
The Entrepreneur

The Belden Center for Private Enterprise
Education

Fall 8-1-1988

The Entrepreneur (vol. 13, no. 1)

Don P. Diffine Ph.D.

Harding University, ddiffine@harding.edu

Follow this and additional works at: <https://scholarworks.harding.edu/belden-entrepreneur>

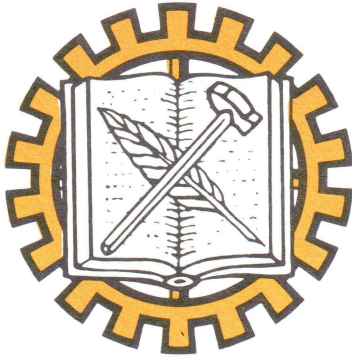
Recommended Citation

Diffine, D. P. (1988). The Entrepreneur (vol. 13, no. 1). Retrieved from <https://scholarworks.harding.edu/belden-entrepreneur/51>

This Article is brought to you for free and open access by the The Belden Center for Private Enterprise Education at Scholar Works at Harding. It has been accepted for inclusion in The Entrepreneur by an authorized administrator of Scholar Works at Harding. For more information, please contact scholarworks@harding.edu.



HARDING
UNIVERSITY



The
Entrepreneur

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

FOREIGN AID: CREATING DESTRUCTION

BUSINESS AND ECONOMICS STUDENTS WIN NATIONAL HONORS

The Harding University Economics Team was named the First Runnerup in the International Students in Free Enterprise (SIFE) Competition conducted at the Holiday Inn Crowne Plaza in Atlanta, Georgia, May 15-17, 1988. The Team received a trophy and a check for \$3,500. Trophies and prize monies were presented by Holiday Inns, Inc.

The Business Roundtable, a national organization of chief executive officers located in New York and Washington, D.C., also awarded the National First Place Trophy and a \$1,000 cash prize to the Harding Economics Team for their "Halt the Deficit" Campaign.

Six students from the Harding University School of Business scored in the Top Ten in the Phi Beta Lambda (PBL) National Collegiate Business Competition at the Hilton Hotel Convention Center in Cincinnati, Ohio, June 29 through July 2. Word from the National PBL offices in Washington D.C., is that no other local PBL chapter in the nation had as many individual event winners, the closest institutional competitor having three individual event winners.

According to Dr. Don Diffine, faculty sponsor of both organizations, "the competitions are wonderful springboards from which to pass the word about the Harding University School of Business, its students and its graduates who are launching their careers. They are growing professionally toward successful careers as Christian business people. It's a pleasure doing business and economics with them. We commend these young people to all in Harding's constituency."

by
David Tucker, Ph.D., Director
Walton Scholar Program
Associate Professor of Economics
Harding University

Editor's Note: The progress of freedom in an international world requires the application of private enterprise principles on a supranational basis. The purpose of Dr. Tucker's article, which was presented in April, 1988, to the Association of Private Enterprise Education in Cleveland, Ohio, is to discuss the application of such principles in a world of foreign aid and other policies that can be detrimental to the free market.

Labels are quite necessary and useful for cans, but labels can be quite confusing and misleading when applied to ideas and people. For example, the license plates in Nicaragua now read "Libre Nicaragua," and upon entering the Boniato Prison in Cuba, Armando Valladares noted the presence of a sign outside the prison stating "Cuba - First Free Territory in America."¹ Neither could be called truth in labeling.

Peter Bauer recently commented on such misuse of language when he noted, "If a country is officially designated as democratic or as a people's republic, we know that it is one in which people have no say in the government."² It is interesting that few, if any, revolutions or societies advertise that their system promotes tyranny. Freedom and liberty are the stated goal of almost every system, but merely labeling something liberty does not guarantee freedom. Labels and reality can be two quite different things.

