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## Same Planet - New World?: A Chronicle of the American Century

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# **SAME PLANET — NEW WORLD?**

*A Chronicle of the American Century*



by

**D.P. Diffine, Ph.D.**



SAME PLANET--NEW WORLD? A Chronicle of the American Century shows that learning economics won't make you a millionaire nor will it keep you out of the soup line. It will just give you a better understanding of how you got there. So, ignore those occasional gloom and doom prophesies, and consider what we have. We are the envy of the world. We have so much to be thankful for in the United States:

A country of unbounded beauty; almost unlimited natural resources ... a standard of living beyond the dream of kings ... a judicial system that is the envy of the rest of the world ... food so plentiful overeating is a major problem ... food processing advances which give us all-season menus ... clothing that is more durable, longer lasting, and easier to maintain; a press nobody can dominate ... a ballot box nobody can stuff; churches of our choice ... 140 million jobs ... freedom to go anywhere we want, with the planes, cars, and highways to get us there ... Social Security ... Medicare ... hybrid synthetics, metals and plastics that can replace body parts ... near-miracle drugs which can help us live longer and feel better ... unemployment insurance ... public and private schools, plentiful scholarships, etc.

America has come a long way; much is yet to be accomplished. The creation of an economic environment in which all enterprises and the people who do business with them can thrive and prosper has been a recurring item on opinion leaders' minds. We are literally a people "free" to do anything we want, if we have the "enterprise" to do it. A sustained high rate of productivity is the basis for a growing, healthy economy and a rising standard of living. It always has been, and it always will be.





# **SAME PLANET -- NEW WORLD?**

## **A Chronicle of the American Century**

**by**

**D. P. Diffine, Ph.D.**

Published by  
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This book is dedicated  
to those individuals who are  
willing to cultivate 21st century  
skills, combined with the traditional  
core values of faith in God, private en-  
terprise, and constitutional govern-  
ment. May they live long and  
prosper in yet another  
American Century.

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## **INTRODUCTION -- Surfing the Headlines**

Good News! As we tiptoe into the new millennium, there are more people connected to the Internet than were hooked up to water, sewer, or electricity 100 years ago. Now, the bad news. This book interrupts your day to bring you the following Special Bulletin: A new survey shows that if gloom and doom were nutritional, the national television networks could sometimes feed the world.

Has there been too much negative talk about the economy? Indeed. Even in the 1980's, there were, on average, seven negative news stories on the economy for every positive one. The problem continues into the new millennium. In fact, if Thomas Edison had invented the lightbulb today, tonight the television networks would scream "Tragedy strikes the candle industry!"

Excessive and negative chatter about the economy is not wholesome. In this writer's lifetime, of the last nine recessions, TV networks have predicted 15 of them. Why do they dwell on it? Because horror movies attract large crowds. Nevertheless, there are some things that reasonable and prudent people just don't do. You just don't stand up in a crowded theater and yell "fire!"

If there is any one question I have been asked by various audiences around the country, here it is: "Are events today a replay of the 1930's all over again?" Nay. There are many differences. Today, federal transfer payments provide a purchasing power "floor" to keep a recession from becoming a depression.

## Introduction

Further, the Fed isn't shrinking the money supply by one-third as it did between 1928 and 1932. By 1933, Gross Domestic Product (GDP) was equivalent to its level in 1900 (having dropped by 50 percent), as the economy imploded. Currently, interest rates are also relatively low by historical standards of recent decades.

Today, there are no three-to-five-year mortgages with balloon payments. Investors are also diversified today; there is a 50 percent stock market margin requirement, not 10 percent. There is no highly prohibitive tariff today, unlike 1931 (Smoot-Hawley). Only 18 percent of the GDP (mining and manufacturing) is vulnerable to the business cycle today, not 44 percent as it was in 1930.

Why all this self-flagellation on the nightly network news? Are things really that bad? Industry is not in decline. The dynamic triad of corporate restructuring, quality improvement, and spending on research and development are even now fortifying our economic democracy for decades to come.



