
The Entrepreneur

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HARDING
UNIVERSITY



The
entrepreneur

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

Capitalism for Czechoslovakia

ECONOMICS TEAM WINS REGIONAL COMPETITION

The Harding University economics team won First Place and \$1500 in the Mid-South Regional Students in Free Enterprise (SIFE) competition at the Omni Hotel in Memphis April 26-27. The team's entry, "Free Enterprise — The Great American Bargain," included 65 projects and programs which have been presented to civic, professional and educational groups in the mid-South. The project was judged by chief executive officers of American business and industry.

STUDENTS WIN IN BUSINESS COMPETITION

Harding University's Chapter of Phi Beta Lambda, a national collegiate business organization, won awards in nine events in the 27th Annual Phi Beta Lambda Intercollegiate Competition in Little Rock April 26-27. The First Place and Second Place winners will go on to the National Phi Beta Lambda competition July 6-10 in Washington, D.C.

DIRECTOR RECEIVES NATIONAL FLAG FOUNDATION AWARD

Dr. Don Diffine, Director of the Belden Center for Private Enterprise Education and Professor of Economics at Harding University, was recently presented the "New Constellation Award" by the National Flag Foundation of Pittsburgh, Pennsylvania. The award was presented in recognition of Dr. Diffine's authoring, publishing, and distributing the booklet "TO THE FLAG — Our Banner of Liberty."

Presented by
Dr. Richard Leshner, President
Chamber of Commerce of the United States
at the
Prague School of Economics
October 17, 1989

I want you to know that I put this meeting at the top of my list of priorities, because at heart I am a professor and like to be with young people; and because the future of Czechoslovakia is in your hands. I do not want you to take that responsibility lightly. I come to you not with a lot of answers, but with a lot of questions — questions which I raise, and questions which you should be raising.

I have the good fortune to be in my position for almost 15 years. In that 15 years I have traveled to all corners of the world. I have been in more than 60 countries in that 15-year period. I have been in all of the states of the United States, most of them many times. Some of the countries I have been in many, many times.

But I am convinced that the problems and the opportunities of economic progress and human progress are the same in all corners of the world, so I want to convey to you and share with you some of the conclusions that I have made. Most importantly, I want to spend equal time at the end with your questions.

Let me begin with some reference to economic history, which might be new to you even though you are all scholars of economics and business. The Dean, by the way, told me that there are 10,000 students studying here at the University. I asked him, "How many are here who are not studying?" He was not able to answer me. But he said, "A few."

At any rate, let's begin with a brief moment on the economic history of the world. *The London Economist*, some time ago, published some numbers which interested me, pointing out that mankind has lived in

poverty throughout history. It pointed out that at the time Christ walked on earth, income per capita, worldwide, was \$200 per person per year. Income per capita, worldwide, 2,000 years ago was \$200 per year.

Nearly 1,800 years later when America was founded, the centuries had come and gone, families had come and gone, generations had come and gone, and one thing had not changed. Income per capita, worldwide, was still \$200 per person per year.

The conditions in early America were worse than the conditions anywhere else. It was a colony. It was a frontier. Many of our founding fathers did not survive the bitter winters, the food shortages and the like.

In the later part of the Eighteenth Century, we put together a new experiment in human progress, something called the United States of America, based upon some new, noble ideas. In the process we generated a machine which created wealth and lifted mankind out of poverty for the first time in history.

Some of the basic principles of our Constitution I would like to share with you today, because I believe that those principles are crucial for unleashing the potential of man and woman to reach their full economic potential.

First of all, our Constitution guarantees a government of the people, by the people, and for the people. It became one of the rallying cries, one of the things that the young people adopted most vigorously in Mainland China. But our government, our Constitution attempted to limit the role of government and to extol the virtues of the individual. And I suggest to you that that is very important for all countries.

A second thing that our Constitution did was to prevent tariff and non-tariff barriers among the states. At the time of the colonies, we had trade barriers between the colonies. As a result, we didn't have much trade between the colonies. The Constitution outlawed tariff and nontariff barriers and made America at once a free trade organization and created the world's first common market, as **all** of our states traded — without barriers. That was one of the key things that made our economy so strong over the years. A third basic foundation of our Constitution is the right to hold debt.

A system of private enterprise is based upon private property and using the profit motive to turn the system on, a guarantee that you have the opportunity to compete but not a guarantee that you will be successful, a system of risk and return, a system of profit and loss, a system which encourages individuals to succeed if they are willing to put forth the effort to do so, and finally, the right to retain the fruits of those efforts.

