1980s and beyond, will emerge as superior. And you can take that to the bank. The stock market is, today, (November 5, 1987), just about where it was in January 1987. The good news is that the bad news was wrong.

Well, that's the way it was in 1987. Today, with the Dow at 5100 and the broader indexes also faring well, there are some experts predicting the Dow at 6000 in 1996 and a few predicting meltdown to 4000. However, let's remember that today there are many similarities to the American economy of 1987.

There is one significant, negative wild card in the game: The Japanese economy. The Tokyo stock market and residential and commercial real estate sectors are significantly depressed. The Japanese banking system is struggling with bad real estate debts of a magnitude far greater than that which brought down our American savings and loan industry in the 1980's. A heightened Japanese financial crisis could precipitate a liquidity crisis of chain reaction defaults affecting the peoples and financial institutions of many lands.

12. EDUCATION ISSUES ON THE TABLE

The results are in -- What are the top nonscholastic problems that our nation's public schools report facing today? Drug and alcohol abuse, pregnancy, suicide, rape, robbery, and assault. The Biggest problems in the 1940's and 1950's? Talking, spitwads, chewing gum, making noise, running in the halls, cutting in line, not putting paper in wastebaskets, sticking pony tails in ink wells.

According to the Commission for Arkansas' Future, Arkansas ranks fifth nationally in the percent of adults that are considered to be illiterate. That's 15 percent of Arkansas' adult population. 1990 Census data shows 66.4 percent of Arkansas adults have a high school education, compared to 75.2 percent for the U.S. average. Additionally, only 13.3 percent of Arkansas adults have a college education or better, compared with 20.3 percent nationally. And 51 percent of our Arkansas college freshmen were placed in remedial courses in higher education.

However, improvement has been realized as the Arkansas level of education attainment has increased from 55.5 percent (for a high school education) and 10.8 percent (for a college education) from 1980 to the 66.4 percent and 13.3 percent rates in 1990--increases of 10.9 and 2.5 percentage points, respectively. According to "State Trends on Demand," Arkansas' high school graduation rate exceeded the national average during the decade of the 1980s.

Education Issues On The Table

Arkansas' public school education has come a long way; we have much further to go:

Category	State Rank
Expenditure for Public Schools (per capita)	48
Expenditure for Public Schools (per pupil)	48
Average Teachers' Salaries	45
Public School spending (per pupil)	46
Expenditures per $1,000 Personal Income	27
Higher Education Spending per $1,000 Personal Income	20
Higher Education Spending (per capita)	32

Lifelong Education

The need for continuing education and training throughout one's lifetime may be becoming a necessity. Management consultant, Peter Drucker, put it this way:

> By the end of the century, the one occupation career may be history. The rapid pace of technological advance, with its unpredictable twists and turns, threatens almost every skill and occupation with

obsolescence. Retraining and re-employing workers will assume new importance, and the pace of economic development will depend in large measure on how quickly workforces can be redeployed. Efficient redeployment will require large investments in human capital. Entrepreneurs also need to acquire the skills required to set up and manage a new enterprise. Yet at all levels, from first grade to post-graduate study, our capacity to make these needed investments is being questioned.

In its strategic plan, entitled Designing Arkansas: The State of the Future, the Commission for Arkansas' Future superbly stated what should be a commitment to excellence in education: "Arkansas will have a public life-long education and employment training system with flexibility to assure competitiveness in the national and global economy." The Designing Arkansas report established its priority goal as "Strengthen Arkansas' educational system, pre-school through higher education, to a position of national excellence."

The Commission for Arkansas' Future further identified the following issues for possible further consideration regarding education and training programs in Arkansas:

- Aggressively improve and upgrade the state's educational standards;

Education Issues On The Table

- Provide for more management flexibility in both education institutions and the local school community;

- Expand and strengthen early childhood education programs and opportunities for parental participation;

- Improve the literacy rate for Arkansas adults through such efforts as expanding adult education programs;

- Provide entrepreneurial education programs;

- All programs should be assessed and held accountable;

- Educate Arkansas about the value of education;

- Consider funding individuals rather than institutions;

- Review education and labor regulations with the intent to revise, streamline or eliminate those regulations that restrict or hinder opportunities for education and training;

- Improve the collaborative efforts between educational and other organizations having an educational or training function or interest;

- Strengthen the educational governance capacity and aggressively continue education reform;

- Allow the governing bodies and agencies the authority to target resources more efficiently and to concentrate more on setting overall statewide policy and standards;

- Allow separate districts or institutions the flexibility to develop programs and methodologies to best accomplish its identified goals based on the established statewide policy and standards;

- Encourage competition while at the same time discouraging unnecessary duplication.

Leveling the Playing Field?

Although the proposed constitutional convention was soundly defeated by the voters in December, 1995, the governor's constitutional reform task force earlier in the year calculated formulas that could reward schools in counties that maintain a vigilant eye toward tax equity through the assessor's office. Albeit defeated at the polls, the proposed constitutional provision would have established a statewide 25-mill property tax for school operations. Tax-conscious property owners wondered, says Gary Waldon of *Arkansas Business*, if these proposed changes could have caused school districts around the state to be flushed with funds or if the inflow of dollars could bring equity to school funding and improve education. The proposal, if it had passed, would have encouraged school districts to obtain more local funding in return for new state money. A major goal was to raise significantly the funding levels for less prosperous school districts as Waldon reports:

- Distribute $25 million in 1995 and 1996 to second-tier school districts ranked according to dollars spent per student.

- Continue to equalize local revenue at 26.3 mills, with a required increase of 0.1 mill for each $2.5 million of new state equalized funding received by a school district.

- Determine funding formulas to equalize school facilities around the state through two programs.

- Fund school facilities equalization under two programs with $22 million of projected state tax growth. Establish a $36 million fund for special programs.

Education Issues On The Table

School Choice Options

Is choice a panacea for the ills of public education? "Yes," say political scientists John E. Chubb and Terry M. Moe. They believe that the United States must free public schools from "political and bureaucratic control" and instead rely upon "markets and parental choice" in the quest for quality education. "No," says public school superintendent Bill Honig. He replies that privatizing public schools through a system of choice is both unnecessary, given the school reforms of the 1980's, and dangerous, in light of the expected market consequences.

The consequences of this educational attainment are far-reaching. Not only are individuals better off--there is a high positive correlation between education and income-but society is better off. There are externalities or spillover effects associated with the consumption of education. Those who are educated and earn higher incomes are less likely to engage in criminal activity or become dependent on welfare. As the average level of education increases in a community, economic productivity is enhanced, and this in turn results in a higher rate of economic growth.

Some argue that this public monopoly stifles creativity and has led to inferior education. These individuals cite the large number of school dropouts and the decline in Scholastic aptitude Test (SAT) scores as evidence of the flagging effectiveness of the public school system. During the 1980s, corrective steps were taken by many state governments: Spending was increased, standards were raised, rigorous testing was introduced, the teacher certification and training requirements were augmented.

Whether these actions are sufficient or whether there is a need to introduce market competitors into the education system is being debated. The ultimate resolution of this clash of educational philosophies could dramatically reshape schools.

American education is in crisis, says Peter J. Ferrara of the Heritage Foundation. Government spending on education has grown rapidly, even during the 1980s, yet school performance and student achievement have fallen, leaving young Americans ill-equipped to compete in today's increasingly competitive world.

Might America's education crisis be solved by adopting a set of institutional reforms centered around school choice for parents, school autonomy for local teachers and principals, and genuine teacher professionalism? Would the result be freedom of choice for parents and students, greatly improved school performance and student achievement, and a vastly improved working environment for teachers and principals? The possibilities are worth exploring.

Let's start with what we think we know. Education spending accelerated through the 1980s and is now at an all-time high. There appears to be little correlation between spending and performance. Increased spending does not necessarily translate into better school or student performance. Does increased spending fail to improve student performance because much of it is lost in bureaucratic waste?

It appears from Ferrara's rather thorough Heritage Foundation research that comprehensive reform which includes these three components--parental choice, school autonomy, and teacher professionalism--could have numerous tangible benefits:

- Parents and students would be free to choose the schools they preferred, with the curricula, content, policies, and other features each wanted most;

- These reforms could create healthy competition among decentralized, locally controlled schools, encouraging improvements in quality and student achievement; and

- The existence of decentralized, competing schools would encourage the development of different specialties, different teaching methods, and different curricula. This would allow students to attend schools that best suit their needs.

High Tech Infostructure

Research by the Commission for Arkansas' Future also indicates that there is currently inadequate data available on the information industry in Arkansas from which to make specific assessments and recommendations. However, the information age is indeed here, characterized by the increased usage of computers, fax machines, modems and other forms of high speed data transmission. In order for Arkansas to stay competitive in today's global economy, Arkansans must become proficient in all forms of technology. We must gain a technological advantage, says the Commission, or at the very least, not be at a disadvantage with competing economies.

The Commission for Arkansas' Future identified the following issues for possible further consideration regarding infostructure:

- Allowing communications companies regulated by the state to retain a portion of their earnings to be invested in upgrading their infostructure systems; i.e., upgrade to fiber optics, more advanced computer technology utilizations, etc.

- Upgrading the state government's infostructure capabilities in order to maximize efficiency, productivity, and cost effectiveness by (1) encouraging the purchase and use of newer computers and related high-technology equipment in state government; (2) providing adequate employee support and training; and (3) encouraging a state management information system that allows cross-communication between agencies and their programs to better serve the citizens of Arkansas.

Regarding technology resources, the 1995 Development Report Card for the Corporation for Enterprise Development ranks Arkansas among the 50 states as follows:

Category	State Rank
High School Graduation	19
High School Education Attainment	43
College Education Attainment	48
Ph.D. Scientists & Engineers in Workforce	50
Science/Engineering Graduate Students	50
Patents Issued	49
University Research & Development	47
Federal Research & Development	49

Furthering Their Education

We have to find a way to get more of our young people to finish school. Our being 32nd from the top in Vo-Tech school enrollment, represents a major challenge, if we are to learn to apply hi-tech to lo-tech industries, and continue to save our markets and jobs. Incredibly, in an era of swift technological change and knowledge expansion, 20 of our states do not require a single math or science course as a prerequisite for a high school diploma. Today, only 5 percent of our nation's college students are enrolling in engineering--by contrast, it's 21 percent in Japan and 37 percent in Germany.

Yes, there seem to be more problems than solutions. I've always been impressed by the old European approach to goal-setting. There, the local clergyman in the parish often takes the lead, makes the rounds in the community, visits with the family members and helps them to set goals for themselves. Whatever the solution, we have to try to deal with the problems. Our children won't wait.

Some years ago, United Technologies ran the following "PLEDGE" in the Wall Street Journal:

1. I now realize that the greatest power in the world is the power of knowledge .

2. I want to be smart. Dumb, misinformed people go through life missing so many rewards that could be theirs.

3. I will learn my basic skills and be expert in them.

4. I will read books on the subjects that interest me most. But I will also read books and articles on other subjects to broaden my awareness of what is happening in the world around me.

5. I will discuss at dinner time what I have learned or questioned at school today.

6. I will study the ideas and dreams of our history to see how they can help me today.

7. I will set aside some time each day to think about my future, to discuss it with people I respect and to work on accumulating the knowledge that can guarantee that future.

8. I pledge this to those who love me and are trying to help me succeed. More important, I pledge it to myself.

Student signature ____________________

Teacher (I'll help you) ________________

Parent Guardian (endorsed with great love)______________________________

What shall we then do? It all comes back to establishing priorities early in life. In the late 1950's, James Michener was invited to dinner by President Eisenhower. Michener declined in a letter saying he was going to a dinner to honor a former elementary school teacher. The President wrote in reply saying that Michener had made the better choice.

