
The Entrepreneur

The Belden Center for Private Enterprise
Education

Winter 10-1-1982

The Entrepreneur (vol. 7, no. 2)

Don P. Diffine Ph.D.

Harding University, ddiffine@harding.edu

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Recommended Citation

Diffine, D. P. (1982). The Entrepreneur (vol. 7, no. 2). Retrieved from <https://scholarworks.harding.edu/belden-entrepreneur/28>

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

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

The Potential for Economic Growth And Stability

by Congressman Jack Kemp

New 1982-83 Economics Team Promotes "Creative Capitalism"

The new 1982-83 Harding University Economics Team attempts to win another First Place trophy against nearly 100 colleges and universities in the National "Students In Free Enterprise" competition hosted in New Orleans in July 1983. Former Harding University Economics Teams have won First Place six times at the Regionals and three times at the Nationals.

The Team, composed of Bryon Carlock (co-chairperson) of Blytheville, Arkansas, Ellen Reid (co-chairperson) of Sugar Land, Texas, Deborah Garrett of Brookston, Indiana, Stephan Haynes, of Little Hocking, Ohio, Jeff Tennyson of Harrison, Arkansas, and their sponsor, Dr. Don Diffine, Professor of Economics and Director of the student-staffed Belden Center for Private Enterprise Education, attended a fall orientation meeting in Houston, Texas to map out their strategy and meet the competitors.

1983 Free Market Calendar A Daily Chronicle of Enterprise

In a joint venture project with Louver Manufacturing Company (Lomanco) of Jacksonville, Arkansas, the Harding University Students in Free Enterprise Economics Team has launched a major six months project: "The 1983 FREE MARKET CALENDAR — A Daily Chronicle of Enterprise." It is a record of the progress of our nation and its people, of mankind's onward march through the centuries to economic freedom and greater material blessings.

The 1983 FREE MARKET CALENDAR offers not only room to jot down notes of daily affairs but also 365 brief reminders of great enterprising events and relevant comments on the idea of freedom applied to the marketplace. One will enjoy recalling and commiserating the stirring events, and the great men and ideas behind them, which have been the basis for history's greatest economic miracle — American Capitalism.

Printed in blue and red ink on white stock, the 1983 FREE MARKET CALENDAR is punched for hanging and measures 11" x 14" folded or 22" x 14" unfolded. A limited amount of copies are available for \$1.50 to cover printing, postage, handling costs.

I am delighted to be here and enjoying the hospitality of Harding University and Searcy, Arkansas. I really want to thank the Students in Free Enterprise for presenting me their Free Market Hall of Fame Award. It means a lot to me. I feel quite at home in Ed Bethune's district. He's not only a good friend; he's a part of a movement. He's a part of a cause.

In his introduction he talked about ideas; I think that ideas rule the world for good or bad; and ultimately there is no way to replace an erroneous idea except with a right idea. In the words of an ancient oriental philosopher, "there is a great deal of wisdom on the earth but the problem is that it is divided up among people."

So I'd like to share with you just my tiny slice of wisdom. And ultimately to the extent that I have any impact and Ed's had any impact, history will be the judge of whether we are right or wrong in the effort to restore the American Free Enterprise System.

I'm a great believer in the American dream. I don't think you have to play football, but for me, that was the experience which gave me a great understanding of the motivation and the drive and the incentive of people to better themselves and to make something of themselves. And I was just thinking about that as I came out here to Searcy, Arkansas and came to the campus of Harding University, knowing the great contribution that has been made by Harding to the propagation of that dream.

The only single constitutionally federated democratic form of capitalistic economics and political system on the face of this earth that survived those 206 years is the United States of America. With all its faults, with all the mistakes, with the great gap that exists between the promise of performance, there's never been a nation, there has never been a system anywhere, anytime that's ever been as able to do as much for people as that revolutionary idea that began in this country.