The purpose of this essay is to define and discuss those ideas and actions that promote an open world order. To return to an 18th century label, this essay will describe a 'liberal' international economic order³--one that promotes

such principles as private ownership of resources, voluntary cooperation and limited government, to name just a few of the more important ideas.

True liberty is a rare flower--one that does not bloom easily in a world of dictatorships and double standards. And even if freedom does come to an isolated country, it is even more rare for freedom to exist between nations. In describing an open or liberal world order, one must describe an ideal or a goal, knowing that the world is dynamic, not static, and it is moving in the direction of either global liberalism or global socialism.⁴

FOREIGN AID

There are many ways to undermine a liberal world order. Therefore this section will concentrate on one particularly subtle, yet destructive program. The idea and practice of "foreign aid," as presently implemented in most of the world, is a cancer eating away at liberal values and institutions. The very use of the phrase "foreign aid" tends to make arguments about the efficacy of foreign aid relegated to obscure journals and academic conferences. However, as Thomas Sowell reminds us, "Using the phrase 'foreign aid' is no more justified a priori than calling it 'foreign hindrance.' Whether it is an aid or a hindrance is a question of fact in each case."⁵

Therefore, to call gifts from one government to another "foreign aid" is to prejudice the argument of whether or not to give in favor of the gift. As P. T. Bauer noted, "Foreign aid is a system of gifts. This fact is obscured but unaffected by calling the recipients partners in development. . . . The phrase also prejudices the effects of aid by implying that it necessarily promotes development."⁶

Once foreign aid is properly understood for what it is, one is far less susceptible to the knee jerk belief that aid is good and more aid is better. If aid is properly understood as a gift, one can heed the reminder of George Gilder that "the key misconception of the Left is that giving is somehow simple and easy . . . But anyone who really considers the problem closely realizes that it's difficult to give without harming. . . ."⁷ Gilder goes on to say that the only institution with a credible track record of giving without long run harm is the family. Therefore, strong families are essential to the long run prosperity of a nation.⁸

Tom Bethell recently pointed out that private property rights are the key issue in the economic development of the Third World.⁹ Well defined and secure property rights are often taken for granted in the United States and other developed countries, but a liberal world order cannot function without private enterprise and private enterprise cannot function without secure rights to private property.

A specific example of foreign aid trampling property rights can be shown in the recent case of land reform in El Salvador. In 1980, the Salvadoran government seized

the property of hundreds of large land owners, "paying" for the land with practically worthless bonds. The land was to be redistributed to small farmers. However, the campesinos who now work the land cannot sell it for 30 years. They must live on the land they farm for the entire period or lose the meager property right they have. Also, since farm prices are set by the government, it is difficult to see how the U.S. Agency for International Development, who financed the entire operation, can claim the campesinos have much of a property right in the land or the produce of the land.¹⁰

The trend toward the politicalization of economic life in recipient countries has been most eloquently stated by P. T. Bauer:

Foreign aid has also contributed to the politicalization of life in the Third World. It augments the resources of governments as compared to the private sector; and the criteria of allocation (of foreign aid) tends to favor governments trying to establish state controls.¹¹

In other words, since foreign aid goes from government to government, it strengthens governments as opposed to strengthening the private sector of Third World countries. Foreign aid generates more resources for governments to distribute according to political criteria, raising the stakes in the political arena. When a politician loses in the developed world, he retires to write his memoirs. When a politician loses in the developing world, he is shot or exiled or joins a guerrilla movement.