In short, the American dream was born. The dream was that someone born into poverty could become rich — someone born into a family that was uneducated could become a Ph.D. or professor, the system guaranteed that a person with ability could enter a field that needed such abilities.

Over the course of a relatively short span of 200 years from the time of our Constitution in 1776 — in the short period of 200 years, after living in poverty for 2,000 years — we saw income per capita go from \$200 per person per year to more than \$18,000 per person per year. We saw a frontier nation turned into the largest market in the world, the largest industrial machine, with the highest standard of living. We saw America become a leader in science, technology, management, research and development. We saw a country that broke the frontiers of space and interplanetary research.

Most of all, we saw a country willing to share its ideas, its notions, its trade, its investment with friends all over the world. Many countries have copied that system. In fact, some countries copied it too well. Japan and Korea and the newly-industrialized nations in Southeast Asia have indeed copied our system very well and improved upon it. And they, too, are doing very well.

Today we live in one world, a world of competition in all corners of the globe. America is still a world leader, even though many other countries, such as Japan and Korea and the countries of Western Europe have begun to catch up. Nevertheless we are continuing to grow year after year.

We now have 14 million business firms in America. We have 16 million full-time jobs. We have seen the creation of 20 million new jobs in the last seven years. We still do have the largest economy, the highest productivity. And we are the largest exporter as well as the largest importer.

The principles of our Constitution are still operational. It is still easy to start a business. If you have an idea, if you have a dream, you can be in business overnight. In the last three years, there have been two million new business firms. Think of that, two million new companies formed in America in the last three years.

Now, you read in the popular press that America is going out of the manufacturing business. But the popular press is often wrong and misleading. We have had 50,000 new manufacturing companies in the last ten years. Individual incentives still work. People do start businesses. Some of them go bankrupt, and others become millionaires virtually overnight. The policies that were put into our Constitution are still serving us very well.

The organization that I represent, the United States Chamber of Commerce, celebrated its 75th anniversary two years ago. And as part of that process, we went back and looked at some of the problems that troubled American business back at the beginning of this century. And it was very interesting to see what those problems were.

Number one, was the over-taxation of business and individuals; number two, the over-spending by the government; number three, the over-regulation of business by government; and number four, the competition for trade in all corners of the world. Those are still the four most important issues facing us in the 20th century. They are the same issues that face all countries of the world, because we do live in an interdependent world.

In the spring of last year, President Ronald Reagan addressed our membership for the last time as President. He recounted the history of his eight years as President. The so-called Reagan Revolution was a revolution that came about in 1980 because the American people were ready for a new revolution. Taxes and spending had become too high and our economy was bogging down.

In his speech, President Reagan was reciting his success at reducing taxes and reducing regulation and opening up trade even further with all corners of the world. He told us that the Reagan Revolution was successful only because the American business community was behind it. He paid tribute to our chamber membership for bringing about the changes in public policy that caused economic growth to begin rising very rapidly once more.

I think there is a lesson there for all people who believe in free enterprise. They must understand free enterprise, and they must speak up for it. President Reagan reminded us that even though we have had success in the 80s, that we must always be ready to continue to fight, to continue the debate. Because taxes have a tendency to go up, government spending is always on the rise. There is always one more bureaucrat willing to throw one more regulation in the way of economic progress.

One of our founding fathers had told us to be aware of that problem. Thomas Jefferson told us that it is the natural order of things for governments to grow and for liberty to yield. Think about that. It is the natural order of things for government to grow and for liberty to yield.

Well, today we live in a very, very exciting world that you folks will be entering into when you finish your studies. We live in a marvelous age of progress. One

country after another is discovering that big government is not the answer for economic progress.

They are turning to market forces; they are turning to market economics; and they are turning to a reliance on individual incentives — individual initiative — in order to get their economies growing. They are turning away from big government, government spending and government regulation.

The result is nothing short of miraculous. In one country after another, we are seeing economic progress that is dramatic and real, the first such progress in many, many years for some of those countries, as they turn away from government programs and turn toward market solutions.

Nine years ago I had the opportunity to lecture in Beijing for the first time in the Great Hall of the People, Mainland China. The Vice Premiere of China was my host. He opened the meeting by saying, "China is poor and America is rich, and you must help us."

I said, "No, China is not poor. China is rich. You kept your oil in the ground until the price went up." Everyone there laughed. They understood my joke. But I made that joke to make a point.

I asked how is it that such a great nation as China, which has oil in the ground, coal in the ground, natural gas, minerals, a climate, an infrastructure, and one billion people who have great heritages of invention and innovation lives in poverty? There must be something wrong with the system.