OUR AMERICAN DREAM

The most revolutionary political idea on the face of the earth that human progress is a result of individual freedom and constitutional government. Not only is this the most revolutionary idea in the world, it's the only

one that ever really worked. No government in history has been able to do for people what people have been able to do for themselves when they are free to work and to worship, to save and to invest and to make of themselves what they dreamed.

The American dream was not that everybody should be leveled with everybody else, by a system that simply redistributed wealth. The real dream in this country was for each individual to have that boundless opportunity to climb just as high and as far in life as he or she possibly could with effort and talent and merit. Not that everybody could make it to the very top, but you were a better man or woman for making the attempt. We taught that to our children and it was taught to us by our parents upon whose shoulders, frankly, we are standing today. To the extent that we neglected and negated that dream for people compensatory efforts had to be made in education and housing and many other ways to open up that system so that all people irrespective of geography and demography and race.

In this country, if you were born to be mezzo-soprano or a master carpenter — or maybe even a pro football quarterback — there was not supposed to be anything standing in the way of a human being reaching this potential. For some there were man-made obstacles and impediments; but while many of those man-made obstacles and impediments have been removed, they have been replaced with government-made obstacles, to the extent that you get the feeling today that something is very wrong. Not so much with the dream, the ideal, the promise, but as I said before, with the ability of that system to perform.

Walter Lippmann once said that “it is true that the government is best which governs least. It is equally true that the government is best which provides the most for people. I don’t find fault with that, in the sense that the purpose of leadership is to bring into equilibrium the role of the government with the role of the private sector. To those of us who lean to the conservative, it seems that the very best way to reduce the role of government is to expand opportunity and to increase the role and the size and the performance of the private enterprise system.

The whole revolution through which we are going today, after about thirty or forty years of the Keynesian, liberal, economics political model is to bring back into equilibrium the role of government, which has gotten far out of hand as for years we tried to spend and tax our way to prosperity. Ladies and gentlemen, if you could spend your way into prosperity, New York City would be prosperous. There is no road to prosperity short of freedom, hope, opportunity and expanding the amount of physical and human capital.

IF NOT NOW, WHEN?

My speech tonight is not a defense of Reagan, or Reaganomics, or supplantside economics, or the Republican Party. Frankly, I care less about those things than I do about the future of the American dream. But ladies and gentlemen, I cannot imagine what’s going to happen to the American dream and this country and Democratic capitalism if this President isn’t successful. Ask yourself, “if it’s not he, then who?” If it’s not going to be now, when are we going to get this nation back on the right track?

In 1976 we had a young black entrepreneur from New York testify at one of our hearings on capital formation in Washington, a liberal Democrat named Wendell Wilkie Gunn, Jr., from Tennessee, testifying before a committee of the Congress on capital formation. He made a tremendous speech; he made a great impression upon me. And he said something I’d like to share briefly with you, in the conclusion of his testimony of capital formation.

Wendell Gunn said, “You know for 200 years in this country we’ve been fighting for the right to buy a ticket to get on the train. We finally have the ticket, and the train has stopped. If you really want to help black Americans, get the train moving. Get it moving for all people.” I can’t think of a more important goal for black Americans; I can’t think of a more important goal for all Americans than to produce the type of high levels of economic growth that can sustain social programs, sustain spending for repairing the defense needs of this country, sustain the needs of our infra structure and build the type of transportation system that is so absolutely imperative.

I saw the other day where Barbara Jordan, who recently retired from the Congress, the distinguished black Congress woman, said in Houston that black Americans absolutely require at the minimum a four to five percent economics growth rate in a country so as to bring down unemployment. And let me say that had this nation had five percent economic growth from 1970 until 1980, our employment rate would not be 9 percent, it would be able four and a half percent. Our gross national product would not be 3.3 trillion dollars; it would be 4.5 trillion dollars. And our deficit would not be 100 billion dollars in 1982; it would be zero.