13. HEALTH CARE OPTIONS

How in the world can Arkansans and Americans alike afford to get the medical care they need, when they need it, and still retain control over their own health care? This is a major medical and economic question. The growth of public and private health care costs poses an immediate problem that must be addressed.

Federal health care spending has been increasing at annual rates averaging 10 percent or more during the past 5 years, far in excess of overall economic growth. Private sector health care costs have increased comparably. If the increase in health care costs is not restrained, Federal spending on Medicare and Medicaid is projected to triple as a percentage of the economy by 2030.

What kind of shape are we in? According to the Commission for Arkansas' Future, here are the indicators relating to health care availability and health insurance:

- 55.8 percent of Arkansans live in medically underserved areas;
- 19 percent of non-elderly Arkansans are not covered by health insurance plans;
- 13 percent of persons treated by Arkansas hospitals and clinics are indigent; and

- 63 percent of children in Arkansas are adequately immunized.

The Almanac of the 50 States places Arkansas' overall state health ranking at 44th:

Category	State Rank
Physicians per 1,000 Persons	46
Dentists per 1,000 Persons	50
Hospital Costs per Day	42
Hospital Cost per Stay	49
Medicare Enrollments	30
Medicare Recipients	25
Government-supported Health Services Per 1,000 Personal Income	28
Government-supported Health Services (per capita)	37

The 1995 Development Report Card for the Corporation for Enterprise Development ranks Arkansas among the 50 states as follows:

Category	State Rank
Teen Pregnancy	44
Heart Disease	34

Cancer Cases	48
Infectious Diseases	31
Health Professional Shortage Areas	38
Health Coverage	46

Should we switch to trusting our government more and our doctors and ourselves less? Anyone who prepares many years for a medical career and is dedicated to alleviating pain, increasing mobility, enhancing quality of life, mending broken bodies, defeating disease, warding off premature death--managing all that--has this writer's undying gratitude.

There are those who say that there has been an oversupply of doctors for the last decade. Not so. There is an oversupply in some urban areas; there is a shortage nationwide of primary-care physicians in rural and inner city hospital settings. If anything, a growing supply of doctors could help reduce the workload of existing physicians, shorten their work week, and upgrade the quality of medical care.

The Cost of Healing Ourselves

Nobel economist Dr. Milton Friedman has often stated, "Watch how people vote with their feet when they can vote no other way." Where do the world's rich and famous go for their medical care? To the U.S. of A. Not so coincidentally, over 600 Canadian physicians fled to America in 1993. So, where is the health-care crisis, if we are the envy of the planet when it comes to medical treatments, techniques, pharmaceuticals, physician availability, etc? Inquiring minds want to know.

Who are the 37 million uninsured, and why? First of all, its membership is constantly changing, and it amounts to 15 percent of our total population. Some are between jobs. Others are young and healthy and/or old and rich. They often choose not to buy insurance. Many have spouses who have coverage for these dependents. Some honestly believe that it is the responsibility of their family or church to accept liability and pay for health care-related debts.

And yes, many are poor, need medical care, and don't receive it. Tough questions have to be asked. Because there are some homeless people, shall we convert everyone to public housing? Because others go hungry, shall we collectivize agriculture? Eastern Europeans have learned the answers to those questions the hard way.

That off-stated number of 37 million Americans not covered by health insurance is inflated. According to the latest data from the Health Insurance Association, two-thirds of the uninsured families have at least one fully employed worker, usually either self-employed or working in a small firm. Some of the number are, in fact, also young people who, because of their youth and good health, have opted to spend their money on other things--a choice this middle-aged writer would not make.

Nevertheless, we do live in a land of free choices--for now. And those who are poor and homeless, although they may not be insured, don't necessarily do without health care. It's just that when they do receive health care at emergency rooms and trauma centers, it is usually of the most expensive type and involves a lot of cost shifting to various third parties.

In the United States, according to a recent survey by the Gannett News Service, only 25 percent of total health-care costs are paid by the patient. The remaining 75 percent is paid by employers or the government. Today 63 percent of hospital costs are paid by the government. The government also pays 48 percent of total physician costs. Of the total health-care expenditures by the government, 42 percent are accounted for by Medicare for the elderly and Medicaid for the indigent (double what it was 30 years ago).

By the year 2003, Medicare is projected to be as expensive as Social Security. Medicare costs rose a highly significant 25 percent in 1993. Consequently, the American patient expects the finest health care there is and also expects cost shifting to third parties to absorb most of the personal financial burden. Can this continue?

Paying the Bill

Considering all the goods and bads of our current health-care system, if there is an agreement on anything, it is that, as it now stands, our current health-care system cannot be continued into the future years and decades. Costs appear to be going up too rapidly, being shifted too frequently, and the number of people who are uninsured is approaching 40 million. In the long run, these factors are all extremely destabilizing to the status quo in health care as we know it.

The world operates not only on what is true, but also on what people believe to be true. This was verified by a recent survey by Northwestern National Life of several hundred employee-benefit managers. Their opinions varied widely on what was driving up health-care costs.

There is no easy answer to the riddle; however, included on the list would certainly be the following items: (1) population growth, (2) aging, (3) affluence, (4) frequency of physician utilization, (5) medical practice expenses, (6) malpractice insurance premiums, (7) office expenses, (8) marketing costs, (9) new technology, (10) in-patient vs. out-patient demand, (11) competition, (12) uneven hospital capacity utilization, (13) uncompensated care, (14) cost shifting, (15) administrative overhead, (16) increases in mandated benefits, and (17) past cost-containment failures.

All of the above causes are outlined in a signal publication titled <u>The Crisis in Health Care: Costs, Choices, and Strategies.</u> The authors of this 1990 book--Coddington, Keen, Moore and Clarke--do an excellent job of cutting through the problem and clarifying it as much as possible.

Each of the authors is a consultant specializing in the health-care field. It is recommended reading for anyone who would like to know more about this thorny topic on our national agenda.

It is the opinion of those authors that (1) there is little hope that cost increases for health-plan payers will be moderate; (2) the system is too fragmented (many payers, many providers); and (3) there is little incentive for providers to change the way things are. Therefore, the current health-care system is not sustainable.

All the major players are taking sides. The insurance industry hopes to reduce the price ceilings on premiums and avert attempts to replace insurance companies with a governmental single payer system. Consumer action groups tend toward wanting a Canadian-style system. Labor unions are pushing for generous universal benefits packages and are in opposition to a taxation of employee benefits. Lawyers are opposing the reduction of contingency fees and lowered caps on jury awards. Drug companies are lobbying to prevent price controls on pharmaceuticals. Doctors, nurses and hospitals are working through their professional associations to avert limits on physician fees and hospital charges.

Other groups representing the alcohol and tobacco area are lobbying to block large tax increases on their products as penalizing the poor. The powerful American Association of Retired Persons (AARP) is quietly but firmly lobbying for greater long-term care and prescription coverage. AARP includes nearly 40 million voting-age Americans (who vote at twice the percentage of the average young person). It may be the strongest special interest group in the country.

If we do change the direction of health security or national health insurance, we need to realize what "socialized medicine" is all about. Talk to any American Indian, any veteran, etc. It's possible that under such a system we'd find that medical decisions would not be made by us, or by a doctor, but rather by state employees or federal employees responsible to Washington.

Portability Crisis Looming

The vast majority of working Americans have health insurance and are quite satisfied with the way they receive medical care and with their access to the health care system. Even those without health insurance normally can obtain emergency care, and some level of routine care, from emergency rooms and other facilities. The main political impetus for reform, says Stuart Butler of the Heritage Foundation, comes not from those who are uninsured, but from those who fear they will become uninsured: Americans with insurance who are afraid of losing their benefits in the future or of experiencing cost increases that might jeopardize their ability to afford what they consider adequate care.

People who change jobs in America do not lose life insurance and have to requalify. Nor do they have to requalify for mortgages and risk losing their homes if they are turned down. They do lose their health insurance, however; and if they cannot get adequate coverage in their next jobs, or if their new jobs do not carry insurance, employees can find themselves in serious financial trouble if they get sick.

The tax penalty against paying for health care directly or obtaining insurance from any source other than an employer leads to many problems. The reader is referred to Butler's exhaustive study which cites the following:

- The "portability" problem is caused by Americans' fear that a change in jobs will mean a loss of insurance. One of the main concerns raised among Americans is the related phenomenon of "job lock," which occurs when an employee or family member does not move to a more attractive job for fear of losing health benefits.

- Overinsurance among families with employer-sponsored coverage occurs because insurance is tax-free but direct spending on health must be paid for in after-tax dollars. Thus, Americans have the perverse incentive to urge their employers to provide insurance to cover the most minor health items.

- Uninsurance among families without employer-sponsored insurance results from their having to pay for coverage in after-tax dollars.

- Rapid cost increases in employer-sponsored insurance occur because employees live under the illusion that "someone else pays" and have little or no incentive to economize on their use of health care services.

True reform of the health care system, says Butler, means addressing these problems, both by changing the tax treatment of health care spending and by changing the way in which insurance is provided, in line with three basic goals:

1. Each family, not employers and not the government, should decide for itself what health plans and what benefits it will have;

2. Each family, not employers and not the government, should own the plan that provides its health coverage; and

3. Each family, not employers and not the government, should decide for itself how much it will spend on health care and insurance.

Won't Hurt A Bit?

We are creatures of great contradiction. We distrust government, and yet we want more from it. We all want good health care regardless of our ability to pay. We each do not want our choices limited in any way, and yet we don't want to be made to feel poorer by rising health-care costs. Above all, we seem to be reluctant to deal realistically with these mutually exclusive goals.

As we examine all the major health-care reform proposals on the table, let's consider that it is also possible that little change will be forthcoming. All of life is a compromise. In the recent past, Congress hasn't been too willing to become involved in health-care issues. Additionally, any change would be supported, as well as resisted, by countervailing and powerful special interest groups.

How can we keep these significant reforms--eliminating waste, lowering overhead cost, bypassing unneeded tests and operations, etc.--from clashing with the above-mentioned public preferences for the best of care and the maximum freedom? With so many mutually exclusive goals and special interests to be satisfied, is the problem solvable? Yes, probably through compromise, we can become more realistic and develop a health-care system that can be more fair, more durable and more efficient than today's patchwork system.

Per capita health care in America costs approximately 30 percent more than in Britain, Canada and France. What has gone relatively unnoticed is that if we examine the last two decades, and look at annual per capita cost increases, then the rates in Britain, Canada, and France have been rising much faster than ours. They have taxpayer-funded, government-administered national health insurance schemes.

The countries with the lower annual per-capita increases in health-care costs over the last two decades are Germany, Holland, Japan and the United States. Not so coincidentally, all have systems wherein there is active competition, not only among those who provide health insurance but also among those who provide health care.

Can we have it both ways? Can we say, "I expect the best hospital care, no matter what the cost," and at the same time insist that hospitals must get their costs in line with what we can afford? The question answers itself.

Effecting the Cure

So there's the riddle: how to provide better public access to health care, retain patient control, and preserve doctor-patient relationships, while focusing on the quality of that health care. However, regardless of what happens in our national debate over health care, it is good to know that it is on the agenda. Perhaps it is true that a problem well-defined is half-solved. If so, then this monograph has taken at least an intermediate step toward that goal.

