
The Entrepreneur

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The Belden Center for Private Enterprise Education
Harding University School of Business

Entrepreneur

This issue courtesy of Mr. Eugene Smith, President, G. T. Press, Dallas, Texas

Business and Government in the 1980's

by Ronald Reagan

New 1981-82 Economics Team Promotes 'Creative Capitalism'

The Harding University Economics Team attempts to win its sixth First Place trophy against colleges and universities from five states in the Mid-South Regional "Students in Free Enterprise" competition hosted in Dallas, Texas, in April, 1982.

The Economics Team is composed of Sally Florence of Worthington, Ohio, Paul Holliman of Bartlesville, Oklahoma, Susan Collins of Atlanta, Georgia, Penny Hightower of Mt. Pleasant, Texas, Byron Carlock of Blytheville, Arkansas, Steve Haynes of Little Hocking, Ohio, David Hill of Nashville, Tennessee, Ellen Reid of Houston, Texas, and their sponsor, Dr. Don Diffine, Associate Professor of Economics and Director of the student-staffed Belden Center for Private Enterprise Education.

Coal Marketing Services President Keynotes

Free Enterprise Week Activities

Mr. Claude Collins, President of Coal Marketing Services of Atlanta, Georgia, was chosen by the 1981-82 Harding University Economics Team to speak February 8, 1982 in the Benson Auditorium. Mr. Collins address to about 3,000 students and faculty of all academic disciplines helped launch Harding sponsored Statewide Free Enterprise Week, February 7-14, 1981. Mr. Collins is this year's Chairman of the Economics Team's Council for Realistic Economic Education.

Economics Team Sanctions Lomanco "P.R.O.F.I.T." Contest

In cooperation with Mr. Del Belden, Chairman of Lomanco of Jacksonville, Arkansas, the Harding students and faculty served as judges recently in an Employee Theme Contest. Each employee had been challenged with developing the best slogan from the letters P.R.O.F.I.T. The winning theme was "Profitable Results Originate From Industrious Teamwork." All 83 entrants received handsome Lomanco windbreakers with P.R.O.F.I.T. silk-screened on the back, as a reminder that profits promote progress.

President Reagan recently prepared a report for the Public Affairs Council, Washington, D.C., dealing with the need for business and government to set aside old hostilities and get together in a new spirit of cooperation. We consider this message so important and timely that we reprint it here, courtesy of the Public Affairs Council and Dow Chemical Company, Midland, Michigan.

Today the United States stands virtually alone among the industrialized nations in the adversary nature of the relationship between its government and the business-industrial sector.

When this began is a matter for historians to decide. Some say it was a reaction to the stock market crash of 1929 and the ensuing Great Depression. People lost faith in the ability of the private sector to maintain prosperity, let alone restore it. At the same time, Franklin Roosevelt's activist New Deal programs led many to look upon government as a solver of economic problems.

Others contend that the adversary relationship between the federal government and the business world did not really begin in earnest until the 1960s and that it reached its peak in the 1970s — the years of Vietnam and Watergate. From the early '60s until the late '70s, opinion polls indicated steady declines in public confidence in business.

The notion that government somehow inherently possesses greater wisdom and operates more for the greater good than business is impossible to prove, but it was widely held during much of the past two decades.

Only in very recent years has there been broad realization that well-intended government programs can and do fail of their own cumbersomeness — that laws or regulations put in place to solve one problem may create another that is even worse. And only in recent years has the American public come to understand that government's appetite for money and its propensity to spend more than it takes in are the root causes of our chronic inflation.

During the '60s and '70s Washington attracted many bright men and women who, mistrusting the states and communities as well as business and industry, saw federal regulatory power as the ultimate tool for solving the nation's social problems.

The resulting web of regulations, coupled with tax policies which inhibited capital formation, contributed significantly to the erosion of U.S. productivity and reduced American competitiveness in world markets while increasing unemployment at home.

One could argue persuasively, I believe, that, as Washington's influence over our lives increased, the political value to regulators and some elected officials of nailing corporate scalps to the wall became greater and greater.

By the early 1970s Congressional "kangaroo court" hearings which made various industry representatives look foolish had become standard fare. The new rule seemed to be that, if you could not solve a problem, you found some corporate executive to blame — in front of the television cameras.

It was a fairly safe political technique. After all, the reasoning seemed to be, business executives don't have much in the way of constituencies. But as more realism about the nature of our economic problems began to set in with the people, this sort of demagoguery was treated with increasing suspicion. In many opinion polls in recent years, Congress received an even lower "confidence" rating than business.

COOPERATION AND SHARED RESPONSIBILITY

There is now widespread sentiment for rolling back various regulations so as to reduce the non-productive paperwork burden on the private sector and to make it possible to effectively utilize our natural resources in order to move toward energy independence.

At the same time, it is more generally understood that we must restructure our tax policies so as to encourage savings and investment in order for business and industry to have access to the capital needed to replace aging plants and equipment. That is the key to restoring U.S. competitiveness in world markets.