This point is stressed again by Bauer and O'Sullivan. "Aid promotes the widespread politicalization of life in the Third World. This is because it goes to governments, not to the people at large--a distinction obscured by conventional terminology which identifies a government with the people."¹²

A second general trend which is promoted in the giving of foreign aid is perhaps even more harmful toward growth. The idea, as stated earlier, is that foreign aid promotes the notion that growth and prosperity are a function of external factors, not internal factors. Again, to quote Bauer and O'Sullivan:

Aid also subtly confirms and perpetuates ideas and modes of conduct which obstruct economic development--notably the idea that an improvement in one's fortunes depends on other people, the state, the rich, one's superiors, local rulers or foreigners.¹³

The notion that one's lot in life is primarily the result of factors over which one has no control is an extension of the idea that economic exchange is always one sided. Life is a zero sum game where incomes are extracted rather than earned.¹⁴ But differences in incomes and output can be the result of hard work, imagination,

entrepreneurship and voluntary exchange, not merely accident, exploitation or the improper use of power. The problem with foreign aid in this context is it does not promote the idea that "the creative capacity of human beings is at the heart of the development process,"¹⁵ or that new wealth is created through the "creative and intelligent use" of existing wealth.¹⁶ Rather, foreign aid is a salve to the collective conscience of those who believe their wealth or poverty is a result of exploitation in general, not rapacity in a particular person. Robert Reigh made this same point in the context of discussing protectionism,

Blaming others for our economic problems may be reassuring, but it has two unfortunate consequences. It makes others angry and resentful, and thus less inclined to cooperate over the longer term. And it makes us less inclined to take responsibility for what needs to be remedied in ourselves.¹⁷

The theory and practice of foreign aid is the antithesis of an open world order. But the battle against the ideas behind foreign aid and the battle against the practice of foreign aid only represent the battle on land. The battle for and against an open, liberal world order continues in the skies.

GEOSTATIONARY ORBIT

Geostationary orbit is a tire-like ring positioned 22,300 miles above the equator. When a satellite is stationed in orbit in this area, the velocity of the satellite not only exactly offsets the earth's gravitational pull, but it also matches the rotation of the earth. Therefore, a satellite is "parked" in orbit and appears stationary from the earth. The advantage of having a satellite in a fixed location relative to the earth is substantial. Earth transmitting and receiving stations can aim their dishes only once to utilize the satellite, making changes in the aim of transmission signals unnecessary.

A problem emerges, however, when one realizes that there are not an infinite number of geostationary orbital slots available. For example, there are no more slots available for communicating between the east and west coasts of the United States, between the U.S. and Europe, and between the U.S. and Hawaii and Japan.¹⁸

Geostationary orbital slots are currently owned by no one. Space is governed mostly by squatters rights and the United Nations. Notes Richard Lipkin, "Of the five ratified U.N. treaties, the United States and the Soviet Union have signed four. Among other things, these four protect space from sovereign claims (meaning that space is owned by no one and is free for everyone to use and occupy). . . ."¹⁹

Richard Chipman, a senior analyst with the United Nations, makes the point of the ownership of property in space more explicit. "There's no question of ownership. The Outer Space Treaty of 1967 explicitly bars property rights in outer space. The treaty says that outer space resources are 'the province of all mankind.'"²⁰

Under current practice, the FCC first decides how many slots are available. This process is somewhat inefficient itself since the quantity of slots decision is based on past technology, not future technological gains. The current regulations, set in August, 1983, call for satellites to be no more than 800 miles apart.²¹ It is doubtless that future technology will make such spacing inefficient as static regulations create unnecessary constraints in a dynamic world.

The available slots are not auctioned off or sold, but given away based on "a public interest standard."²² Once the slots are given away (based on the FCC's definition of public interest), the slots cannot be sold. The inevitable result is an inefficient allocation of a scarce resource. The owners of some slots have not even put up a satellite while others who did not receive an FCC allocated slot are desperate for a space in space.

With all of the above well-documented inefficiencies, why have property rights in space not been taken more seriously? Besides the philosophical objection of the global socialists, there are other objectors as well.

First, even though they did not bear the risk of making such orbital slots valuable in the first place, some LDC's assert that they should share in the scarce resource of outer space. Also, nations that underlie the equator claim the space directly above them as their sovereign property. This objection could be solved by either convincing these countries of the legitimacy of Lockean principle that "as much land as a man tills, plants, improves, cultivates, and can use the product of, so much is his property,"²³ or by merely assigning ownership of certain slots to certain countries. The point being that secure property rights, however assigned, will increase utilization and efficiency.