If, when we enter the medical marketplace, we are mostly spending someone else's money rather than our own, then perhaps in the name of better stewardship, a "Tax-free Savings Account for Medical Expenses" much like our Individual Retirement Account (IRA) has some merit as a form of honest-to-goodness private planning. Accordingly, we as individuals could set money aside for routine medical expenses and use health insurance for major medical episodes.

Such was the recommendation recently of the National Center for Policy Analysis. They recommend that individuals should be allowed to make tax-free deposits each year to individual "Medisave Accounts"--a type of self-insurance and an alternative to the use of third-party insurers for routine and minor medical bills. The approach, although a bit simplistic, seems to allow for a maximum amount of freedom for the individual, rather than having his decisions made by someone else, an insurance company or the government, who may not fully know his situation.

Optimistically, there may very well be other ways in which comprehensive health-care reforms might be good for everyone. We could all start by improving our health habits. Better and more timely health care could reduce employee absenteeism and boost worker productivity. Streamlining health-care programs could boost competitiveness, reduce waste, and eliminate unnecessary tests and procedures. Lower caps on malpractice awards, coupled with greater accountability by juries, could return us to greater reasonableness in medical care.

Entrepreneurism in health care could create lower cost approaches to a broad range of medical and administrative procedures. As is now happening under the umbrella of managed care, new niches are being created as health-care providers reorganize, cut costs, develop greater efficiencies, form alliances, innovate, consolidate, network, integrate, unite, etc. Just as we have seen circumstances evolve in retailing, so can health-care providers move the direction of better and more timely patient care through one-stop shopping.

The debate goes on; that's good. In all probability, our political leaders and their respective parties, along with all the special interest groups, will blend their various proposals into a final plan allowing for, however not requiring, all U.S. citizens to buy into at least a nominal level of health-care coverage.

14. EFFECTIVE CRIME DETERRENCE

Crime is a pervasive problem in Arkansas and America. As with pollution, the problem is particularly pronounced in our urban areas. Crime rates are higher in urban than in nonurban areas, and higher in central cities than in suburbs. It has always been so. There is greater crowding or higher population density.

In a small towns, the local law enforcement officers can discern residents from strangers and can, if necessary, closely monitor the latter. Such a personalized approach to crime prevention is not possible in large cities. Our cities are also great repositories of wealth; that attracts criminals. Further, a large percentage of the criminal element comes from poor families. Consequently, and like it or not, the concentration of the poor in our urban areas creates a sizeable reservoir of potential criminal activity.

The latest edition of the <u>Almanac of the 50 States</u> paints a stark picture for Arkansans:

Category	State Rank
Crime Rates per 100,000 People	29
Violent Crimes per 100,000 People	24
Number of Prisoners Sentenced Per 100,000 People	17
Number of Police per $1,000 of Personal Income	47

Effective Crime Deterrence

Category	State Rank
Number of Police Per Capita	49
Expenditures for Confinement per $1,000 Personal Income	40
Expenditures for Confinement per Capita	46
Fire Fighting Costs per $1,000 Personal Income	43
Fire Fighting Costs per Capita	48

Being Swept Along

The tidal wave of crime began in the 1960s, and it continues to roll across America. According to the Bureau of Justice Statistics, U.S. Department of Justice, the numbers are grim:

- Each year, about 6.6 million Americans become victims of murder, rape, robbery, or assault.
- A murder occurs every 22 minutes, a rape every 5 minutes, a robbery every minute, and an aggravated assault every 28 seconds.
- About 29 million Americans each year are victims of arson, burglary, and larceny-theft.

- A motor vehicle theft occurs every 20 seconds, a burglary every 11 seconds, and a larceny-theft every 4 seconds.

- Eight out of every ten Americans can expect to be victims of violent crime at least once in their lives.

Is it any wonder that today the United States is our most violent and crime-ridden society in the industrialized world, and this also affects international competitiveness? According to Dushkin Publishing's Annual Editions, America has five times more homicides, 10 times more rapes, and 17 times more robberies than Japan. New York City alone has twice as many homicides as Japan. There are 218.2 robberies per 1,000 people a year in the United States, compared to 33.4 in West Germany and 2.1 in Japan. The societal costs of this crime wave are enormous. Japan's taxpayers support 50,000 inmates while the U.S. taxpayers support 546,000 adult prisoners.

Poverty or Family Status?

"The real root cause of violent crime," says Patrick F. Fagan, Fitzgerald Fellow, Heritage Foundation, "is the breakdown of the family." The following are condensed portions from his essay in the National Review and is also reprinted with permission from Imprimis, the monthly Journal of Hillsdale College:

Social scientists, criminologists, and many other observers at long last are coming to recognize the connection between the breakdown of families and various social problems that have plagued American society. In the debate over welfare reform, for instance, it is now a widely accepted premise that children born into single-parent families are much more likely than children born into intact families to fall into poverty and welfare dependency.

While the link between the family and chronic welfare dependency is much better understood these days, there is another link -- between the family and crime -- that deserves more attention. Why? Because whole communities, particularly in urban areas, are being torn apart by crime. We desperately need to uncover the real root cause of criminal behavior and learn how criminals are formed if we are to fight this growing threat.

There is a wealth of evidence in the professional literature of criminology and sociology to suggest that the breakdown of family is the real root cause of crime in America. But the orthodox thinking in official Washington assumes that crime is caused by material conditions, such as poor employment opportunities and a shortage of adequately funded state and federal social programs.

Since 1965, welfare spending has increased 800 percent in real terms, while the number of major felonies per capita today is roughly three times the rate prior to 1960. As Republican Senator Phil Gramm rightly observes, "If social spending stopped crime, America would be the safest country in the world."

Still, federal bureaucrats and lawmakers persist in arguing that poverty is the primary cause of crime. In its simplest form, this contention is absurd; if it were true, there would have been more crime in the past, when more people were poorer. And, in poorer nations, the crime rates would be higher than in the United States.

Official Washington also believes that race is the second most important cause of crime. The large disparity in crime rates between whites and blacks is often cited as proof. However, a closer look at the data shows that the real variable is not race but family structure and all that it implies in terms of commitment and love between adults and between adults and children.

A major 1988 study of 11,000 individuals found that "the percentage of single-parent households with children between the ages of 12 and 20 is significantly associated with rates of violent crime and burglary." The same study makes it clear that the popular assumption that there is an association between race and crime is false. Illegitimacy, not race, is the key factor. It is the absence of marriage and the failure to form and maintain intact families that explains the incidence of crime among whites as well as blacks.

Future Violent Criminals

There is a strong, well-documented pattern of circumstances and social evolution in the life of a future violent criminal. The pattern is summarized by Fagan in five basic stages:

<u>Stage One</u>: Parental neglect and abandonment of the child in early home life

- When the future violent criminal is born his father has already abandoned the mother.
- If his parents are married, they are likely to divorce by the third year.
- He is raised in a neighborhood with a high concentration of single-parent families.
- He does not become securely attached to his mother during the critical early years of his life.

- His child care frequently changes.
- The adults in his life frequently quarrel and vent their frustrations physically.
- He, or a member of his family, may suffer one or more forms of abuse, including sexual abuse.
- There is much harshness in his home, and he is deprived of affection.
- He becomes hostile, anxious, and hyperactive. He is difficult to manage at age three and is frequently labeled as a "behavior problem."
- Lacking his father's presence and attention, he becomes increasingly aggressive.

<u>Stage Two</u>: The embryonic gang becomes a place for him to belong

- His behavior continues to deteriorate at a rapid rate.
- He satisfies his needs by exploiting others.
- At age five or six, he hits his mother.
- In first grade, his aggressive behavior causes problems for other children.
- He is difficult for school officials to handle.
- He is socially rejected at school by "normal" children.
- He searches for and finds acceptance among similarly aggressive and hostile children.

- He and his friends are slower at school. They fail at verbal tasks that demand abstract thinking and at learning social and moral concepts.
- His reading scores trail behind the rest of his class.
- He has lessening interest in school, teachers, and in learning.
- By now, he and his friends have low educational and life expectations for themselves.
- These low expectations are reinforced by teachers and family members.
- Poor supervision at home continues.
- His father, or father substitute, is still absent.
- His life is now primarily characterized by his own aggressive behavior, his aggressive peers, and his hostile home life.

<u>Stage Three</u>: He joins a delinquent gang

- At age 11, his bad habits and attitudes are well established.
- By age 15, he engages in criminal behavior. (And the earlier he commits his first delinquent act, the longer he will be likely to lead a life of crime.)
- His companions are the main source of his personal identity and his sense of belonging.
- Life with his delinquent friends is hidden from adults.

- The number of delinquent acts increases in the year before he and his friends drop out of school.
- His delinquent girlfriends have poor relationships with their mothers, as well as with "normal" girls in school.
- Many of his peers use drugs.
- Many, especially the girls, run away from home or just drift away.

<u>Stage Four</u>: He commits violent crime and the full-fledged criminal gang emerges

- High violence grows in his community with the increase in the number of single-parent families.
- He purchases a gun, at first mainly for self-defense.
- He and his peers begin to use violence for exploitation.
- The volent young men in his delinquent peer group are arrested more than the non-violent criminals. But most of them do not get caught at all.
- Gradually, different friends specialize in different types of crime: violence or theft. Some are more versatile than others.
- The girls are involved in prostitution while he and the other boys are members of criminal gangs.

<u>Stage Five</u>: A new child -- and a new generation of criminals -- is born

- His 16-year-old girlfriend is pregnant. he has no thought of marrying her; among his peers this simply isn't done. They stay together for awhile until the shouting and hitting start. He leaves her and does not see the baby anymore.
- One or two of his criminal friends are real experts in their field.
- Only a few members of the group to which he now belongs -- career criminals -- are caught. They commit hundreds of crimes per year.
- Most of the crimes he and his friends commit are in their own neighborhood.

Single-Cause Consensus?

The root cause of America's most serious crime problem is simple: a hard-core group of repeat offenders commits most of the violent crime, says Peter J. Ferrara, researcher for the Heritage Foundation. In his article "Crime," Ferrara notes that whenever these individuals are on the street, even when awaiting trial or on probation or parole, they are often committing crimes. The solution, therefore, and according to Ferrara, is equally simple: consign as many as possible of these repeat offenders to long prison terms, during which they would be unable to prey upon the public. The crime rate would drop dramatically, and America's streets and homes would be much safer places.

Study after study shows that habitual repeat offenders, who amount to a tiny fraction of the total population, commit most of the violent crime. Accordingly, one major flaw in current criminal justice policies is the degree to which convicted criminals are sentenced to probation with no prison time at all, or to jail terms of one year or less. Additionally, criminals generally serve only a fraction of the sentences imposed on them in court, even while sentences themselves are often quite short. Hard-core repeat offenders even continue to commit crimes while out on bail pending trial on previous criminal charges.

Crime imposes a wide range of costs on society (as reported by the National Center for Policy Analysis):

- Victims suffer direct economic damage in loss of funds and property.

- They also experience pain, suffering, cruelty, temporary or permanent physical impairments, and sometimes loss of life.

- Potential victims suffer fear, inconvenience, and loss of freedom in trying to avoid crime, and the economic costs of extra locks, bars, guns, and other equipment to deter crime.

- Neighborhood businesses lose sales when customers fear crime while shopping.

- Neighborhood workers lose jobs when businesses and investors are scared away by fear of crime.

- Children lose the opportunity to learn when their schools become dominated by gangs and drug dealers who destroy the learning environment.