## **Part I. PROGRESS ABOUND**

And what's all this network news talk about America being wasteful? We are not "energy pigs." In the last two decades we've grown about 75 percent in real terms on only 15 percent more energy. We've doubled vehicle fleet mileage. The equipment in homes and factories is 30 to 60 percent more efficient. We have had better efficiency gains than nearly every one of our Western trading partners. It is the former Socialist economies which presently consume three times the energy per dollar of GDP.

Applied science has brought renewal to our domestic economy. Information technology is changing the concept of industrial resources. Information is expandable; there are no obvious limits. Information is compressible; it can be concentrated, integrated, summarized, and miniaturized for easier handling. Information is substitutable; it can replace capital, labor or physical materials. Robots are an example.

What does that mean? For two decades, we have been applying hi-tech to low-tech industries. Basic low-tech industries are now smaller, leaner, stronger, and more profitable. We have learned that it was not written in the stars that we had to permanently lose markets to overseas competitors or that their quality had to be better.

We also learned that we had to automate, emigrate, or evaporate. That's why the family farm is going the way of the mom and pop grocery store and the corner soda fountain. It's called economies of scale (efficiencies of large size). Production of goods now utilizes the resources of many countries. Joint ventures reduce risk, build expertise, and penetrate markets.

## **Progress Abounds**

Former President Reagan once observed that to match the most successful (former) socialist country's achievements (the late, great, USSR), we would probably have to cut all the paychecks in America by 75 percent, send 60 million back to the farm (that's nearly one-fifth of us), tear down almost three-fourths of the houses in America, rip up 14 out of 15 miles of road and two-thirds of the railroad tracks, junk 85 percent of the automobiles, and tear out nine of ten telephones.

In the lifetime of today's college students, there is much to feel better about: (1) emissions from major pollutants have been reduced; (2) a higher percentage of our lakes and rivers are fishable; (3) forest inventories, public and private, have grown; (4) auto death rates are significantly down, as are death rates from malignancies, heart disease, strokes; (5) we have won 60 percent of the Nobel prizes; (6) 70 percent of our children do live with both parents; (7) nearly 90,000,000 people attend church weekly; and (8) tens of millions of teens have never tried drugs.



## 1. The Scorecard

What is the record as things stand today? With about four percent of the world's population we create more than 20 percent of the world's GDP. Two percent of us grow enough food to feed 200 percent of our population, exporting as much as we consume at home. Our poverty level income exceeds the average Russian income many times over. Our work week is 40 percent shorter than it was in 1900. There is a rise in entrepreneurship. At this writing, about 96 percent of us are working.

America is still number one. We have much to feel good about. We're even 15 years ahead of the Russians in Japanese cars. Japan's growth in the 1970's and 1980's was impressive, but it was America that created 40 percent more jobs in the last 25 years. Japan's employment rose barely half that in the same time period.

All sectors of economy included, especially distribution, agriculture, services, and retailing, America is about 25 percent more productive than the Japanese economy. Japan is also one of our largest export customers for American grains. And historic revisionists are facetiously suggesting that Columbus actually may have sailed to the Americas on the Pinta, the Nina, and the Santa Mitsubishi. Don't think so.

Looking around the world, don't we Americans have much to feel good about? The U.S. still enjoys the highest standard of living of any major country. Just think how far we have come. The median educational level of minorities in 1950 was 8.6 years. Today, it is 12

## The Scorecard

years. In 1940, only 44 percent of us owned homes. Today, 66 percent of us own our homes. Houses today average 2000 square feet, double the average in 1950.

Living standards, according to Frank Levy, have improved significantly. Some 50 years ago, 30 percent of the nation's homes had no running water, 40 percent had no flush toilets, 60 percent had no central heating and 80 percent were heated by coal or wood. Regional poverty is evaporating. Again, 50 years ago, average incomes in the south U.S. were about 40 percent of the national average. Today, southern incomes have risen to 80 percent of the national average.

Retirement, almost unknown early in the 20<sup>th</sup> century, due to poverty and shorter life spans, has become more the rule than an exception. Some 50 years ago, about half of all men over 65 worked, while 25 percent of the elderly lived with their children. Social Security means that the elderly can be self-sufficient in retirement. Eighty percent of today's millionaires are first generation folks. How so? They got it the old-fashioned way; they earned it.