I see as major goals of this decade the control of inflation, the re-establishment of U.S. competitiveness and the achievement of virtual independence in energy supplies. To reach these objectives, both business and government will have to lay aside old hostilities and replace the adversary roles they have come to assume with a new spirit of cooperation and shared responsibility.

We have an unusually good opportunity at this time to begin developing that cooperation. I interpret the 1980 election as a call by the American people to draw a "bottom line" on the recent era of pessimism, "no-growth," excessive taxes and over-regulation and to return to the American tradition of optimism. Our national character includes an attitude that there is no problem so big or complex that it cannot be solved if we apply enough determination and ingenuity to it.

Because my election was supported by a wide spectrum of the American people and because they also called for major changes in the composition of Congress, I am confident that we as a people can move forward,

united as to the goals of economic opportunity and progress for all through incentives and growth.

To move toward these goals we must re-examine many of the ways our government operates. Business men and women can help in this process.

A CREATIVE CONSENSUS

In Sacramento, soon after I became Governor of California, I appointed a task force drawn from business and the professions to conduct what amounted to a management audit of all the departments and agencies of state government. Some 250 volunteers served up to three months each to conduct and analyze this review.

When the audit was completed the task force submitted a report containing nearly 1,500 recommendations. We implemented more than 90 percent of the recommendations at an estimated savings to the taxpayers of \$100 million a year. At the time, that was equivalent to approximately 1 percent of the state's budget.

That kind of creative cooperation between government and the private sector can benefit the federal government. The attitude the California volunteers brought to the job was highly positive. They did not assume that government workers were inherently wasteful or inefficient.

Rather, like those performing management audits in private business, they realized that inefficiencies creep into the operations of any large organization and that it often takes a disinterested outsider to identify them and propose remedies. We found the task force approach so successful that we also used it in several other areas, such as criminal justice, consumer fraud and land use.

At the federal level, the very important topic of U.S. productivity might be the subject of a special Presidential task force. By bringing together representatives of business, labor, academia and government, we could develop a dialogue that could lead to a genuine consensus. This, in turn, could translate into action through both federal legislation and voluntary private action.

"Consensus-building" is a term you will hear often in the next several years, for it is the only effective way to gain the enthusiastic support of the American people and thus make the attainment of goals possible. Just as no two persons need agree on all things in order to agree on some and work toward their achievement, so it is true of our major institutions, including the Executive Branch of Government, Congress, business and labor.

PROMOTE COST-EFFECTIVE DECISIONS

Business and industry have every right to have their voices heard in Washington, just as the voices of our other institutions and constituencies should be heard. Though I trust it will be said that the Reagan administration has a keen appreciation of the need to end the adversary relationship between government and business, it does not follow that my administration's purpose is to protect business or to help one business or industry stifle competition by another.

I believe the private sector is very capable of taking care of itself, provided government does not impose undue burdens on it. The market system has many self-correcting aspects, but they can be thrown out of kilter by taxation and regulation policies which prevent new capital formation on the one hand and impose heavy, unproductive costs on the other.

In the regulatory area, government, it seems to me, exists to protect us from one another — that is, from the excesses of a few who might try to take advantage of the many. But government does **not** exist to protect us from ourselves. Many of the idealists who arrived in Washington in the '60s (and came to be called “elitists” by many others) seemed to believe we could live in a near-perfect, risk-free world if only they could plan it centrally and enforce the rules and regulations they formulated to implement the plan.

We need to examine areas where regulations may be preventing industries from providing jobs. We must not start with the assumption, as some of the perfection-seeking regulators have in the past, that business men and women have ulterior motives or will automatically sacrifice civic responsibility for profits. There is far too much evidence to the contrary.

DOWNSIZE GOVERNMENT

Government is no better and no worse than the rest of society. The regulators are not necessarily endowed with superior wisdom or motives superior to those of the regulated. That, to me, is a fundamental reality of daily life and the approach of my administration to regulatory matters will reflect that belief.

On the one hand, we must be ready and willing to identify harmful excesses and take remedial actions. On the other hand, we must put an end to the blame-laying and scapegoating that seem to have become such integral parts of official Washington in recent years.

To solve our problems and go forward, we need the help and talent of a great range of well-motivated Americans. The business and industrial sector has a vital stake in this process and we will look to it to provide men and women, both for short-term government careers and for voluntary assignments, to help us put America on the proper track.

The public affairs profession is perhaps the one most acutely aware of the responsibility business and industry have to our society as a whole. As the daily link between the private sector and government, the corporate public affairs office will play an essential role in this challenging decade. It must be the interpreter of business's ideas, goals, problems and plans to government and at the same time must communicate and interpret government's thinking to business.

That is a major responsibility in a society as complex as ours. But the public affairs discipline has become increasingly sophisticated in recent years and I believe it will rise to the occasion, with many others, to work for a prosperous and secure future for all our people.