Commit the Crime -- Do the Time

As most crime is under the jurisdiction of state and local governments, most of the changes in policy need to be made at the Arkansas level. The key to crime reduction in Arkansas and the U.S. is to identify repeats and keep them in prison for long terms so they cannot continue to prey on the public. How do we get from here to there? Ferrara's proposals for reform include these:

1. Sharply restrict pre-trial release for dangerous defendants;

2. Sharply limit probation;

3. Adopt strict sentencing guidelines;

4. Abolish parole;

5. Acquire adequate prison space;

6. End furloughs and other temporary release programs;

7. Require prison work;

8. Impose the death penalty for heinous crimes;

9. Assure victims' rights;

10. Reform the juvenile justice system;

11. Make greater use of community policing; and

12. Guarantee the right of self-defense.

Each of the above mentioned 12 proposals involves comprehensive and complex guidelines and sanctions, the stuff of further study and research, no doubt.

Fighting Crime Effectively

In "The Economics of Crime," Ed Rubenstein, Economic Analyst for the *National Review*, sums up the situation this way:

> Although crime is a national problem, it is best fought by local initiatives. Unfortunately, Congress doesn't see it that way. The 1994 bill is laden with federal micromanagement. And keeping career criminals off the street is essential to fighting crime. "Three strikes and you're out" is a good start, but it's expensive. Maintaining a single criminal behind bars costs taxpayers at least $25,000 per year. However, the Rand Corporation reports that the average professional criminal commits between 187 and 287 crimes a year, at a cost to society of $2,300 per crime -- more than $400,000 a year. So paying for new prisons is really a bargain.
>
> Yet we must remember that the ultimate cause of criminal activity is a breakdown in internal controls -- call it character or personal morality. Some people simply never learn the difference between right and wrong. Public policy cannot directly change the internal controls on which human character, and ultimately human behavior, depend. But the criminal justice system can perform the essential role of

reminding society that crime is wrong and that it carries serious consequences.

Listen to Fagan's parting shot as he links the violent criminal to family status, government action, community resolve and moral development:

> For the future violent criminal, each of these five stages is characterized by the absence of the love, affection, and dedication of his parents. The ordinary tasks of growing up are a series of perverse exercises, frustrating his needs, stunting his capacity for empathy as well as his ability to belong, and increasing the risk of his becoming a twisted young adult. This experience is in stark contrast to the investment of love and dedication by two parents normally needed to make compassionate, competent adults out of their children.
>
> Government agencies are powerless to make men and women marry or stay married. They are powerless to guarantee parents will love and care for their children. They are powerless to persuade anyone to make and keep promises. In fact, government agencies often do more harm than good by enforcing policies that undermine stable families and by misdiagnosing the real root cause of such social problems as violent crime.

But ordinary Americans are not powerless. They know full well how to fight crime effectively. They do not need to survey the current social science literature to know that a family life of affection, cohesion, and parental involvement prevents delinquency. They instinctively realize that paternal and maternal affection and the father's presence in the home are among the critical elements in raising well-balanced children. And they further acknowledge that parents should encourage the moral development of their children -- moral development that is best accomplished within the context of religious belief and practice.

None of this is to say that fighting crime or rebuilding stable families and communities will be easy. But what is easy is deciding what we must do at the outset. We begin by affirming four simple principles: First, marriage is vital. Second, parents must love and nurture their children in spiritual as well as physical ways. Third, children must be taught how to relate to and empathize with others. And, finally, the backbone of strong neighborhoods and communities is friendship and cooperation among families.

These principles constitute the real root solution to the real root problem of violent crime. We should do everything in our power to apply them in our own lives and the life of the nation, not just for our sake, but for the sake of our children.

Arkansans and Americans must move forward with creative solutions to our crime problems. One and a half percent of the entire adult population of the United States is under "correctional supervision." Drugs also relate indirectly to the quality of our work force. Studies show that as many as 10 to 20 percent of U.S. workers use drugs at the workplace.

The financial and psychic strain of a society that increasingly lives behind bars to protect itself from an increasingly violent and crime-infected society will make it harder and harder for us to marshal the skills and dedication necessary for Arkansas to compete in the international marketplace.

15. ENERGY ECONOMICS AND PROSPERITY

"The Department of Energy currently spends $1.3 billion on research in energy efficiency technologies and renewable energy sources in an effort to reduce total energy demand, conserve natural resources, and improve national energy independence. This is a waste of taxpayer dollars," says the Competitive Enterprise Institute (CEI), "Private industry is fully capable of investing in energy efficiency research, and many of the technologies subsidized with federal research are not cost-effective alternatives to fossil fuel consumption."

CEI's recommendation is to get rid of all federal energy conservation programs. CEI insists that curtailing government spending "should be fun, not an occasion for handwringing and apologies but a great adventure, an exhilarating hunt to bring down the outmoded, the parasitical, and the preposterous."

So, let's back up, look at where we've been, and ponder the future. In the late 1970's, the service station attendant said, "Fill it up?" Reluctantly, I replied, "Fill it up." He opened the cash drawer and said, "Fill it up." I filled it up. Then he filled my gas tank, doubling the value of my old, gas guzzling car. By the mid 1980's, the pendulum had swung to the other extreme. I breezed into the service station in my new, fuel efficient model and happily challenged the attendant to "fill it up." He moaned, "I haven't seen gas prices this low since it was put in the trolling motor of Noah's ark."

Today, higher gas prices again make us feel as if we are "paying through the hose." Aside from trying to face the energy costs with a sense of humor, fact is, gas is $1 more per gallon in Canada--$2 more in parts of Europe. Most of that price differential is attributed to the size of the respective countries' gas tax.

Examining the situation closer, the news at the pump gets even better. After adjusting for inflation, current gas prices are on a par with the prices that fueled our 1950 cars. In real terms, we have the least expensive gas in the industrialized world. In 1930, the average pay for an hour of factory work would purchase about 3 gallons of gasoline. Today, wages for that hour's work will buy about 8 gallons.

What really drives gas prices? Replacement costs, spot market prices, and buy-seller psychology will always determine feedstock prices downstream into refineries, wholesale markets and retail outlets. Prices at the pump usually rise 2.5 cents per gallon for each $1 increase per barrel in crude oil prices.

Has America Acted Fuelish?

Have we been "fuelish"? Not really. We have grown 60 percent in real GNP since 1973; and we did it with only 10 percent more energy. We're not "energy pigs" any more than our children whom we push to go on in school are "education pigs". Yes, we use 25 percent or more of the world's oil flow. We also produce (and sell to ourselves and others) 25 percent of the world's goods and services.

Do we realize how far we've come? Our 1995 cars go twice as far on a gallon of gas compared to 1973 (28.3 vs. 14.2). Trucks have shown a 50 percent improvement. The equipment in our houses, cars, factories, aircraft are 30 percent to 60 percent more efficient than 20 years ago. Total residential fuel bills have held steady for the last decade, despite an increase of 20 million dwellings (a 25 percent gain in total dwellings).

These improvements put us ahead of every major Western trading partner, and almost equal with Japan, in terms of energy efficiency gains. Japan has one-fifth the cars of the U.S. and a total land mass that would fit inside the state of Montana. This is a tremendous achievement, considering the topographical size and diversity of our land and population. Oil now powers 6 percent of our electrical energy, compared to 17 percent in 1973. We have come a long, long way in just a decade and a half.

Quietly, since 1973, we have weaned ourselves partly away from the Persian Gulf oil. By the summer of 1990, 11 percent of our total U.S. consumption of oil was from the Persian Gulf--Iraq (2.6 percent), Kuwait (1.0 percent), and Saudi Arabia (7.1 percent). Another 11 percent comes from non-Arab OPEC members. And the remaining 23 percent comes from other countries. All total, we import 45 percent of our oil.

We have been pumping oil domestically for 130 years. We are down to averaging 19 barrels a day from our American wells, compared to 240 barrels per well each day in the Persian Gulf. So where do we go from here? Our strength and future is in coal, natural gas, and nuclear. With environmental considerations, we will also have to tap into our Western off-shore continental shelf for new, major oil reserves.

Beyond that, the sun is expected to shine for several billion years. Nuclear fusion creates its own fuel. The oil shale of the mountain states, although not commercially recoverable below $60 a barrel, may rival the Mid East reserves. One hundred billion barrels of oil are estimated to be in America's continental shelves. Oil, natural gas, gasoline and methanol can be synthesized from coal, as was accomplished by Germany during World War II. We are the Persian Gulf of coal.

To be sure, America's primary economic goal must be to guarantee a stable supply of reasonably priced oil. Two-thirds of the world's oil stock is in the Persian Gulf, as is one-fourth of the world's current flow of crude oil. Those oil imports which came from Iraq and Kuwait are being replaced in the short run by switching purchases. Sustaining these adjustments in the long run will be difficult, everything considered.

Our lack of resolve to tap our own recoverable reserves, combined with our willingness to do business with the Mid East oil cartel, as if a cartel is an honest and legal marketing situation, has contributed to the power and pervasiveness of OPEC for two decades.

Do we have another energy crisis because we still import 45 percent of our oil and are wasteful? No, the planet's energy crisis is that oil provides 40 percent of the energy and that two-thirds of known oil reserves are in the Persian Gulf known by its shifting sands of strife for millennia. Not to go unnoticed, the only refinery in the entire Persian Gulf that could produce jet fuel was in Kuwait.

Oil reserves in Iraq and Kuwait alone are 200 billion barrels. We use 17 million barrels a day. American troops could be in the Persian Gulf for years, decades. We cannot simply withdraw and cross our fingers that there will be no more such crises. We have embarked on a course that will require collective resolve, diplomatic savvy and mega quantities of manpower and equipment. It could also add about 10 percent to the size of the Federal budget deficit, the allies' contributions notwithstanding.

Although domino theories have been out of vogue lately with the thaw in East-West relations, consider this scenario.

A major oil cutoff would surely hobble Europe and Japan. As major trading partners, their economic implosion could throw our economy into a freefall.

If gas prices go up or stay high, what else would result? New England will be hurt the most on heating oil costs. Texas, Oklahoma, Louisiana, Alaska economies will pickup (Mexico, Venezuela, too). Price inflation could rise 1-2 percent, resulting in less downward pressure on interest rates. US exports could weaken with a stronger dollar--strengthened as it's a safe haven in times of uncertainty. However, that makes exports more expensive.

What about those surging prices at the pump? Price increases for gasoline and heating oil that result from the recent upheavals in the Middle East shouldn't be as great as feared or as high as those experienced during past oil crunches. The price of crude oil rose 400 percent in 1973-74 and 300 percent in 1979-80.

How Many Crises?

In 1973, Arab nations refused to sell to Israel's allies, then tripled prices. In 1980, Iran's revolution and the Iran/Iraq war led to panic buying led by Japan, and that resulted in oil prices increasing to an all-time high of $40 a barrel. In 1986, Saudi Arabia flooded the market, drove prices down to $12 a barrel and effectively eliminated, for at least five years, some of our recoverable reserves.

Is oil merely "another commodity"? No, it powers the engine of our market economy and fortifies our national defense. We cannot have it both ways. We cannot have low-priced, off shore fuel from unstable foreign sources while we sacrifice our strategic defense capability and our own recoverable energy reserves. Pay your money and take your choice.

Economists have long known that quantity available in the marketplace, both supplied and demanded, is always a function of price. We must avoid the temptation of making energy predictions on the assumptions that our stockpile, technology, and environment are fixed. Throughout our history, various crises and technology breakthroughs have had a way of bringing new resources into existence while rendering old ones valueless.

Consider that for a thousand years, from approximately 900 A.D. until the 1860's, mankind's principal source of lubrication and lighting came from whale oil. By the time of the Civil War, the relative scarcity of whales and the tandem upward price spike of whale oil led to the development of refining processes for the then so called non-resource crude oil, discovered in Pennsylvania in 1859.