## 2. Applied Astrology

In the economics profession, there are two types of forecasters: (1) those who can't forecast, and (2) those who don't know they can't forecast. Consider these blunders, culled from the Internet and chronicled by America's Future:

Western Union president William Orton, rejecting Alexander Graham Bell's offer to sell his struggling telephone company to Western Union for \$100,000: "What use could this company make of an electrical toy?"

Lord Kelvin, Scottish mathematician and physicist, former president of the Royal Society, 1897: "Radio has no future."

Charles H. Duell, U.S. Commissioner of Patents, as part of his request in 1899 that the Patent Office be closed down: "Everything that can be invented has been invented."

H. G. Wells, British novelist, 1901: "I must confess that my imagination... refuses to see any sort of submarine doing anything but suffocating its crew and floundering at sea."

A president of the Michigan Savings Bank advising Horace Rackham (Henry Ford's lawyer) not to invest in the Ford Motor Co., 1903. Rackham ignored the advice, bought \$5,000 worth of stock and sold it several years later for \$12.5 million: "The horse is here to stay, but the automobile is only a novelty -- a fad."



## **Applied Astrology**

Wilbur Wright, U.S. aviation pioneer, 1908: "I confess that in 1901, I said to my brother Orville that man would not fly for fifty years... Ever since, I have distrusted myself and avoided all predictions."

Marshall Ferdinand Foch, French military strategist and future World War I commander, 1911: "Airplanes are interesting toys but of no military value."

Irving Fisher, professor of economics and business cycle pioneer, Yale University, Oct. 17, 1919: "Stocks have reached what looks like a permanently high plateau."

Josephus Daniels, former U.S. Secretary of the Navy, Oct. 16, 1922: "Nobody now fears that a Japanese fleet could deal an unexpected blow on our Pacific possessions... Radio makes surprise impossible."

Harry M. Warner, Warner Brothers, 1927: "Who... wants to hear actors talk?"

Roger W. Babson, American financial statistician and founder of the Babson Institute, Sept. 17, 1928: "The election of Hoover... should result in continued prosperity for 1929."

U.S. Department of Labor bulletin prediction made in 1929, just before the Wall Street crash

## Applied Astrology

and the start of the Great Depression: "1930 will be a splendid employment year."

Former British Prime Minister David Lloyd George, Aug. 1, 1934: "Believe me, Germany is unable to wage war."

Joseph P. Kennedy, 1936: "I have no political ambitions for myself or my children."

Asked in 1940 about America, Adolph Hitler said: "The United States will not be a threat to us for decades -- not in 1945, but at the earliest 1970 or 1980."

Thomas J. Watson, the chairman of IBM predicting this in 1943: "I think there is a world market for about five computers."

Hollywood's Darryl Zanuck, the head of 20th Century Fox, in 1946 uttered this forgettable prediction: "TV won't be able to hold on to any markets it captures after the first six months. People will soon get tired of staring at a plywood box every night."

*Popular Mechanics*, forecasting the development of computer technology, 1949: "Computers in the future may... perhaps only weigh 1.5 tons."

In 1956, it was Henry Luce, father and publisher of *Time, Life and Fortune*, who said, "By 1980,

## Applied Astrology

all power (electric, atomic, solar) is likely to be virtually costless."

Asked in 1957 about his company's newest product, Henry Ford II said: "The Edsel is here to stay."

The authoritative magazine *Business Week* had this to say in 1958: "With over 50 foreign cars already on sale here, the Japanese auto industry isn't likely to carve out a big slice of the U.S. market."

Decca Records rejecting the Beatles, 1961: "We don't like their sound. Groups of guitars are on the way out."

Dr. Ian G. MacDonald, Los Angeles surgeon, quoted in *Newsweek*, Nov. 18, 1963: "For the majority of people, the use of tobacco has a beneficial effect."

Movie producer Sam Goldwyn touring a friend's garden in the 1960's came across a sundial. "What's that?" he asked. "It's a sundial," answered his friend. "It uses shadows to tell what time it is; noon, 3 o'clock, and so forth." Goldwyn was impressed. "My goodness," he said. "What will they think up next?"

Dr. Lee De Forest, inventor of the Audion tube and a father of radio, Feb. 25, 1967: "Man will never reach the moon regardless of all future scientific advances."