Economic Myths and Realities

by Claude Collins, President
Coal Marketing Services

I appreciate the opportunity to help launch the “Free Enterprise Week” at Harding. I trust that my remarks this morning will convey to you my feelings on the importance of the “free market” to our economic well being.

It is not unusual to hear the suggestion that our economic problems would be solved if the federal reserve board would only relax monetary policy and reduce interest rates to low levels. This is a mythical and erroneous premise. In reality, such actions would likely make conditions even worse. An explanation of the reasons requires an examination of recent history, current circumstances and future prospects.

The promise of easy and cheap money is deeply imbedded in America's political heritage. This unrealistic expectation has been created over the year by many elected and self-appointed guardians of the public interest. However, well intentioned, their rhetoric is often shortsighted, misguided and fallacious. They do not practice their own consumerist doctrine by honestly disclosing the dangers of tinkering with the laws of supply, demand, and human nature.

The fact is that our nation has, for many years, consumed more than it has produced and spent more than it has earned. Individuals, businesses and governments have all been guilty of such overindulgent behavior. It has been manifested by enormous amounts of additional debt and by large deficits of foreign trade, especially in energy. The causes of these excesses can be found in promiscuous federal spending and in money creation of proportions sufficient to finance large budget deficits

Ten years ago, the direct debt of the U.S. Treasury was around \$400 billion. Just recently, it passed the difficult-to-comprehend figure of one trillion dollars. Over the past decade, our government spent at an average annual rate of about \$50 billion more than it took in. Economists call that stimulative fiscal policy. It has a tendency to make the economy look temporarily better than underlying fundamentals. By incurring debt instead of raising taxes to pay for increased spending, Congress finds it less difficult to get re-elected. The additional tax comes later in the disguise of inflation.

The higher level of federal debt strengthened the demand for credit. This would not necessarily have caused inflation or driven up interest rates if the supply of funds generated by savings had been adequate to meet total public and private credit needs. Consumer savings is the crude oil from which is derived the fuel to drive the nation's credit and capital investment machinery. This is often called the supply side. Likewise, consumer

spending powers the demand side of the nation's huge economic engine. For the total system to work properly and to avoid inflation, the supply and demand sides must be in a delicate balance.

However, for many years Americans have tended to save and invest less and to borrow and spend more. Consumers easily saw that it was better to borrow than to save since interest earned on savings was taxed while interest paid on loans was deductible. Overall, government policy and personal behavior provided greater stimulation to the demand side than to the supply side.

The result over a period of time was an accumulation of government, business and consumer credit demand that exceeded the available supply of private sector savings. This put the federal reserve board in a dilemma. To create new money in an amount sufficient to meet credit demand and hold down interest rates would cheapen the currency and cause inflation to skyrocket. Whatever the reason, be it political influence, technical miscalculation, or lack of courage, monetary policy during most of the seventies was biased toward rapid money growth and holding down interest rates.

The short-term mythology of easy money served only to temporarily obscure long-term reality. It also momentarily took the heat off the politicians and delayed the time when the ill effects of their free spending habits would be exposed. Reality came through accelerating inflation and the doubling of price levels over the past decade. Or, put another way, the purchasing power of the dollar was cut in half.

The ultimate deterrent to excessive money growth — the powerful force of inflation — eventually took over and drove interest rates higher than might have been the case if sufficient monetary restraint had been exercised earlier.

The Reagan Administration's economic recovery program, with all its political compromises, has imperfections and risks but deserves a chance to work. It

represents the best and, at the moment, the only hope to reverse the dangerous trends that brought us to this disturbing state and to start us moving down the road to financial stability.

Even if one does not like every detail and even if the program cannot realistically be expected to fully achieve all these objectives overnight, it does represent a fundamental change in direction that should produce profoundly beneficial results, given time. The catch is that the completion of the process may require more time and involve more unpleasantness than the American people or political leaders are ready or willing to endure.

However, it must be recognized that there are no quick or easy solutions. To simply ease monetary policy and not reduce deficits would only continue the journey up the peaks of financial crisis and down the valleys of business recession to the ultimate promised land of an economic desert and an even more painful experience.

The biggest risk is that the elected officials will expect too much too soon and prematurely retreat from the mandate for change expressed at the polls in 1980. To prevent this from happening, our nation critically needs a strong and durable consensus of citizenship and leadership. This is no time for the pursuit of selfish interests or partisan politics. This would only serve to further divide and weaken an already vulnerable republic in an increasingly restless world.

For the next several years, Americans must be especially careful to separate economic myths from economic realities and to exercise an extraordinary measure of patience.

For the students here at Harding, I trust that as you begin this week with a special focus on the American Free Enterprise System that each of you will pause long enough to realize that this system has provided a standard of living for our nation that is unparalleled in the world today and that each of you must play your part in protecting this valuable heritage.



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