If economists know anything, it's that free markets, when allowed to operate in their own channels, have a way of resolving shortage and surplus conditions. Prices will respectively rise and fall in response to supply and demand conditions.

Creative Juices Will Flow

Simultaneously, entrepreneurs with a good feel for applied science brought the Petroleum Age into full flower. We owe them much of our standard of living (products), our material comforts (heating and cooling), and longevity (medicines from petroleum bases). Only when we try to bypass ordinary market processes and throttle creative juices do we then face a prolonged and protracted energy crises.

Our supply of fossil fuels is finite, but we are certainly not in the last days of the Petroleum Age. Curiously, at frequent intervals over the last 125 years, various government bodies (Revenue Commission, Bureau of Mines, Department of Interior, etc.) have oft declared the end of our reserves to be 10 to 20 years hence.

Then, new reserves would be discovered, exceeding all previously known reserves and all oil pumped out of the ground to that date. Examples abound from Texas, Oklahoma, and Louisiana 100 years ago to the more recent and major finds on the north slope of Alaska.

Come what may, we the people will have the energy we need, and we will pay for it at rates that, in the short run, may seem like a "gold arm and a platinum leg." No doubt we will end up with far more energy at lower prices in the long run if we can avoid so-called quick fix solutions.

Such was the case with the abortive price controls attempted in past decades. Those controls attacked symptoms, were cosmetic, obscured root causes, aggravated shortages, curtailed buyer-seller freedom, masked true market costs, encouraged wastefulness, and discouraged exploration.

So, what are the energy economic facts of life? Those who lobby against coal-fired power plants, nuclear energy, off-shore drilling in our own backyard, and exploration of mineral rights on federal lands are going to have to be more reasonable, or we'll have to shut down the country and return it to the Indians.

There is no shortage of energy reserves waiting to be identified and commercially developed. Then, the 21st Century will also be known as the American Century, and you can take that to the bank. Are there worse things than an energy crisis? Sure. Having an identity crisis and an energy crisis at the same time: not knowing who we are and being too tired to try to find out.

Energy and Global Tensions

In the winter of 1990-1991, as "Desert Shield" turned to "Desert Storm," this writer published the following sequel to "Energy Economics." Titled "UNTIL PEACE BREAKS OUT -- Fifty Reasons Why America is 'Over There'," it is presented here as a sobering perspective and with the afterthought that history could repeat itself, involving Arkansans and Americans once again:

> War and Peace. Few of us have slept well lately, and we've had that socked-in-the-stomach feeling over the Persian Gulf War. Today there are some empty chairs in many family circles. To those families we should extend our love, sympathy, prayers, and humanitarian aid which has long been the hallmark of American voluntarism.
>
> Scanning the print and electronic media over the past few months, this writer has chronicled 50 reasons why we are "over there." They really do all add up. We need to know that, to avoid cruelly punishing ourselves and others with false guilt. We will still have some frustration to work through -- to keep us from being literally sick at heart. The medical term for that is "CNN Syndrome."
>
> Lest we Americans develop a national schizophrenia over "Operation Desert Storm," here is

Wartime Economics 101. Let's start with a volley of reasons that have been frequently cited.

We're "over there": (#1) to preserve "truth, justice, and the American way," (#2) to shelter Kuwait from aggression; (#3) to protect the interests of America's friends in the Middle East; (#4) because Iraq's leader has been called an international Al Capone; (#5) because Iraq with nuclear weapons would endanger the entire world; (#6) to protect those oil fields and oil company investments; (#7) because a big spike in oil prices threatens our economy; (#8) and to create that elusive "new world order."

Is there some truth to each of those points? Yes, and summed up they are probably ample reasons to send our finest into battle. However, there are many other reasons. All are related; some are more compelling than others. Together they join into a compelling mosaic.

Although domino theories have been less popular recently with the thaw in the Cold War, consider this sequence of events. (#9) A major oil cutoff would surely hobble Japan and energy-inefficient Europe. (#10) As major trading partners, their economic implosion could throw our economy into a freefall, jeopardizing jobs.

(#11) It is in our national and international interest to assure a stable flow of oil from the Persian Gulf at reasonable prices. American troops could be rotated into the Persian Gulf for years.

(#12) Congress decided after Vietnam that a standing military through a draft was too expensive. Hence, the call-ups of Guard and Reserve units. Did Congress publicize this huge shift in policy, or notify those whom it would affect the most? My sources say, "Definitely, yes."

(#13) We would like to have these fine people back right away, but we cannot simply withdraw and cross our fingers that there will be no more such crises. We have embarked on a course that will require collective resolve, diplomatic savvy, and mega quantities of manpower and equipment.

Additionally, (#14) the loss of control of the oil fields in the Persian Gulf could shake the foundations of the international banking system. Why? There are scores of oil-importing, underdeveloped countries which owe tens of billions of dollars to overexposed major banks.

(#15) A sharp, sustained increase in crude oil prices, and those nations may not be able to service their debts. The world's biggest and most vulnerable banks would take a significant broadside.

(#16) If the banks are pushed to the edge, those who suffer won't just be bank stockholders. We, all of us, our enterprises, and our loved ones could also suffer, at least temporarily, due to financial deflation and confusion.

The plot thickens. (#17) A year before the invasion of Kuwait, and at two Arab summits, Saddam Hussein argued that by combining the OPEC quotas of the two countries, he could force oil prices up to $30 a barrel, double his development budget and still pay off his war debts in four years.

(#18) In the process, he would expand his coastline from 37 miles to 225 miles and wind up with a deepwater port. All he had to do was take over Kuwait to whom he owed $18 billion in loans from the Iran-Iraq war. His options were clear. He could repay the loan or he could rob the bank.

(#19) Egypt's President Mubarek has told a U.S. Senator recently that Saddam once took him aside and proposed a military coalition of Iraq, Egypt, Syria and

Jordan to pool their weapons and carve up Kuwait and Saudi Arabia.

(#20) On another occasion, Iraq offered Yemen two of Saudi Arabia's southern provinces, telling Jordan's King Hussein that he could have the western port of the Saudi Peninsula.

(#21) What happened in Kuwait is a threat to the entire Arab world right now. Later, it could become a threat to the rest of the globe.

(#22) History can be a good teacher here. In 1938, Germany gobbled up neighboring Czechoslovakia; the West did nothing. A year later, much stronger, Germany began its invasion of Poland, followed by Belgium, the Netherlands, Luxembourg, France, and threatened Great Britain. If only we and they had dealt with Germany early on.

(#23) What would happen if Iraq develops a monopoly on Persian Gulf oil? It could hold captive the world's economy and severely affect industrial output. By that time, it could stifle the coalition's military power and will to resist.

(#24) Is war about cheap crude oil? No, it is about heading off the terrible misuse of oil power. We have not sent nearly 500,000 Americans to the Persian Gulf just to hold oil prices at $20 a barrel.

(#25) Our young men and women are there to keep Iraq from controlling two-thirds of global oil reserves and (#26) from using that control to blackmail the industrial world possibly with nuclear weapons. (#27) The case for fighting now is, frankly, that Iraq will be militarily, politically, and geographically harder to fight later.

(#28) What we are doing is a pragmatic attempt to maintain access to the oil on which the world depends. (#29) It is nothing less than an effort to sustain the well-being of billions of people including Americans.

We import half our oil, but even achieving self-sufficiency would not fully protect us from war in the gulf. (#30) Our prosperity is heavily linked to countries that are heavily dependent on Mid East oil.

(#31) If the price were all that mattered, we could rely on the marketplace. Even for producers, excessively high prices don't maximize profits. They drive away buyers by promoting conservation and inducing new oil production.

(#32) The trouble is that Saddam doesn't merely want to become king of the world's oil. (#33) His ambitions are to dominate the Arab world ... and (#34) to turn Greater Iraq into a global military power. His is the 4th largest military which spent $50 billion in the last decade. His military equals the size of all the other Arab countries combined.

(#35) Would he dole out oil at favorable prices to countries that delivered nuclear or military hardware? (#36) Modern warfare can deplete a country's treasury in record time. In 1870, an early prototype of a machine gun was demonstrated to a South American ruler. The machine gun was called by Engels "the ultimate weapon." It mowed everything down, but the ruler refused to buy it because "if I fire it for 15 minutes, it will empty my Treasury."

(#37) With his treasury rebuilt, would he finance more terrorism by stopping oil shipments sporadically to coerce Western support for his agenda? (#38) Might he decide that oil at $50 a barrel suited his politics, even if it's not profit maximizing?

(#39) We now know the answers: Nothing less than force can expel him from Kuwait, the only country in the Gulf that had a refinery that could process jet fuel. (#40) Today, Saudi Arabia has to supply the U.S. military in the Persian Gulf with imported jet fuel.

(#41) Sanctions don't have a history of forcing invaders out of conquered territory. Sanctions don't restrain a leader who protects his military first while sacrificing his civilian population.

(#42) Sanctions did impose a great toll on the United States. They gave Iraq time to heavily fortify Kuwait so that any ground assault would be all-the-more difficult and costly.

#43) Appeasers haven't done their homework. Anything less than defeat for Hussein would soon have the Arab world back under his thumb. (#44) Those nations would be suing for peace with the biggest bully on the regional playground, and he would soon become more bold, reckless, and unpredictable.

(#45) We cannot fight everybody's war. Any American president would be impeached for trying that. Therefore, we have to fight only those wars in which we have a vital national interest. (#46) Where a ruthless aggressor is involved, peace leads to a bigger war later.

(#47) We now know that there can be no trusting any deals Iraq's leader makes under diplomatic pressure. (#48) Such false trust would be an appeaser's peace, fated to erupt later in a sucker's war.

(#49) America is not a warmongering nation but rather a cautious trustee of our planet. Only the United States is strong enough to be the guardian of justice. As President Bush has stated, "Such is the price of leadership." (#50) We desire so much to live in a world where fighting will not be necessary. The leader of Iraq does not view things that way.

Wartime Economics

The term "wartime economics" may seem to be a contradiction. The language of war is compulsion, victory, defeat, survival, destruction, violence, waste, tactics, assault, defense, fear, and patriotism. The language of economy is voluntary action, gain, loss, creating, producing, peaceful work, industriousness, commerce, free trade, and consumer sovereignty.

Nevertheless, the economy cannot thrive except under peaceful conditions. The very foundation of our economic lives -- our freedom of choice to manage our individual, business, and national affairs -- is a direct result of sustained peace in our time.

There may not be any quick and painless ways for the allied coalition to win the war in the Persian Gulf. To some extent the coalition members were unwitting partners in creating Iraq's fortress in the first place.

Iraq's aircraft and tanks are Russian- and French-made. Italy designed Iraq's nuclear reactor. Those chemical plants were constructed by Germany. U.S.-made computers, dual-use chemicals, and U.S.-grown food flowed into Iraq for many years. The British engineered Iraq's underground aircraft bunkers.

For the allied coalition to expect a painless solution to the persian Gulf War is inconsistent. We did this to ourselves -- all the coalition countries did. it is much like the situation of the young man who, as he stood before the judge to be sentenced for bumping off his parents, pleaded for mercy because "After all, your Honor, I'm an orphan, you know."

This isn't the first time; history does repeat itself. We've all criticized General Custer's charge in 1876. But where do we suppose the Indians assembled at Little Big Horn obtained all those rifles? From gun-running Americans.

Alas, war hath no fury like non-combatants. To this writer, it makes little sense for the sheep and lambs to be signing petitions and waving placards in favor of "vegetarianism," if the wolves don't care. Some day, we are gold, the lion will lie down with the lamb. Fine. We should be the lion, just in case that lamb turns out to be another wolf in sheep's clothing.