## Applied Astrology

Kenneth Olsen, president and founder of Digital Equipment Corp., 1977: "There is no reason for any individual to have a computer in their home."

Yale University management professor in response to Fred Smith, who went on to found Federal Express: "The concept is interesting and well-formed, but in order to earn a grade better than a 'C', the idea must be feasible."

However, as *America's Future* points out, more than offsetting all this are the examples of those who were told it could not be done but who went on and did it:

A little company in Atlanta, in its first year in the soda business, sold only four hundred Coca-Colas. After Paul Galvin's storage battery business failed for the second time in 1928, he borrowed \$750, bought back part of the business, and went on to establish the electronic giant Motorola.

Then there was Henry Ford, whose first two ventures in the automobile business went bankrupt; or King Gillette, who in his first year, sold only 51 of his new-fangled safety razors, plus 168 blades; or Edwin Land, who dropped out of Harvard after his first year -- and went on to invent the Polaroid camera.

Howard Hughes, Sr. was forced to abandon his first oil well because he couldn't drill through hard rock. Can't be done, he was told. After which, he invented a rock drill that made the

## **Applied Astrology**

Hughes Tool Company rich and famous. R. H. Macy went broke with his first three dry goods stores.

Also, let's not forget NASA, which in its first 28 attempts to launch rockets into space, failed 20 times!

### **3. The Finest Result**

A recent economic commentary by David Attig and Peter Rupert of the Federal Reserve Bank of Cleveland, provides the following insight under the title "Growth and the Internet -- Surfing to Prosperity?":

In the late eighteenth century, the clergyman Thomas Malthus made a simple prediction of economic theory that would result in the discipline being forthwith known as the dismal science. The pessimistic extrapolation for which Malthus is famed foretold of long economic cycles in which widespread famine must be an inevitable part.

Malthus's proposition relied on the entirely valid principle of diminishing returns, the tendency for the incremental returns to labor (or any input into the productive process) to fall as more and more of it is employed. The argument goes as follows: The amount of cultivatable land available to feed a society is effectively fixed. As the population grows and more and more people apply their labor to the production of food, the additional fruits of that labor decline, reflecting diminishing returns.

But that, by definition, means that production per worker falls. In Malthus's calculation, average food output would ultimately decline to levels insufficient to avoid famine. The somewhat gruesome outcome would be a rise in mortality that would persist until the population declined



## **The Finest Result**

enough to allow marginal workers to produce at the level necessary for sustenance. From the vantage of industrialized, non-agrarian economies, Malthus's prediction appears quaint and obviously wrong.

The real shortcoming in Malthus's analysis was in part due to the fact that he omitted the role of reproducible factors of production other than labor (capital, for instance). But even more critically, he neglected the powerful and pervasive influence of technological advance. In fact, some estimates imply that technological advance in capital accounts for about 50 percent of long-term growth in advanced economies.

Fast forward to 1976. At the occasion of our Bicentennial celebration, United Technologies published the following full-page ad in national business magazines:

In just 200 years, your country, through freedom and hard work, has changed the world... In agriculture, industry, education, medicine, law, transportation, and on and on... No country can match America's record in religious freedom, civil freedom, human rights, the importance and dignity of the individual... We do have our differences... But when we join together in times of crisis, our strength is awesome... Among all the world's nations, America still stands out front... You're an American... You're the finest ever – and don't you ever, ever forget it.



## The Finest Result

Writing as an economic historian, I think it's well to remember that, timewise, it took nearly a half year for word of Christopher Columbus' discovery of the Americas to reach Europe. By contrast, barely 1.3 seconds elapsed for the world to witness on television the historic first step of man on the moon. Don't tell us we haven't made great progress, thank you very much.



#### 4. Those Revolutions

Wythe Walker, one of my mentors and former publisher of *Arkansas Business*, reminds us: "This is the country that within five generations, with one-tenth of Earth's land area and one-twentieth of its total population, accumulated by the end of World War II one-half of the industrial power in the world. We accomplished that with hard work and initiative harnessed to the most productive economic system ever devised -- free market capitalism."

Walker goes on: "Just 200 years ago, the economist Adam Smith wrote that in the Highlands of Scotland it wasn't uncommon for a mother who had borne 20 children to have but two alive. The philosopher Thomas Hobbes said city streets were piled with filth and life was 'nasty, brutish and short.' Now, fat and happy, we have lost our connections to our past."

