
The Entrepreneur

The Belden Center for Private Enterprise
Education

Spring 3-1-1989

The Entrepreneur (vol. 13, no. 3)

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. (1989). The Entrepreneur (vol. 13, no. 3). Retrieved from <https://scholarworks.harding.edu/belden-entrepreneur/53>

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.





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

The Entrepreneur

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

AMERICA'S RENDEZVOUS WITH REALITY The American Economy After Reagan

ECONOMIC EDUCATION BEGINS AT HOME

Our primary market--our customers--are students, teachers, alumni, friends of the University, business and civic groups, opinion leaders, the man-on-the-street, the clergy and elected representatives, media representatives--everybody. Our "Capitalism Corps," the faculty and students who voluntarily staff the Belden Center, have developed and implemented the following specific objectives:

1. To **promote** an accurate and objective understanding of America's business system in its many aspects and its various components.
2. To act as an information exchange among those involved with private enterprise education, particularly in relation to research, teaching methods and curricula.
3. To **create** a high degree of economics literacy among elementary and secondary teachers, business leaders and higher education faculties.
4. To **increase** the awareness of the general public of the economic cost and impact of governmental policy alternatives.
5. To **work** actively to develop through the educational field that type of political, social and economic environment which will enable private enterprise to prosper and multiply.
6. To **work** with other publics such as employees, media, etc. to assist in their learning of our private enterprise system.
7. To **collect**, develop and serve as a central depository and dispensary of economics education resource materials.
8. To **provide** support to industries seeking to develop their own employee free enterprise education programs.

by

Murray Weidenbaum

I am pleased to have the opportunity to provide you with a sneak preview of my new book, *Rendezvous With Reality: The American Economy After Reagan*. It is designed to be a personal look at the problems and potentials of the United States in the decade ahead.

More specifically -- as the title suggests -- I have attempted to find solutions to the economic policy problems that will face our next president, be he Democrat or Republican. In doing so, I part company with both of the party conventions we've watched and listened to recently. I do not think that the Reagan period has been either the unalloyed blessing we heard about during the Republican Convention or the dismal failure we heard about at the Democratic one. I think it has been a mixed bag.

The Reagan era produced some tremendous triumphs: bringing inflation down, lowering interest rates, sustaining economic growth--and achievements in areas no one has talked about, like the unprecedented degree of labor peace. It is interesting to note that when you go overseas--I spent some time in Germany this summer--you hear people referring to the "American job miracle." The Europeans envy our job creation ability. But when you get back home, you find people taking all that for granted.

On the other hand, the budget deficit has tripled, the national debt has more than doubled, and the federal government is a larger presence in the

Murray Weidenbaum is Director of the Center for the Study of American Business and Mallinckrodt Distinguished University Professor at Washington University in St. Louis.

Harding University Library

economy today than it was in 1981. That has to be on the negative side of the ledger.

As a nation--and not only since 1980--we Americans have been avoiding some of our toughest choices. Over the last several decades, we have been consuming more than we are spending, borrowing more than we are saving, and spending more than we are earning. While advocating balanced budgets, we have voted for rapid expansions in expensive government activities, ranging from defense to farm subsidies. The new presidential administration will have to take on a role akin to that of a cleanup crew the morning after a big party. And that brings me to the most important theme of my book. The major challenges that will face the new administration can no longer be ducked; they must be squarely faced as we enter the 1990's.

A Few Examples of Needed Reform

Reforming Welfare

Among the challenges that I deal with in *Rendezvous with Reality* is welfare--how to reduce poverty. As it turns out, there is a growing consensus on the part of people who have really analyzed the problem. The solution to poverty, when you get down to it, is simple. Notice that I did not say the remedy is easy, but it is simple. Take a person who graduates from high school, gets married and gets a job--any job, even minimum wage job. The odds are that he or she will never experience poverty. Those three factors are interrelated.

If you graduate from high school, you are more likely to get a job. With a job, you can afford to get married. Being married, you're more inclined to keep the job. You are not likely to blow your stack and quit the first time you get reprimanded by the boss.