History tells us that aggressors throughout the ages have advanced in the face of weakness and retreated in the face of strength. Always. it may feel good to sing the whining lyrics of "Give Peace a Chance," but it doesn't accomplish much at all toward a genuine, lasting peace that comes through victory over evil.

It is precisely at times of national stress and anxiety that a renewal of faith and purpose is required. American remains an inspiration to millions; but ingratitude, misunderstanding, even hatred may have to be endured. You see, "Liberty means responsibility," said George Bernard Shaw. "That is why most men dread it."

It was the Old Testament prophet, Daniel, who recounted handwriting on the wall that was interpreted to warn an earlier ruler of Iraq, Nebuchadnezzar of Babylon, that he was running out of time. President Bush, as the leader of the free world, is now delivering that same message to Saddam Hussein.

Our President deserves the support of all Americans. True, the last chapter hasn't been written yet, but the good guys are going to win. World War III has not started. The present military action in the gulf will avert World War III.

That was then; this is now. As we speak, U.S. troops are entering Bosnia, a land called by *Newsweek*, "Hell in a very cold place." It would be more than just an interesting exercise to hold the Bosnia incursion to the "national interest" and "world stability" standards of the Persian Gulf war. The Balkans have been a powder keg for hundreds of years. In modern times it was only the post World War II totalitarian rule of Yugoslavia's Marshall Tito that neutralized the ethnic strife. As we tiptoe into Europe's perdition, let's consider the haunting message from General Robert E. Lee as he viewed the carnage of our Civil War: "It is well that war is so terrible, lest we grow too fond of it."

16. ENVIRONMENTAL ECONOMICS TRADEOFFS

Do we have a future? In 1950, there were 61 accidents per 100,000 people. Today, the statistic is 47 accidents per 100,000 people. Bladder cancers, which the experts say are the true measure of toxins in the ecology, are down in the last decade.

In the past 25 years since the first Earth Day in 1970, there have been great changes in our environment and in the ways humans affect it. Emissions of major pollutants have been reduced. Lakes and rivers have become more fishable. Forest inventories have grown, and recycling has made significant progress. Ironically, according to a 1992 account, 875,000 people celebrated "Earth Day" in New York City and Washington, D.C. At the end of that day they left behind 161.3 tons of garbage.

In 1970, environmentalists warned of a "New Ice Age." Today, using essentially the same data, they predict "Global Warming." And yet, the earth's average temperature has increased less than one percent in the 20th Century, mostly before 1940. According to the National Center for Policy Analysis, claims that "all scientists" agree that global warming is occurring, that it is a real threat to the earth and that human activities are contributing to it are belied by a recent Gallup poll of climate scientists in the American Meteorological Society and in the American Geophysical Union.

It showed that a vast majority doubted there has been any warming to date that could be identified specifically as caused by humans: 49 percent said there has been none; 33 percent said they didn't know; and 18 percent thought some has occurred. Significantly, of those who are actively involved in research and who publish frequently in peer-reviewed research journals, none believed that any temperature changes in the data record could be distinguished from normal variability.

According to the Associated Press, environmental extremists in Greenpeace, which pressured the oil giant Shell into scrapping plans to dump an old drilling platform at sea, admitted in the summer of 1995 that part of its campaign was in error. The group had wrongly claimed 5,500 tons of oil remained aboard the platform. The amount of oil aboard the Brent Spar was as little as 50 tons, or about 350 barrels -- less than one-hundredth the amount Greenpeace initially claimed.

Chicken Little Was Wrong

Business Week's Mary Beth Regan reports that Chicken Little may be part of an endangered species. With the recent 25th anniversary of Earth Day came the release of a spate of books on the environment -- including several suggesting that the apocalypse may not be coming after all. Perhaps the best of these revisionist efforts is Gregg Easterbrook's <u>A Moment</u>

on the Earth: The Coming Age of Environmental Optimism, a refreshing, evenhanded appraisal of the state of the planet:

> Once-damaged forests are rebounding, the number of bird species has not plummeted as predicted, and even smog has been dissipating in most U.S. cities. yesterday's toxic-waste sites often teem with wildlife, he says, while "degradation of pristine rivers by new water pollution has essentially ended in the U.S." After expanding on several such cases, "ecorealist" Easterbrook sends a stern warning that green groups risk losing whatever political clout they still have in Washington by sounding the alarm long after it has been shown that the sky isn't falling. "Accurate understanding of the actual state of the environment will serve the Earth better than expressions of panic," he contends.

The environment is better than we think. So says Mobil Corporation. In the years since the environmental movement began, rivers are cleaner, the bald eagle is thriving and the air is significantly more breathable. Technology has solved many pollution problems. And when technology itself caused pollution, better technology helped clean it up.

Cities faced a severe environmental problem 100 years ago as a result of horse-drawn transportation and the animal waste that littered the streets. The introduction of motorized vehicles solved that problem, but the gasoline-powered engine caused new ones. Thanks to new technology, we are now seeing a decline in pollution caused by automotive emissions. Today's technologies are developing better processes and products that use fewer resources, produce less waste and cause less ecological disruption than technology of the past. Industry is producing better, cleaner products with less packaging and more recycled content.

As Easterbrook points out and Mobil Corporation confirms, air in the U.S. is significantly cleaner in the '90s than it was in the 70s. Smog in the U.S. declined even as the economy grew and the number of cars on the road increased. Air pollution from lead declined by more than 90 percent, and emissions that form smog and acid rain declined substantially. The number of cities that do not meet national ambient air-quality standards has declined by 50 percent since the mid-70s. This is progress.

Science Vs. Policy

Arkansas has a pristine environment. And yet, according to the Almanac of the 50 States, Arkansas receives an environmental ranking of 48th place. We score in 50th place in environmental legislation initiated by policymakers, according to the Green Index. However, these studies are flawed because they don't include significant environmental reforms approved by the Legislature since 1991. Let us never confuse correlation with causation when it comes to means and ends. Most states would covet the ecosystem we have long maintained.

Unfortunately, there have been many cases in recent years where sound science and economics have been sacrificed to support preconceived public policies and political decisions. According to the Institute for Public Policy, our policymakers should consider the following reforms that would restore sensibility and accountability to the regulatory process, weigh the costs of regulation against the benefits, and force government agencies to prioritize regulations:

- Require risk/cost-benefit analysis for all new environmental regulation;

- Compensate property owners for regulatory "takings;" and

- Require Congress to fund regulatory mandates imposed on state and local governments.

Environment – Economy Tradeoffs

Arkansans and Americans alike want to protect the environment. They want, as Heritage Foundation's Susan Eckerly describes it in her article "The Environment," to breathe clean air, enjoy clean streams, and keep their children safe from cancer-causing pollutants. They also realize, however, that they need jobs and a decent standard of living. The issue, therefore, is not whether we should preserve the environment, but how we can use our resources to guarantee a reasonably safe and clean environment at an acceptable cost and in the most efficient manner.

The U.S., Eckerly found, spends at least $100 billion annually to comply with environmental requirements at significant cost to business, consumers, and state and local governments. Unfortunately, examples abound of examples of billions spent inefficiently and/or chasing after very small risks. What we need, her landmark study shows, is a strategy to target resources to address the most significant environmental hazards. Too often, environmental regulations and laws are not based on sound science and are written in a one-size-fits-all fashion that ignores other, less costly alternatives.

We should take the initiative, says Eckerly, by calling for legislative and regulatory policies that take into account the costs and benefits of government action:

- Strategies, based on markets and property rights, that promote conservation and reduce pollution to acceptable levels at the lowest cost in jobs and living standards.

- Policies based on sound and credible science to ensure that environmental problems are real, not orchestrated by media hysteria, and that solutions actually address these problems.

- A priority list of environmental problems to make certain that we receive the maximum environmental "bang for the buck" with the fewest pink slips for American workers.

False Alarms Set Off

Environmental alarmists and the media tell us our environment is deteriorating from acid rain, holes in the ozone layer, deforestation, and similar potential disasters. This approach has its uses, because it helps build public support for additional billions of dollars for new regulatory programs. Only one thing is missing: any serious discussion of the facts. As Joseph Bast of the Heartland Institute states, "the world faces environmental problems, not an environmental crisis:"

- The quality of the air we breathe is improving continuously, and levels of all air pollutants have declined since 1970.

- Although there is room for improvement, water quality also has been improving steadily. The country has come a long way from the time when rivers caught fire or Lake Erie could be declared dead.

- America's population has increased by more than 100 percent since 1920, yet the land used is still less than 2 percent of the land mass and the amount of unused arable land has not diminished in that time.

- The amount of solid waste being sent to landfills declined from 81 percent in 1980 to 66 percent in 1990. Improvements in relevant technology have made landfills and incinerators safer for the environment, and recycling programs continue to grow nationwide.

Gould Corporation, in its "Dialogue on Technology," points out that technology in itself is neither good nor bad:

> The good or bad result only from the uses made of technology. One should remember that quite recently the chief goal of technology was to promote economic growth by supplying new and better goods and services at low cost. Now, as a result of growing awareness that the human race must avoid wastefulness in the use of natural

resources and carelessness in the disposal of waste materials, the goals of technology are broadening to include resource conservation and protection of the human environment. Technology can be expected to meet this challenge as successfully as it has met others. To lay the blame for our problems on technology is to attack the best hope for solutions.

Cost -- Benefit Analysis

State and local government officials and many members of Congress are, says Eckerly, beginning to question how the government sets both its regulatory agenda and the cost of that agenda. State and local officials are seeking legislation to stop unfunded environmental mandates, and at least twenty bills have been introduced in Congress to address this problem, which can be particularly expensive. Eckerly also points out that because of the proliferation of environmental rules adopted since the 1980s, small businesses face a complex set of reporting and record-keeping requirements.

This imposes an especially heavy financial burden on smaller firms, which typically lack the capital and employee resources available to large companies, and is especially worrisome because small businesses are the primary engines of job creation in this country. Proposals for reforms, says Eckerly, need to deal with fundamental issues requiring new environmental policy priorities based on sound science and economic feasibility:

1. Federal and state legislation is needed to force environmental agencies to base their evaluations of proposed regulations on sound scientific criteria;

2. A regulatory budget would place a ceiling on the estimated total cost of all regulations promulgated by the agency;

3. As a regulatory budget, prohibiting the federal and state governments from passing unfunded environmental mandates down to lower levels of government would force regulators to account for the cost of their proposals;

4. Whenever possible, regulators should rely on markets rather than red tape.

5. The U.S. Constitution requires that government compensate property owners for the full market value of any property it takes; and as pointed out in a recent study by the National Center for Policy Analysis (NSPA),

6. Apply the cost-benefit rule. Cost-benefit analysis is a comparison of the estimated costs of an action with the estimated benefits it is likely or intended to produce. Almost all business decisions involve some measures of costs versus benefits. Yet many governmental decisions are taken without adequate consideration of either. That is one reason the private sector is more efficient and productive than government.

Some regulations impose astronomical costs relative to the benefits they produce. And for many environmental regulations no benefits have ever been proven. They have only been assumed. This has led some to assert that simply taking an opinion poll can tell us how much a particular amenity is truly worth.

Proper cost-benefit analysis, says NCPA Senior Fellow Kent Jeffreys, provides an objective listing of independently estimated costs and benefits of a given regulation, which public officials (or the voting public) may ignore or embrace. Thus cost-benefit analysis is simply a tool for separating good intentions from good ideas. It does not curtail or eliminate the decision-making authority of elected officials, but its analysis does generate the critical information all public servants require.