Tom Peters, popular management consultant and author of *In Search of Excellence* provides an "in-your-face" example of facing progress head on:

Look, societal change is painful: It wasn't any fun in 1885 to be a merchant at a booming stagecoach stop when the railroad came through 17 miles to the north. Losers, as Richard McKenzie, author of *The American Job Machine* implies, will dig moats and blame others. Winners will grit their teeth and create radical programs to help "human capital" (You and me!) deal with the wrenching transition. Bitter as it is to swallow, those who take the medicine first will emerge healthy quickest.

## **Those Revolutions**

As I prepare once again to instruct an Economic History of the United States course, 'tis time to reflect. On the eve of the new millennium, no less than five revolutions emerge from our past:

- (1) In the 1700's, it involved water, power, textiles, and iron;
- (2) Around the 1850's, it took the form of steam, rail, and steel;
- (3) Early in the 1900's, the new revolution comprised electricity, chemicals, and internal combustion;
- (4) By the 1950's, electronics, aviation, and mass production dominated; and finally,
- (5) The current revolution involves the hi-tech, hi-touch, financial, informational-knowledge industry.



## PART II. AMERICA'S YESTERYEAR

"This is an epoch of invention and progress unique to the history of the world... a gigantic tidal wave of human ingenuity and resource, so stupendous in its magnitude, so complex in its diversity, so profound in its thought, so fruitful in its wealth, so beneficent in its results, expand to a full appreciation of it." Those words, said Harold Evans, coming on the heels of a doubling in the number of patents for inventions in just one third of a century, appeared in a *Scientific American* editorial in, would you believe it, 1896!

Internet sites are not easily verifiable. However, one millennium entry titled "It May Be Hard to Believe that a Scant 100 Years Ago..." clearly tracks with other accounts:

The average life expectancy in the United States was forty-seven.

Only 14 percent of the homes in the United States had a bathtub.

Only 8 percent of the homes had a telephone.

A three minute call from Denver to New York City cost eleven dollars.

There were only 8,000 cars in the U.S. and only 144 miles of paved roads.

The maximum speed limit in most cities was ten miles per hour.

## **America's Yesteryear**

Alabama, Mississippi, Iowa, and Tennessee were each more heavily populated than California.

With a mere 1.4 million residents, California was only the twenty-first most populous state in the Union.

The average wage in the U.S. was twenty-two cents an hour. The average U.S. worker made between \$200 and \$400 per year.

More than 95 percent of all births in the United States took place at home.

Ninety percent of all U.S. physicians had no college education.

Instead, they attended medical schools, many of which were condemned in the press and by the government as "substandard."

Sugar cost four cents a pound. Eggs were fourteen cents a dozen. Coffee cost fifteen cents a pound.

Most women only washed their hair once a month and used borax or egg yolks for shampoo.

Canada passed a law prohibiting poor people from entering the country for any reason, either as travelers or immigrants.

## **America's Yesteryear**

The five leading causes of death in the U.S. were as follows:

1. Pneumonia and influenza
2. Tuberculous
3. Diarrhea
4. Heart disease
5. Stroke

The American flag had 45 stars. Arizona, Oklahoma, New Mexico, Hawaii and Alaska hadn't been admitted to the Union yet.

Drive-by-shootings -- in which teenage boys galloped down the street on horses and started randomly shooting at houses, carriages, or anything else that caught their fancy -- were an ongoing problem in Denver and other cities in the West.

The population of Las Vegas, Nevada was thirty. The remote desert community was inhabited by only a handful of ranchers and their families.

Plutonium, insulin, and antibiotics hadn't been discovered yet. Scotch tape, crossword puzzles, and iced tea hadn't been invented.

There was no Mother's Day or Father's Day.

One in ten U.S. adults couldn't read or write. Only 6 percent of all Americans had graduated from high school.



## **America's Yesteryear**

Punch card data processing had recently been developed, and early predecessors of the modern computer were used for the first time by the government to help compile the 1900 census.

Eighteen percent of households in the United States had at least one full-time servant or domestic.