A second objection to changing the current system is made by those who currently have orbital slots, but have paid nothing for them. Of course, the current "owners" of the slots have already received substantial rents by receiving the slots from the FCC with only the cost of an application.

A truly liberal international order would benefit from freedom of exchange in outer space. But the underlying institution of private ownership of resources is a necessary condition to such an open world order.

CONCLUSION

While sophisticated arguments and mathematical models can be elegant and persuasive, there comes a time when more foundational principles must be emphasized. To progress toward an open world order, one must realize the necessity of these few principles, dearly held. This essay has emphasized the institutions

of private property and free exchange as a necessary condition of liberty in an international setting. It is hoped that hard work, combined with a faith in the future of truth, can someday produce the reality of liberty in an open world order--a dream that is now just a frenzy of a few academic scribblers.

ENDNOTES

¹Armando Valladares, Against All Hope, Alfred A. Knopf (New York), 1986, p. 286.

²Peter Bauer, "The Disregard of Reality," Cato's Letter #3, Cato Institute, Washington, D.C., 1988.

³Milton Friedman, Capitalism and Freedom, University of Chicago Press (Chicago, 1962), p. 5.

⁴Kirkpatrick Says U.S. Has No U.N. Allies," Washington Post, December 10, 1982, p. A 16.

⁵Thomas Sowell, The Economics and Politics of Race, William Morrow and Co., (New York, 1983), p. 239.

⁶P. T. Bauer, Dissent on Development, Harvard University Press (Cambridge, 1976), p. 96.

⁷George Gilder, "The Family and Our Economic Future," in The Wealth of Families, Carl Anderson and William Gribbin, ed., (Washington, D.C., The American Family Institute, 1982), p. 33.

⁸Gilder, p. 33-34.

⁹Tom Bethell, "How to Start a Revolution Without Really Trying," National Review, p. 40.

¹⁰James Bovard, "The Continuing Failure of Foreign Aid," Cato Institute Policy Analysis No. 65 (January 31, 1986), p. 6-7.

¹¹P. T. Bauer, Western Guilt and Third World Poverty, Commentary (January 1976), p. 31-38.

¹²P. T. Bauer and John O'Sullivan, "Foreign Aid for What?" Commentary, December 1978, pp. 41-48.

¹³Bauer and O'Sullivan, p. 47.

¹⁴Bauer, Western Guilt and Third World Poverty, p. 31.

¹⁵Lawrence E. Harrison, Underdevelopment is a State of Mind, University Press of America (Lanham, MD, 1985), p. 2.

¹⁶Michael Novak, The Spirit of Democratic Capitalism, Simon and Schuster (New York, 1982), p. 99.

¹⁷Robert Reich, "The Economics of Illusion and the Illusion of Economics," Foreign Affairs, Vol. 66, No. 3, p. 523.

¹⁸Timothy Tregarthen, "Outer Space: The Scarce frontier," The Margin, Vol. 3, Number 1, p. 8.

¹⁹Richard Lipkin, "Earthly Man Needs Law in Space," Insight, December 28, 1987, pp. 48-49.

²⁰Tregarthen, p. 8.

²¹Molly Macauley and Paul Portney, "Property Rights in Orbit," Regulation, July/August 1984, p. 16.

²²Macauley and Portney, p. 16.

²³Robert Goldwin, "John Locke," in History of Political Philosophy, ed. L. Strauss and J. Cropsey, 2nd ed. (Chicago: University of Chicago Press, 1981), p. 462.



The
entrepreneur

The Belden Center for Private Enterprise Education
Harding University School of Business
Box 922, Station A
Searcy, Arkansas 72143

Fall 1988

Non-profit
Organization
U.S. Postage

PAID

PERMIT NO. 804
Dallas, Texas 75211