The answer to balancing the budget and the answer to bringing down deficits and the answer to providing the economic resources with which no finance educational opportunity as well as the infra-structure needs of this country is the type of economic growth without inflation that has really stymied much of the western world. You cannot look at France today under Francois Mit-

terand; you cannot look at Britain today under Margaret Thatcher, one a Socialist and one a Capitalist government and economy, and not recognize that the world from left to right is groping for growth policies without inflation.

This whole revolution boils down to a simultaneous strategy. Number one, we need a fiscal policy to reduce borrowing and spending and taxes and regulation to unleash the creativity and ingenuity of the private enterprise system. And I think this President has been eminently successful, if you will, in getting a bi-partisan coalition in Congress to reduce spending and borrowing; not enough for some and too much for others, but nonetheless under President Reagan there has been success.

The Federal budget was growing at nineteen percent per annum when Ronald Reagan took office. It is now growing at somewhere between 4½ and 6 percent per annum. That's a success. Inflation was growing at 13½ percent per annum when he took office. It's down to 5.5 percent per annum. That's a success. Regulatory relief has been significant under this President and that bi-partisan coalition, and that's a success. And the tax reform, while not far enough for me or Ed or even Ronald Reagan or Arthur Laffer, was still a success.

PRICE STABILITY

But there's another aspect of this economic policy that is not yet in place, and that's the one I want to talk about tonight. Ladies and Gentlemen, imagine trying to build a house when the government who is responsible for weights and measures comes to you and says, "the ruler which is now 12 inches next week is going to be 13 inches, and a week later it is going to be 11 inches, and next quarter it's going to be 14 inches, and the quarter after that it's going to be 8 inches, but on average we're going to keep the ruler at 12 inches."

Reminds me of what one of the administration officials said about Paul Volker. He said, "on average the Federal Reserve is doing a good job." I said, "on average you don't need a winter coat in Buffalo either." American people are not interested in a monetary policy that's predicated on averages. Just as you can't build a house with a ruler as a standard being changed daily, the essence of monetary policy is the people's belief confidence the standard is going to be maintained. It is absolutely imperative to a free enterprise economy to have a currency, a unit of account, a benchmark, a standard if you will, that is maintained by the government over a long period of time, so that the dollar that you earned and saved yesterday will be worth the same tomorrow, and next week, and when you retire.

As soon as the government introduces an element of uncertainty into the value, the purchasing power, of

that unit of account, it introduces an inefficiency. Between the time money is earned and the time it is spent, there is a lag. Sometimes the lag is a few seconds; sometimes the lag is a few generations. And any time the value of what is earned drops, is eroded, debased, debauched by a government that fails to maintain that unit of account, it introduces a disequilibrium, a windfall profit for one person and a windfall loss for the other. Inflation rewards the borrower at the expense of the lender. Deflation rewards the lender at the expense of the borrower. We don't want inflation, which is a decline in the purchasing power of the dollar, any more than we want deflation, a rise in the value of the dollar against everything else.

We don't want rising prices or falling prices. We want price stability, and very frankly, ladies and gentlemen, there is no place in recorded history where a fiat currency, that is, a currency manipulated by the government has survived. The assignat in France, the German mark in the 1920s, the Continental in the Revolutionary War, the Greenback in the Civil War — currencies which the value is debased is a currency rejected by the market. And the interest rate today is a protection that the lender is building into his or her interest rates against long-term devaluation or decline in the purchase power of the money.

It seems to me that one of the great moral issues of the 80s and beyond depends upon the leadership that is needed to bring our country back to an honest, stable, credible, believable, fiduciary dollar. The dollar bill, the Federal Reserve note, basically says, "I.O.U. nothing." There's nothing behind it, and part of our problem has been a world-wide rejection of the whole trading system. Nations are floating their paper currencies, one against another. And the whole system of trade and world-wide monetary and financial stability has broken down. Our financial markets no longer have the ability to finance long-term investment needs without huge risk premiums and therein lies some of the tragedy of the past two years.