There were about 230 reported murders in the U.S. annually.

## 5. The Way It Was

The comforts most Americans enjoy today and at the turn of another century might make life over 200 years ago seem like hardship. Yet closer study shows that the colonists generally were a prosperous and contented people -- already turning America into the "land of opportunity." By 1780, there were only 2.5 million Americans -- excluding Indians -- about the population of the state of Arkansas today.

However, we were a different kind of people back in the 1780's. According to the American Economic Foundation, nearly half the citizens were 15 or younger. Most people farmed the land for a living. Life was rigorous and tough. Work was a sun-up to sun-down regimen six days a week. Little wonder that the average male could look forward to only about 38 years of life, compared with almost 75 years today. Only one in 1,000 had completed college in 1776, compared with one in seven today.

Inflation was rampant during the War for Independence. By 1780, paper money authorized by the Continental Congress was practically worthless and was replaced by a new currency at an exchange rate of 40 to 1. Hence the expression "...not worth a Continental."

The ceiling price on turkeys was 9 cents a pound, on milk 9 cents a gallon, on rum 63 cents a gallon. Lodging at local taverns was frozen at 5 cents a night. Two examples of typical wages were a maximum of 70

## The Way It Was

cents a day for carpenters, 42 cents a day for tailors. Barbers were prohibited from charging more than 3.5 cents for a shave. Top pay for a soldier or sailor was \$8.00 a month.

Average yearly income per person (measured in 1974 dollars) was \$634 in 1776. That's double the average yearly income in some Third World countries today. And the gross domestic product (the value of all goods and services produced) came to \$1.6 billion in 1776, a tiny drop in the bucket compared with today's \$8 trillion. It cost 10 cents to mail a letter, but that was good for delivery only within a radius of 100 miles. The fee rose to a maximum of 25 cents for a letter going 450 miles or more.

Americans also plunged into privateering -- operating private commerce raiders, authorized by the Continental Congress. A group of merchants would fit out a heavily-armed schooner, each buying one or more shares. In keeping with the spirit of economic freedom, a man might own half the shares or only one-fiftieth. In addition to the shares, prize money went to owners and crews -- a true incentive system.

For years, the privateers thrived, taking some 2,000 British vessels and a vast amount of needed goods. But it was a high-risk business, and there was no guarantee a privateer would return at all, much less return a profit. Then, toward the end of the War for Independence, the British Navy swept most of our privateers off the seas. Many an owner suffered



## The Way It Was

disastrous losses -- illustrating the economic fact that high profits are apt to be temporary.

There are companies today that have been doing business since the founding of the republic. So far, the names of two score firms have been uncovered that were in existence when George Washington was president between 1789 and 1797 and are still doing business.

One notable example is the Pratt & Whitney division of Colt Industries Inc. Pratt & Whitney, which also gave its name to the engine division of United Aircraft Corporation, was founded by the noted inventor, Eli Whitney, father of the cotton gin, of modern high power gunpowder and of accurate gauges for metal fabrication.

American Bank Note, which has printed money for many nations, has been around since Washington's time. Curiously, two of the firms made pencils in George Washington's day and still make them, Koh-I-Noor Co. of Bloomsbury, NJ and Faber-Castell Co. of Newark NJ.

The War for Independence brought new monetary difficulties. The Continental Congress, powerless to impose taxes, was forced to print massive amounts of currency to finance the war. This flood of paper money caused the Continental currency to rapidly depreciate.

The currency of the times reflected the times themselves, according to Historical Documents, Co. In

## The Way It Was

1776, the New York 10 dollar bill contained the phrase "Tis Death to Counterfeit" at the bottom right corner. Counterfeiting of currency was a major problem in the colonies. In 1777, the Georgia 4 dollar bill, one of many issues intended to finance the war, contained the words "For the support of the Continental Troops and other expenses of Government."

In 1778, the United States 20 dollar Continental commemorated independence. Currency printed before 1777 contains the words "United Colonies"; issues after that say "United States." In 1778, the North Carolina 4 dollar bill contained the motto "A Lesson to Arbitrary Kings, and Wicked Ministers." It is an interesting example in print of rebellion against the British government.