Reforming Military Procurement

The recent "scandals" involving military procurement suggest the need for reform. My view is a bit different because I have actually examined some of the facts about defense production and have found it to be the most highly regulated industry in the country. The solution we keep hearing--to regulate defense contractors more closely--will not help at all. Frankly, that approach reminds me of the old hangover cure, "having a bit of the hair of the dog that bit you."

In order to improve the efficiency of weapon systems production, we need to deregulate and privatize. Compare the sheer multitude of paperwork that must accompany a company's proposal for a single aircraft or missile system with the pounds of paperwork for a commercial airliner of comparable size. It would save tremendous amounts of taxpayer dollars to reduce the paperwork. More important, some deregulation would free up scientists and engineers for the serious work of

designing and building better equipment for the defense establishment.

Unfortunately, I think true defense procurement reform is an uphill battle. The trend seems to be toward more detailed and onerous regulation. Yet, I'm an optimist. Perhaps as more people read and learn about the real nature of regulation of defense production, they will see the light.

I also try to deal with a variety of other areas of public policy in the book. For example, in the face of much gloom-and-doom talk, I show the increasingly obvious *strength* of the manufacturing sector. Inevitably, I've got a couple of chapters on needed reforms of regulation, including a whole chapter on environmental regulation.

A Policy Menu for the Next President

Finally, I present what I call a "menu" for the next administration, focusing on what I believe will be the key policy problems. We don't need a "laundry list;" we need to think in terms of priorities. And the key need of the American economy is to improve productivity and enhance competitiveness.

Improving Productivity

President George Bush will want to enhance the competitiveness of the American economy. But how do you do that? It requires a combination of positive and negative actions.

The positive approach turns out to be--and there's a growing consensus on this--to improve the education of the American work force. It is a national disgrace that our literacy rate is lower than the Asian rim countries. Our dropout rates are also higher than in the Asian countries. It also hurts when Japanese companies take over American firms and tell us that they need to hire college graduates here to do the kind of mathematics that their high school graduates are trained for.

It is not a question of spending more money on education. If you look at the numbers, we have been spending money on education at a rising rate all through the past decade.

Let me give just one example, however, of how this money has been misappropriated. New York City recently allocated funds for an adult education program. Sounds good. But, as it turned out, most of the money went to overtime pay for custodians. Now, paying janitors an adequate wage is useful; and maybe it is better to give the extra money to the janitors than to give it to a new assistant superintendent of schools. But it would be better yet to give it to teachers.

There are also actions that we should refrain from taking. I note the rapid growth in the number of

proposals that mandate social benefits. Requiring companies to provide more generous fringe benefits--for health insurance, personal leave and higher minimum wages--is popular with Congress because it does not cost the Treasury anything.

But each of those actions increases the cost of producing in the United States. That doesn't help productivity a bit. It hurts our national competitiveness. But few people have yet made the connection. It is ironic that the same people who make all sorts of speeches about the need to enhance our competitiveness support legislation to erode the productivity of American business by imposing yet another costly social mandate.

The third aspect of enhancing competitiveness and productivity is to learn from the mistakes of *both* recent administrations in the area of government regulation of business. President Carter appointed a slew of antibusiness regulators who used EPA, OSHA and the other agencies to punish business. And the Reagan administration, embracing "regulatory relief," ran into serious difficulty because it was looked upon as only trying to lighten the load on business.

What we really need is a round of regulatory reform aimed at the most cost-effective way of carrying out the responsibilities of EPA, OSHA, etc. The current logjam in dealing with hazardous wastes and air and water pollution can be broken by some policy innovation. Let us use economic incentives. Effluent charges and disposal fees work well in Western Europe, where scientists and engineers (rather than lawyers) dominate environmental regulation.

Reducing the Budget Deficit

I do not believe we can avoid talking about the budget. I'm old-fashioned enough to worry a great deal about triple digit (in billions of dollars) deficits. Let's face it, a lot of my conservative friends don't like to talk about budget deficits any more. But if Jimmy Carter had experienced these budget deficits, he would have been run out of town on the proverbial rail.