17. QUALITY OF LIFE FACTORS

Arkansas is richly endowed with natural attributes and the state's promotional literature does not overstate it -- sparkling streams fed by springs and manmade lakes replenished by ample rainfall, considerable bauxite deposits, the only diamond mine in the nation, and more than 18 million acres of forest land prized by lumbermen and vacationers alike. Arkansas is also a testimonial that man and nature can live in harmony and even improve upon one another's handiwork. The hill country, with its attraction to the tourist, artist, sportsman, and vacationer, encompasses roughly half of the state.

North of the Arkansas River are the Ozark and Boston Mountains, believed to be among the nation's oldest. Every fall, these northern hills burst into spectacular shades of autumn. To the south are the pine-covered Ouachita Mountains. Petit Jean Mountain sports a grand 75-foot waterfall. Trout fishing on the Little Red River and canoeing down the white waters of the Spring and Buffalo Rivers bring great pleasure. Many a sportsman's idea of paradise is achieved by Arkansas' being near the top in national rankings for hunting of duck, quail and deer.

The climate of Arkansas is classified as a subtropical climate. Characterized by relatively mild temperatures, we have four distinct but temperate seasons. Rainfall is usually abundant. Winters are usually short and mild. The area has an average frost-free growing season of about 215 days.

Progress Abounds

Beyond the pristine beauty of Arkansas, what is all this network news talk about Americans being wasteful with our resources? We are not "energy pigs." In the last two decades we've grown about 60 percent in real terms on only 10 percent more energy. We've doubled vehicle fleet mileage. The equipment in homes and factories is 30 to 60 percent more efficient. We have had better efficiency gains than nearly every one of our Western trading partners. Oil now powers six percent of our electrical energy. It was 17 percent two decades ago. Today, it is the former Socialist economies of Eastern Europe which consume three times the energy per dollar of Gross Domestic Product.

Applied science has brought renewal to the domestic economy in Arkansas and the nation. Information technology is changing the concept of industrial resources. Information is expandable; there are no obvious limits. Information is compressible; it can be concentrated, integrated, summarized, and miniaturized for easier handling. Information is substitutable; it can replace capital, labor or physical materials.

Robots are an example. What does that mean? Today, everywhere, we are applying hi-tech to low-tech industries. Basic low-tech industries are now smaller, leaner, stronger, and more profitable. We have learned that it was not written in the stars that we had to permanently lose markets to overseas competitors or that their quality had to be better.

Arkansans and all Americans have learned that we had to automate, emigrate, or evaporate. That's why the family farm is going the way of the mom and pop grocery store and the corner soda fountain. It's called economies of scale (efficiencies of large size). Production of goods now utilizes the resources of many countries. Joint ventures are a growing trend to reduce risk, build expertise, and penetrate markets.

Our Astounding Record

We have been good stewards of the land. With five percent of the world's population in the United States, we create 25 percent of the world's output. Two percent of us grow enough food to feed 200 percent of our population. Our poverty level income exceeds the average Russian income. Our work week is 40 percent shorter than in 1900. There is a rise in entrepreneurship. Today, 94 percent of us are working.

To match the most successful (former) socialist country's achievements (the late, not-so-great, USSR), what would we have to do? We would have to cut all the paychecks in America by 75 percent, send 60 million back to the farm (that's one-fourth of us), tear down almost three-fourths of the houses in America, rip up 14 out of 15 miles of road and two-thirds of the railroad tracks, junk 85 percent of the automobiles, and tear out nine of ten telephones. That's a terrible price to pay.

By most measures of quality of life, America is still number one. We have much to feel good about. Japan's growth is impressive, but it was America that created 33 percent more jobs in the last two decades. Japan's employment rose 16 percent in the same time period. All sectors of economy included, especially distribution, agriculture, services, and retailing, America is about 25 percent more productive than the Japanese economy. Japan is also our largest export customer for American grains.

Looking around the world, don't we Arkansans and Americans have much to feel good about? The U.S. still enjoys the highest standard of living of any major country. Just think how far we have come. Retirement, once a privilege, has become a routine. In the late 1940's, about half of all men over 65 worked, while a quarter of the elderly lived with their children. Social Security means that the elderly can be independent as well as retired. Certainly this is progress.

Infrastructure Issues

There is more work to do. Regarding infrastructure and amenity resources, the 1995 Development Report Card for the

Quality of Life Factors

Corporation for Enterprise Development ranks Arkansas among the 50 states as follows:

Category	State Rank
Highways per $1,000 of Personal Income	19
Highways Spending Per Capita	32
Highway Deficiency	6
Bridge Deficiency	33
Urban Mass Transit Availability	48
Energy Cost	31
Sewage Treatment Needs	5
Urban Housing Costs	11

At this writing, the hot issue before Arkansas voters and taxpayers is our governor's proposed $3.5 billion highway construction program proposal. By far the largest bond issue in Arkansas history, our governor views it as a requisite for improved safety and continue economic progress for Arkansans. To fund the bond issue, there would be a ½ cent increase in the state sales tax, a 6.5 percent excise tax on the wholesale price of gasoline, and an increase of 5 cents per gallon on diesel fuel taxes.

The governor has estimated that the highway upgrade program, that is, completing it in a decade through a bond issue instead of paying for it as we go over the next 30 years, could create nearly 200,000 jobs and add an additional $11 billion in commercial activity within the boundaries of Arkansas.

Aside from the obvious savings in future construction costs, a coalition of citizens who are concerned about the downside of the proposal make these points: (1) There are exceptions to the rule that good highways are a prerequisite to economic development (northwest Arkansas for example); (2) high taxes could put our state at a competitive disadvantage on the economic development playing field (California would be an example); (3) highway construction would be competing with public education for sales tax dollars (a first for Arkansas); and (4) the issue is playing as a "which came first -- the chicken or the egg?" puzzle. That is, does upgraded infrastructure precede economic progress or does economic progress pave the way for upgraded infrastructure?

There is another option that is grounded in incentive-based economics, and it is posed here as a rhetorical question to which Arkansas taxpayers and voters can individually and privately respond: Is it not low tax rates that lead to greater long-run economic prosperity wherever it occurs? And if so, wouldn't that greater economic prosperity then provide a broader base for real time funding of infrastructure upgrades?

Regarding all forms of infrastructure, as well as to maximize the effectiveness of public capital expenditures, improve economic opportunity, and enhance the quality of life in Arkansas, the Commission for Arkansas' Future has identified issues for possible further consideration regarding infrastructure:

> First, consider the need for increasing public planning, spending and maintenance on public infrastructure, including the following: (1) highways, roads and bridges; (2) water supply, treatment and distribution systems; (3) wastewater collection and treatment systems; (4) air transportation systems; (5) waterway transportation systems; and industrial parks, including water port parks.

> Second, consider encouraging the following at both the state and local government levels: (1) the improvement of long-term planning and the use of capital improvement plans/programs; (2) improved maintenance of existing facilities; (3) improved management; and (4) increased reliance on user fees where applicable.

Where Are We Headed?

Arkansas and the American economy is on a rebuilding binge that will run for the next two decades. John Naisbitt reports that during this era of restructuring and implementing of new ideas, we will, in both goods and services, be able to compete with any other nation in the world at a profit. Is business in a new age? Yes! The best and brightest graduates now graduate toward businesses which foster personal growth.

The manager's new role is that of coach, teacher, and mentor. Top-down management style is yielding to a networking, people-style of management. Entrepreneurship is revitalizing companies inside out. Large corporations are emulating the personal and productive qualities of small business.

One hundred years from now--50, 25, 10, 5 years from now--America, and especially Arkansas and the mid-south, will be the place to live. People all over the world will look to us for growth, stability, and the good life. Our life expectancy is up 40 percent in this century alone.

Just in the past 20 years (the lifetime of most of the students I teach), tourism in America has increased 100 percent. There are 30 million more jobs. Manufacturing output has increased 90 percent. Auto deaths are down 30 percent. Deaths from heart disease are also down 40 percent. The number of houses with central air conditioning has increased 200 percent, and our homes are 40 percent larger.

We need to be more positive in our outlook. If gloom and doom were nutritional, the national television networks could feed the world. There is too much negative talk about the economy. In fact, if Thomas Edison invented the lightbulb today, the television networks would scream, “Tragedy strikes the candle industry!”

We have so much to be thankful for:

> A country of unbounded beauty; almost unlimited natural resources; a standard of living beyond the dream of kings; a judicial system that is the envy of the rest of the world; food so plentiful overeating is a major problem; food processing advances which give us all-season menus; clothing that is more durable, longer lasting, and easier to maintain; a press nobody can dominate; a ballot box nobody can stuff; churches of our choice; 115 million jobs; freedom to go anywhere we want, with the planes, cars, and highways to get us there; automobile tires that last as long as some cars; hybrid synthetics, metals and plastics that can even replace some body parts; near-miracle drugs which can help us live longer and feel better; unemployment insurance; public and private schools, plentiful scholarships, etc. We are literally a people "free" to do anything we want, if we have the "enterprise" to do it.

Why do we knock ourselves, when we are the envy of the world? Inquiring minds want to know.

18. BOTTOM LINE CONCERNS

The bottom line? Arkansans and Americans alike know that learning economics won't make us millionaires nor will it keep us out of the soup line. It will just give us a better understanding of how we got there. History is also a good teacher. "Posterity," said John Quincy Adams, "you will never know how much it has cost my generation to preserve your freedom. I hope you will make good use of it."

This we know: More resources must remain with the private sector if Arkansas and America are to overcome their economic problems. Changes in productivity can come from changes in production techniques, equipment, the skill of the work force, upgraded education, managerial ability, the scale of operations, materials, product mix, the state of labor-management relations and the quality of the work environment.

We need fiscal restraint to control federal spending. We need to improve the climate for capital formation and make money available for investment. We need to create sensible government regulation and reform our regulatory network. We need sound policies to use natural resources, including energy, effectively in a balanced manner.

Arkansas' and America's ability to compete can be restored through greater productivity gains. We need more investment to replace and modernize facilities and equipment. We need more investment to increase productivity to assure domestic growth, restrain inflation, and keep the U.S.

competitive. We must reject the old demand to tax business, not the individual. This has to be an insult to the thinking consumer, who is the only real source of business revenue.

Keep Arkansas and America in Business

What can business people do? Business people must make clear the fact that profits create new jobs, enable business to improve the quality of its products and services, provide vital tax funds for essential community services, and make possible the upgrading of employees from minority groups, control of pollution, and strides in solving other social problems.

How can we stay on the leading edge of applied science and thereby remain competitive in the marketplace in the 21st century? We can change the tax laws so that business can be more certain of recovering the cost of research and development, thus reducing the risk of losing money on efforts that, by their very nature, must prove disappointing in many cases.

Let's accentuate the positive. Arkansas and America must develop a better climate for investment by making it advantageous for people to invest. Existing tax laws don't do this. Specifically, we need a tax system that would allow business to deduct faster the costs of putting up a new building or buying new machinery.

Depreciation under present law is a complicated system that puts a damper on investments. It needs to be replaced by a system of simple and rapid deductions designed to generate investment funds that lead to new jobs and foster economic growth. Let's allow industry also to write off the cost of investments in new plant and equipment more rapidly. Technological advances are meaningless unless put to work.

Can government do everything at once? No. Some worthwhile programs must be postponed. Some problems are better left to private sector solutions. We cannot demand too much, too fast, of our economy without paying the price of possible inflation. People need to be encouraged to save more and to invest more--directly through the stock market or indirectly through the savings institution. In a number of countries, some money that is put into savings accounts is exempt from income tax.