In 1780, the Massachusetts-Bay 8 dollars signified that Massachusetts-Bay, the first colony to issue paper money in 1690, had its name changed to "Commonwealth of Massachusetts" in 1780. In 1781, the Virginia 250 dollar bill cited the rate of "One for Forty" on the bill as the value in gold or silver and indicates the severe inflation caused by the War for Independence.

America's first economist, a fellow named Webster (not Daniel or Noah, but Pelatiah) warned that too much money being printed and issued resulted in useless currency. By 1777, the Continental Congress had imposed price controls. The reason? To decrease the cost of feeding and supplying Washington's army. The

## The Way It Was

result? Farmers refused to sell, except to British, who paid in gold.

Hoped for plenty at low prices resulted in scarcity and misery for the Continental army. General Washington sent very critical messages to Congress saying (paraphrased): "...troops always have to have two days provisions so when opportunity presents itself, they won't be continually obstructed. We have 2,898 men unfit, barefoot, and unless something changes, the army will starve, dissolve, and disperse in order to subsist...."

The price controls were dropped by the Continental Congress; supply and demand began to work toward natural, mutually-agreed upon market prices. Washington's army was supplied for rest of the year and following winter. Good economics saved the day!

Or, as Webster, the economist put it, "Trade, if let alone, will ever make its own way best, and like an irresistible river, will ever run safest, do least mischief, and most good, suffered to run into its own channel."





## 6. Living Longer, Wealthier, Safer

*America's Future* also weighed in on 20th Century life, as superbly reviewed by Stephen Moore of the Cato Institute:

There has been more improvement in the human condition for people living in the United States in this century than for all people in all previous centuries of human history combined. The unique American formula of individual liberty and free enterprise has encouraged risk taking, experimentation, innovation, and scientific exploration of a magnitude that is unprecedented in human history.

Three relatively modern developments have revolutionized human life. The first was modern medicine. Scientists generally attribute up to half the increase in life expectancy in this century to improved drugs, vaccines, and other medical treatment break-throughs.

The second development was the harnessing of electrical power. The magic of electrical power not only brought us literally out of the darkness, but also launched thousands of inventions, all of which have allowed mankind to begin to harness the forces of nature, thus improving nearly every aspect of our daily lives.

The third transforming development was the invention of the microchip. As the brains of the

## **Living Longer, Wealthier, Safer**

computer, the semiconductor has been mankind's passport to a whole new universe of knowledge.

For the vast majority of Americans, life was not better in the 1950's than today. We are healthier, we live longer, we are richer, we can afford to purchase far more things, we have more time and money for recreation, we have bigger and better homes, we are at much less risk of catastrophic accidents, and we breathe cleaner air and drink safer water.

Most Americans who are considered "poor" today have routine access to a quality of food, health-care, consumer products, entertainment, communications, and transportation that even the Vanderbilts, the Carnegies, the Rockefellers and 19<sup>th</sup>-century European royalty, with all their combined wealth, could not have afforded.

## 7. Snapshots of a Century

Recently, the Chairman's Office of the Joint Economic Committee of Congress published an Economics Chartbook, "The U.S. Economy at the Beginning and End of the 20<sup>th</sup> Century." This Chartbook compares graphical snapshots of the economy from 1900 to today. They are arranged in six sections: (1) America's place in the world; (2) regional changes in America; (3) our standard of living; (4) growth in government; (5) changes in the workforce; and (6) growth in international trade. Here is a composite of its content:

The American standard of living has risen dramatically during the twentieth century. Today, the average full-time employee works about 40 hours per week rather than 60, and the average family spends just 15 percent of its income on food today, compared to 44 percent in 1900. We are producing and consuming six times more goods and services, per person, than we were in 1900.

In addition, we typically live about 30 years longer today as we have successfully fought many diseases. In fact, the death rate from infectious diseases is just seven percent of what it was a century ago, when the two biggest killers were pneumonia and tuberculosis.



## **Snapshots of a Century**

The United States eclipsed Britain as the world's wealthiest major nation in about 1903. America retained this leadership position throughout the century as open markets, technological advances, and waves of immigration created continual renewal and growth in our economy.

Today, Americans produce over one-fifth of the world's gross domestic product (GDP), and have average incomes about 20 percent higher than the Europeans or the Japanese.