I do not come to Harding University to argue for reflating the economy. Stop thinking in terms of increasing the money supply or decreasing the money supply. What the American people most need is a money, a value to its money, a quality of the money, that will maintain itself over a long period of time. That is the issue. Monetarism is being rejected by the marketplace, and the manifestation of that is the high interest rates. That ought to stimulate a couple of questions, knowing that Milton Friedman spoke here a couple of years ago. I'm not rejecting Milton Friedman's free market economics, but I think it is a dangerous idea to think that you can keep the money supply at 5 or 4 or 3 percent.

SUMMARY AND POLICY IMPLICATIONS

Let me conclude my remarks tonight by just suggesting something that is on your mind. "Well, if you think we've been successful, Mr. Kemp, how come we have a \$100 billion deficit in 1982 and projected \$180 billion deficit in 1983?" The deficit that this President is facing today is not a deficit of intent; it's not a Keynesian tool to manipulate demand and hope that it trickles up into more production and output and employment and GNP, as it has been in the past by presidents. This is a temporary deficit, the result of the recession that in part, in large part, was caused by the high interest rates that preceded the deficit.

We've been told for so long by conventional economists that deficits cause inflation, but inflation went up under Jimmy Carter while the deficit declined. I'm being provocative on this last point because it is so absolutely important that the American people from Harding University to Buffalo, New York, understand that there is only one real way to balance the budget. There's only one real way to get this nation back on the road to prosperity with price stability, and that is to couple monetary and currency reforms with the fiscal reforms which Reagan has made, and not try to balance the budget by raising taxes and sucking more capital more savings, more income out of the American economy.

As Art Laffer pointed out, we restore incentives by lowering the tax rates not to lose revenue but to gain the revenue that would come as our factories start to operate at fuller capacity, as our farmers have the opportunity to produce, and as labor is equally rewarded. Ladies and gentlemen, capitalism depends upon labor as much as it does capital. Abraham Lincoln said, "Labor precedes capital. Labor and capital are allies; they are not enemies." And the reward for labor has been systematically eroded by a tax system that was so steeply graduated that it took away the reward for earning and saving and working and producing.

No one needs to tell you that a \$15,000 income in 1970 had to be matched with a \$30,000 income in 1980. Because prices doubled. Between the '70s and '80s, prices doubled in this country; you had to earn \$30,000 in 1980 to match the \$15,000 1970 dollar income. But at \$30,000 your tax bracket is 34 percent whereas at \$15,000 your tax bracket was 22 percent if you're a single man or a single woman. At 10% inflation, prices double every 7 years; you'd have to earn \$60,000 in 1987 to get a \$15,000 1970 income, but your tax bracket would be 50% plus, the way this system was headed.

And make no mistake about it, that's where it was headed under the past administration. We were told that we had to learn to live with less. We were told by Alfred Kahn, the chief inflation fighter of the past administration, that the answer to inflation was riding bicycles to work and learning to live with less energy. It's not the answer to inflation. Those pessimistic economists who tell us that the era of growth is over for this country are absolutely wrong. There is no limit to growth. There is no limit to the potential of this nation to grow and produce and to create. None whatsoever, as long as you don't limit people, as long as you don't limit their ideas, as long as you don't take away from men and women the opportunity to reach their potential.

I told Ed Bethune coming out here tonight that I thought spending on social progress had been overplayed as a measure of compassion. We should not measure compassion in our government by how many people are in the safety net, but by how few need it. The best way to prevent people from having to take charity is a healthy, growing, capitalistic economy linked up to democracy and freedom and political opportunity. And that's what this battle in 1982 is all about; that's what this revolution is really designed to bring about. And in that battle, there are no spectators. Every single man and woman in this room, like every single member of Congress, is a part of that battle. And I want to thank you for playing such an integral role in the survival of that American Dream.



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*The Belden Center for Private Enterprise Education
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Box 922, Station A
Searcy, Arkansas 72143

Winter, 1982

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