It has been said that our redistributive American society has evolved through three stages. First, we taxed the wealthy, stealing from the rich. Second, through deficit spending and inflation, we used unbalanced red ink budgets to steal purchasing power from the middle class. Third, through overconsumption caused by producing less and demanding more, we stole from our children by providing insufficient capital for economic growth. The notion that we could continually prod the economy into prosperity, through force feeding it with annual budget deficits, has created intermittent "stagflation."

Spend Ourselves Rich?

We cannot spend ourselves rich, any more than we can drink ourselves sober. Attempting to do so for several decades has drained away the private sector's vitality and has caused scary combinations of budget deficits, chronic unemployment, persistent inflation, and volatile interest rates.

The real argument about the budget deficits and the quantum leap in the federal debt centers on their effect on the size of government. The liberal likes the deficits, because he favors big government. The conservative opposes it, because he is four-square against big government. Many of the contentions regarding budget deficits have been contrived out of a desire either to expand or contract the federal government.

If there were any one prescription that would do the American economy an enormous amount of good, it would be a healthy dose of the 4-D's: De-tax, de-spend, de-regulate, and downsize government. A Constitutional line item veto budget amendment appears to be one means of bringing Congress' excessive spending under control.

As cited earlier, Thomas Jefferson said it best: ". . .let no more be heard of confidence in man, but bind him down from mischief by the claims of the Constitution." It is indeed regrettable that this approach was not tried decades ago, before the numbers got so downright scary. This is open-heart surgery we're talking about. But after all, capitalism, as we know it, could be in the oxygen tent if we wait too long.

How extended a window of opportunity do we have? Alexander Tytler, professor at Edinburgh University, writing at the time of the American Revolution, was right on the money with this, as he described the Athenian Republic of some 2000 years back in history:

> A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidates promising them the most benefits from the public treasury, with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship.
>
> The average age of the world's great civilizations has been 200 years. These nations have progressed through this sequence: From bondage to spiritual faith; from spiritual faith to great courage; from courage to liberty; from liberty to abundance; from abundance to selfishness; from selfishness to complacency; from complacency to apathy; from apathy to dependence; from dependence back into bondage.

Will We Go Full Circle?

Is there a definite cycle that most civilizations have historically gone through? Yes, Tytler and other historians have studied the rise and fall of great civilizations and have concluded two things. First, they can identify a definite cycle. Secondly, 21 of the 23 literally decayed from within -- becoming easy prey to predator nations. The cycle they have identified contains the following steps in elaboration:

1. A person in *bondage* resents his bondage so he looks to some higher power than his bondage master. This usually results in spiritual faith.

2. As he recognizes and acknowledges a higher power, it gives him *courage* to try to become free from bondage.

3. This *courage* based on a higher power, stimulates the desire for freedom and usually wins out through some means.

4. As a person becomes free, his *initiative* is released and he produces to help himself -- usually helping others in the process.

5. Production under freedom will produce an *abundance* of goods and services if based on personal reward.

6. As *abundance* is produced, people tend to get selfish. Those without abundance covet what others have, whereas those that *have* are not motivated to share without compensation. This generally brings civil action to take from him who has and give to him who has not in exchange for votes or favors.

7. Once the have nots have legal authority to live off of the goods of the producers, they become *complacent* since they now have legal sanction to live off the production of others.

8. *Complacency* leads to apathy or to a why-should-I-care attitude -- I have a legal right to food, etc.

9. This *apathetic* attitude creates a nation of dependents on the handouts of others and on the force of government to see that they are taken care of.

10. When enough persons become dependent for their well-being on the production of others, and on the force of government to redistribute goods to them, they become critical of both government and the industrious. They criticize and refuse to defend their heritage of freedom and are ripe subjects to go back into *bondage*. National decay has set in and freedom is lost.

Send a Message

Elected officials enjoy delivering benefits to the voting public. It involves no small pain for them to be the messengers when programs and benefits are cut. We might react by throwing the rascals out and getting a new set of rascals. A bit of schizophrenia exists here: we are uncomfortable with big government, and yet we expect so much (and then more) from it. To demand a painless way out of our situation is being like the young man who, as he was about to be sentenced by the judge for bumping off his parents, pleaded, "Your Honor, I need mercy, because I'm an orphan, you know."

Most political leaders are, in fact, followers of public opinion. Accordingly, they will only pass laws to balance revenue and spending when it becomes politically profitable to do so. We should especially keep the pressure on newly elected members of Congress, because they are the ones who generally are more responsive to the folks back home. Then, they unwittingly act in behalf of our long-range economic well being.

One productive way to reduce the deficit is to slow the rate of growth of government spending, perhaps through an honest-to-goodness budget freeze for two years at last year's spending levels. Nobody would like it, but most would accept it if there were no exceptions (other than for interest on the national debt or national emergencies, etc.). Suddenly, the deficit evaporates like magic.

On the contrary, a tax rate increase would slow down economic growth. If we raise tax rates, there will be perverse results on spending, saving, investment, and federal revenues, as Americans become poorer. Such action could throttle back the economic recovery, nudge us into recession, and unwittingly add another $100 billion to the annual budget deficit.

If we could keep the deficit down to no more than $200 billion for each of the next, say, 10 years, and if at the same time we had nominal Gross Domestic Product growth of 6 percent compounded (which means perhaps 3 percent inflation and 3 percent real growth), then in that 10-year time frame we would reduce the ratio of budget deficit to GDP by about 50 percent.

At that point, a $200 billion deficit would not look all that imposing compared to our annual output of goods and services measured by Gross Domestic Product. Sound farfetched? That's basically what happened in the 1980s.

Reinvesting In Our Future

What should we write about to our legislative representatives? Tell them what not to do for us, what not to give us, that all we want from them is a solvent America and a government that lives within its income. We should propagate the truth that government has no wealth, that whatever it gives to the people, it must first confiscate from them through oppressive taxation, ruinous inflation, or both.

We should cast our vote to eject from political office those who are responsible for public spending beyond the people's ability to pay. We should resist with every means we possess the attempts of those who seek to infect our country with the disease of socialism.

"To build a better world," Friedreich von Hayek wrote in his book The Road to Serfdom, "we must have the courage to make a new start. We must clear away the obstacles with which human folly has recently encumbered our path and release the creative energy of individuals."

Let's be super-careful to only do things that continue to give decent life to the system that supports us -- our economic horn-of-plenty that we call free enterprise. I believe that if a basically free enterprise economy survives and flourishes, it will be due to a greater sense of objectivity among our opinion leaders, the reasoned arguments of business leasers, the unbiased research of economists, and to the more responsible actions of educators.

Today, we can still argue with reason and good conscience that the market economy and limited constitutional government stand or fall together because both are deeply rooted in the nature of man. An ounce of initiative sometimes produces a pound of profit.

Back to the Basics

We all have an opportunity to help mobilize public opinion toward an outcome in which government and business each attend to their respective roles. This is a difficult and high sounding goal. But it is one that can be based on common sense economics.

It was America's first great economist, Pelatiah Webster (1726-1795), who stated the following in an essay in opposition to the Continental currency inflation: "An error in finances, like a leak in a ship, may be obvious in the fact, alarming in its effects, but difficult to find." We in the United States seem unwilling or unable to spot the leaks and seepages in our twin ships of monetary and fiscal policy. But as Webster also said: "The first thing necessary to correcting an error is to discover it. The next thing is to confess it, and the last to avoid it."

It's a tough job, and we have to do it. Let's get started. Write to your elected representatives; tell them what not to do for us and what not to give us. Tell them that we expect a solvent economy and a government that lives within its means. Cast your vote to remove from office those who would have public sector spending go beyond the ability to pay of "We, the people ..."

Alas, this will remain the "land of the free" only as long as it is the "home of the brave." So isn't it a good time for Arkansans and Americans to rethink our goals, reinvent ourselves, restructure our processes, reassess our priorities, and redouble our efforts? It's still "A Wonderful Life."

Finally, be not dismayed or discouraged when there emerge contentious discussions on contemporary issues of interest to citizens. John Milton once said, "When there is much desire to learn, there, of necessity, will be much arguing, much writing, many opinions; for opinion in good men is but knowledge in the making." Let's hope so and work toward that vantage point. Then, the coming generations in both Arkansas and in America, who will be the true judges of what we do today, will find us worthy of our task.

THE BEGINNING ...

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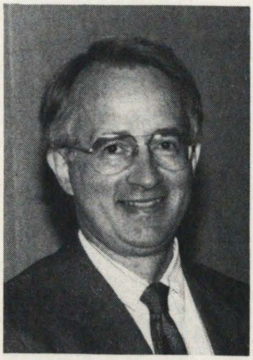

Dr. Don Diffine is currently Professor of Economics at Harding University in Searcy, Arkansas, and Director of the Belden Center for Private Enterprise Education. Senior Research Associate of Harding's American Studies Institute Dr. Diffine is the Director of Economics Teams that have won First Place in national Students in Free Enterprise competitions on six occasions.

Listed in the Heritage Foundation's Guide to Public Policy Experts, Dr. Diffine is the author of a 200-page Facts Book for Business and Industry and is published frequently in the Journal of Private Enterprise. He has several books and 80 articles and monographs in print.

Dr. Diffine is the editor of a quarterly journal, the ENTREPRENEUR. The recipient of the $7,500 Freedoms Foundation Principle Award for Excellence in Private Enterprise Education, Dr. Diffine has received 14 additional Freedoms Foundation awards in the categories of Non-profit Publications in Economic Education, Public Affairs-Advertising, Public Address, and Published Works. He is the faculty winner of a $1,000 First Place prize in a national essay contest judged by Nobel Economist Milton Friedman.

In 1995, he received the "Champion of Enterprise" award and became the first inductee into the National Students In Free Enterprise Hall of Fame in Kansas City. The First Annual Distinguished Scholar Award was also presented in 1988 to Dr. Diffine in Cleveland, Ohio, by the Association of Private Enterprise Education. Dr. Diffine has provided Congressional testimony on business problems, economic impact statements, and inflation-recession dilemmas.

In recent years, Arkansas significantly outpaced the nation and was consistently among the top ten states nationally for percentage increases in output, employment and personal income. Today, Arkansas is a thriving rural center of commerce and agribusiness. With exports and foreign investments accounting for 13 percent of the Gross State Product, and over 50,000 jobs for Arkansas, it is also obvious that our commercial links to the rest of the planet are something we cannot ignore. The book contains the following chapters about Arkansas and the U.S.:

- ***A Grassroots Perspective***
- ***Commercial Business Climate***
- ***Capital Generation Treatment***
- ***Economic Progress and Development***
- ***Small Business Works***
- ***Global Enterprise Dynamics***
- ***Tax Code Reform Issues***
- ***Measuring Governmental Effectiveness***
- ***Incentive-based Economic Reform***
- ***Gauging Public Sector Efficiency***
- ***Regulatory Reform Mandates***
- ***Elections and Markets Examined***
- ***Education Issues on the Table***
- ***Health Care Options***
- ***Effective Crime Deterrence***
- ***Energy Economics and Prosperity***
- ***Environmental Economics Tradeoffs***
- ***Quality of Life Factors***
- ***Bottom Line Concerns***

Last year, *U.S. News and World Report* reported that their survey ranked the Arkansas economy among the *"Ten Best Off,"* in fact, in Third Place, among the 50 states. And so it was, that when this writer moved to Arkansas from the West Coast 25 years ago, a local realtor provided this sage advice, "Once you become an Arkansan, you can never leave." Now I know; count me in for the duration.

D P Diffine