I asked how is it that such great people live in poverty in such a great country with so many resources; while those pushed off the continent into a place called Taiwan, which used to be called Formosa, with no natural resources, no coal, no gas, no oil, those same people (in such a desolate place) could create a gross national product per capita 14 times greater than those people on the Mainland?

How can the same people, when they go to Singapore, create a gross national product 25 times that of the Mainland? Or, if they go to Hong Kong, which is essentially a Chinese colony, they can create wealth 26 times the wealth on the Mainland? These are the same people; so there must be something to be said about the system.

It is instructive to look around the world. There are many such examples. I will just share a few more with you, just to make the point and raise the question, "Why is it that the gross national product per capita in South Korea is more than three times that of North Korea?" The same people, the same peninsula, the same

climate, the same resources are involved in both situations.

How is it that the West German gross national product per capita is more than five times greater than the gross national product per capita in East Germany? Why is it that the gross national product in Austria is five times greater than that of Hungary? Or why is it 15 times greater in America than it is in the Soviet Union?

This is an interesting period in history when we are all allowed to raise such questions and pose our own answers. My answer is a very simple answer — we have a system in America where we have mobile capital, mobile labor, and incentives for both capital and labor to advance human progress through an economic, political and social system which is based upon individual initiative, incentive, freedom and opportunity.

It does not take much more than that: incentive, initiative, freedom and opportunity. Those are the key elements for economic success. Mobility of capital and labor, incentives, private property rights, and the market determining the allocation of resources, supply and demand conditions arrive at a price, and a price allocates those resources better than some bureaucratic planning machine can do. A system of profit and loss with no guarantees of success, is our notion, our idea that we wanted to share with you.

Czechoslovakia can be proud that the gross national product per capita today is 16 percent higher than it is in East Germany and two and half times greater than the Soviet Union. But are you Czechoslovakians going to be satisfied that the gross national product in this country is only one third of what it is in Austria, one fourth of what it is in West Germany, or 20 percent of what it is in Japan?

Those of you who have studied your national heritage, your national history, know full well that there was a time when Czechoslovakia was number one in many fields. That was in the middle of the last century.

No, wait, wait. I didn't mean it that way. That was one of the times. But you ought to all be very, very proud that in the middle of the last century the entire world was benefitting from management policies, labor policies and technology which were flowing from your country. That progress continued into this century. You have a proud history, a proud heritage, an inventive people who understand the processes of innovation and technology.

There wasn't a long, long time when you lead the world. But recently your list of unmet needs is growing longer. I don't need to recite all of them for you. Some

are the need for sewers and water purification, mass transit, highways, communications, the whole challenge of the environment, cleaning up the environment, the air, the water pollution, the demands for new energy sources, and the demands by the consumer for a wider variety of high-quality products at a low price.

Your economic system has some problems with currency, with foreign exchange, with capital shortages. But where we come from we believe very strongly that problems are there to be solved. And you have the capability of solving these problems.

As I've said, you have an inventive history. You have a prime location. You have a great climate. You have a good education system with a good, educated work force. But today your country stands at a crossroads. The great debate is going on of which road to take.

We in the West are a little bit confused about exactly which road you are going to take; so I came to see for myself. And I'm not sure that I have all the answers yet, but let me just give you a little example of how that decision is being played in the press.

On September 12th — I took this paragraph from *The Washington Post* — "Poland and Hungary have adopted free market incentives and have taken steps forward toward multi-party democracy as part of an effort to invigorate their societies, while East Germany, Romania, Bulgaria and Czechoslovakia have staunchly resisted such pressures to make such moves."

Only one month later the exact opposite report was contained in *The Washington Post*. And it went to the extent that your foreign minister, Mr. Johannes, said that your country will implement deep-rooted changes aimed at democratization and economic stability, a deeply democratic political system, and private enterprise.

If that statement is correct, we will be the first to applaud and say congratulations. And you young people have a role and a responsibility to help make that happen. The future belongs to the young people, and you must take those responsibilities very carefully.

Today the world is changing, more dramatically perhaps than at any time in history. We are seeing dramatic changes, not just in Poland and Hungary. The Soviet Union is undergoing changes today that were totally unthinkable five years ago. The United States, Japan, and virtually all of Latin America are constantly re-evaluating public policies to see how we can improve, how we can make our system better.

Western Europe is working everyday on EC '92 — their notion that by 1992 Western Europe will become one large market. When it does, if it does, it becomes

the world's largest market overnight — the largest importer and the largest exporter. They are trying to drop their trade barriers among themselves to encourage trade and investment.

All over the world change is taking place. The most popular word on earth is competitiveness. What does it take to become competitive? What does it take to become competitive in this rapidly-changing world of ours?