But what really worries me is not so much the size of the deficits but what the debt has been used for. I'm one of the many of my generation who went to college, at least in part, under the GI bill. That was a definite federal *investment* in education. The VA has shown that the taxes paid on the additional income resulting from the increased level of education more than repaid the government's initial outlay. The GI bill was a good use of government funds.

What is the increased debt financing now? Not investments such as education or research and development or airports and other infrastructure. It's going for current consumption: entitlements, farm subsidies, interest and defense spending--none of which will generate the return on investment to service the debt, much less repay it.

Whether you are a Democrat, Republican or Independent, if you go through the federal budget, department by department and agency by agency, as I did in writing *Rendezvous with Reality*, you will find weak spots in every part of the budget--with no exceptions. When I hear talk about increases in taxes, the economist in me is offended. It is a confession of the unwillingness to make tough budget choices.

Of course, it's not easy to say no to an organized pressure group, but this is one of the lessons of 1981. Don't just hit one pressure group, but take them all on. To prime the pump, this old budget cutter has developed his favorite "dirty dozen" federal spending programs which have outlived their usefulness or are simply unfair burdens on the average taxpayer. Table 1 outlines how \$100 billion could be saved in fiscal year 1992.

Table 1

Budget Savings from Weidenbaum's Dirty Dozen Fiscal Year 1992 (\$ in billions)

1. Eliminate farm subsidies	\$25
2. Adopt military procurement reforms (save 10% of \$155 billion spent a year)	15
3. Adopt a "diet COLA" for social security (limit COLA to rise in CPI above 2%)	15
4. Adopt a "diet COLA" for other entitlements	12
5. Postpone military retirement to age 55	10
6. Repeal Davis-Bacon Act on construction wages	9
7. Cash out food stamps (save 40%)	5
8. Close unneeded military base	2
9. Raise interest rates on federal credit (reduce demand by one-fourth)	2
10. Eliminate VA hospital stays for non-service illnesses	2
11. Reduce foreign aid to the Middle East	2
12. Stop pork barrel projects of the Corps of Engineers and the Bureau of Reclamation	<u>1</u>
TOTAL	<u>\$100</u>

The selection is based on the old budget motto, "Good budgeting is the uniform distribution of dissatisfaction." In that spirit, substantial cuts or total eliminations are proposed for sacred cows traditionally supported by military proponents and welfare recipients, farmers and senior citizens, Zionists and Arabs. If any powerful

interest group has been omitted, that is purely unintentional.

After displaying the intestinal fortitude to send these budget cuts to the Congress, the President should take a second step--present a package of needed reforms for government decisionmaking. A good start would be to extend budget cutting to Congress and its staffs, which have been growing so much faster than the executive branch of the government. Cut back sharply the excessive number of subcommittees. Back in the 1930s, Louisiana Senator Huey Long proclaimed, "Every man a king." Today's version is that every member of Congress is royalty, judged by spending for their entourage. And almost every member of the majority party has his or her own subcommittee to chair--with the requisite perks and pork.

Conclusion

In summary, the legacy of Reaganomics is a mixed bag containing lower inflation and higher budget deficits, lower unemployment and higher trade deficits, fewer

strikes and more government jobs, the deepest recession in a half century and the longest peacetime recovery ever.

In any event, Reaganomics is a closed chapter in American economic history. The tax debate has shifted from cutting rates to increasing revenues. Rapid increases in the defense budget have been supplanted by attempts to curtail it. And "regulatory relief" is no longer an active term in the policymaker's vocabulary.

The two items proposed here--productivity enhancement and budget restraint--are far more modest than the typical presidential laundry list of the past. That does not reflect a lack of imagination but a determination to learn from the overpromising of previous administrations.

No president or Congress can repeal the concept of compound interest. The longer we as a nation wait to make the tough decisions outlined in this talk--to improve our personal efficiency and to reduce our national indebtedness--the more difficult will be the task of tackling them. Americans today truly face a rendezvous with reality.



**The
entrepreneur**

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

Spring 1989

Non-profit
Organization
U.S. Postage

PAID

PERMIT NO. 804
Dallas, Texas 75211

Miss Winnie Elizabeth Bell
Box 928 Station A
Searcy AR 72143