We do indeed live in our global village — spacecraft Earth, which is indeed competitive. The only thing that we can count on for sure is that we will have more technological change. And the lessons of history are being reduced to a handful of principles. One government after another is working very hard to reduce taxes, to reduce spending, to reduce regulations, to privatize and to put into private hands the tools of economic production.

A few weeks ago I met with President Menhem of Argentina. That country experienced inflation of 192 percent in July. Today their inflation rate is down to six percent per month. Next year they expect an annual rate of inflation under 16 percent for the entire year. That is a small economic miracle, because they are doing everything at once.

Two months ago I was in Mexico, where I met with President Salinas. It is the same story there — an economy that had been an economic disaster for a long, long time, a country that had been nationalizing one industry after another up until just a few short years ago. They are now privatizing everything as fast as they can, reducing taxes, reducing spending, privatizing and reducing regulation, in order to attract foreign capital to build their future.

In the Soviet Union, which until three or four years ago didn't like the idea of capital coming from the West, they are now signing joint ventures with Western companies daily to build their economic future. All of this is wrapped up in these new words of *glasnost* and *perestroika*. This is a time when we can stop, when we can examine our history and the future as we see it, and we can work to influence the future in a measured, intelligent way.

That process is going on all over the world, including Czechoslovakia. And you have taken the first steps. You have a new investment law. It remains to be seen how the regulations will be published, what that investment law will mean to everyone. You have the beginning of decentralization of decision making. You have new banking regulations, and you have a lot of other efforts in the mill being developed.

In my opinion, no issues are more important than these. You must deal with the currency convertibility. You must deal with price reform. You must deal with private ownership and incentives and profits.

Your government has pledged to lead the way. Your government needs enthusiastic support to move in the direction of these reforms. I speak not only of economic reforms, but I think I speak of political reforms as well.

Your government has said that these reforms will take place in a very careful and a very measured way. I think that is reasonable and wise, but I would add a note of caution, that the day is late and the hour is late and it is time to begin to do more.

Delay of these decisions will not make the decisions any easier. And the lead that other countries have gets bigger every day. It is your future. You, your friends and your families in all corners of this great land, give a lot of attention and a lot of thought to how you might help that process along.

In America we stand ready to assist. We will be entertaining next month, a trade and investment mission in Washington which will come from Czechoslovakia and discuss trade and investment opportunities. We have been discussing a lot of ways that we can cooperate, everything from seminars to space bridges, discussion via satellite, and so forth. We want this new era to succeed in Czechoslovakia, in the Soviet Union, in China, and all over the world.

Let me try to summarize so that we can get on to the questions and answers. In our country, we now have the longest expansion of our economy in our history, or 83 months of uninterrupted economic growth. Unemployment is the lowest that it has been in many, many years. Inflation is low. And best of all, our economic outlook is that our economy will continue to grow for the indefinite future.

That is good and it is probably good for most of our trading partners. We do still have a lot of influence on the world economy because our economy is so large. But based upon the progress of the last 20 years, it is easy to predict that the next 10 years will be the most productive period of economic growth in all of history. All of the forces are in place to make that a very safe prediction. The technology, the labor and the capital are all there moving in the direction of even more promising growth.

We're at the dawn of a new era in human history. Throughout most of history, mankind has lived under the shadow of two overriding fears: the fear of poverty

and the fear of war. I would suggest to you that we've done more worldwide in the last ten years to bring down and to reduce those fears than anytime since the dawn of history. And we can predict with a high degree of certainty that the competition in the future will stand up well throughout that period.

We believe very strongly that this country has the potential to compete with anyone, if the right policies are put into place and the right decisions are made here at this key decision point in history.

The American business community, the United States Chamber of Commerce, and our government all care. We do indeed care about the future of Czechoslovakia. We want you to succeed. We want human progress

through economic progress for all of the people of the world.

The 21st century, we can be sure, will be exciting, full of challenge, full of change, and, indeed, will have the greatest prosperity that we have ever seen in all of history. But the prosperity will be for those who prepare for it and produce it. It has always been the same.

You young folks, as you prepare for your careers which will stretch well into the 21st century, should be excited about that future as we gaze into it. It's going to be very exciting and it's only 10 years away. We hope that you individually, your institutions and your country will be poised to take advantage of those opportunities in the 21st century.

The ENTREPRENEUR is a quarterly journal and newsletter addressing contemporary economic issues from a moral perspective. One may not agree with every word printed in the ENTREPRENEUR series, nor should one feel he needs to do so. It is hoped that the reader will think about the points laid out in the publication, and then decide for himself.



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