Vast demographic and industrial changes have reshaped how and where Americans live and work. The American population has more than tripled during this century, and was transformed from being 60 percent rural in 1900, to 75 percent urban today.

Millions migrated to the South and West, causing these two regions to balloon from 37 percent of the U.S. population in 1900 to 58 percent today. In addition, the country experienced a dramatic reduction in income disparities between regions as economic growth greatly boosted personal incomes in many formerly poor states.

Americans also have a much different government today than a century ago. For one thing, it is much larger -- taxes account for over





## Snapshots of a Century

- U.S. industry is increasingly dependent on research, with the ratio of business Research & Development to GDP rising from less than 1.0 percent in the 1970's, to over 1.8 percent today.
- The share of U.S. households with personal computers is expected to rise from 54 percent in 2000 to 59 percent by 2004.
- The share of U.S. households with Internet access is expected to rise from 52 percent in 2000 to 65 percent by 2004.
- The share of U.S. households with cell phones is expected to rise from 56 percent in 2000 to 65 percent by 2004.

Nobel Economist Milton Friedman, recently named "Economist of the Century" by a national business publication, has also weighed in on the technology issue: "The technological evolution makes it possible to produce products anywhere using resources from anywhere by a company located anywhere to be sold anywhere."

The Joint Committee Economic Chartbook, building on the research of Michael Cox and Richard Alm, also fleshed out a more complete description of some individual tiles than went into the broader mosaic. Consider this work time needed for the average worker to buy selected products (remember, time is money):

## **Snapshots of a Century**

Half gallon of milk

1900: 56 min.

2000: 7 min.

One-pound loaf of bread

1900: 16 min.

2000: 3.5 min.

Hershey bar

1900: 20 min.

2000: 2.1 min.

Three-pound chicken

1900: 2 hrs. 40 min.

2000: 14 min.

Pair of Levis Jeans

1900: 9 hrs. 42 min.

2000: 3 hrs. 24 min.

100 kilowatt hours of electricity

1900: 107 hrs. 17 min

2000: 38 min.

3 min. coast-to-coast phone call

1900: 90 hrs. 40 min.

2000: 2 min.





## **8. The Fed Weighs In**

The Federal Reserve Bank in Dallas has consistently considered economic education crucial to its mission. In a recent Annual Report under the title, "Time Well Spent -- The Declining Real Cost of Living in America," Michael Cox and Richard Alm further elaborate on this "...time is money" theme:

The cost of living is indeed going up -- in money terms. What really matters, though, isn't what something costs in money; it's what it costs in time. Making money takes time, so when we shop, we're really spending time. The real cost of living isn't measured in dollars and cents but in the hours and minutes we must work to live.

When a product first comes onto the market, it's typically very expensive, affordable for only society's wealthiest. Soon thereafter, though, its price falls quickly and the product spreads throughout society. Once the good or service becomes commonplace, its price usually continues to fall, but at a slower rate. This tendency shows up in such everyday purchases as housing, food, clothing, gasoline, electricity and long-distance telephone service. It also applies to manufactured goods -- automobiles, home appliances and the modern age's myriad electronic marvels.

## The Fed Weighs In

And year after year, it takes less of our work time to buy entertainment and services -- movies, haircuts, airline tickets, dry cleaning and the like. In a very real sense, the cost of living in America keeps getting cheaper. By harnessing the natural power of income distribution, free markets have routinely brought the great mass of Americans products once beyond even the reach of kings.

Earning our daily bread takes less than a third the time it once did. Milk takes a fifth, bacon a sixth, oranges a seventh and eggs just one-sixteenth of their work-time cost in 1919. Taken together, the job time required to pay for a 12-item food basket has fallen from almost 10 hours to under two.

Burning just 10 lightbulbs for 100 hours cost \$16.20 in 1902, the equivalent of two weeks' wages for factory workers. As a result, only one in 200 American households could afford to be wired. Today, with its work-time toll a mere 0.6 percent of what it was then, over 99.9 percent of U.S. households enjoy electricity.

The Guardian electric refrigerator was first manufactured in an old Detroit organ factory in 1916. Units were insulated with seaweed and boasted 9 cubic feet of storage. At \$800 each, only the city's wealthy could afford one, and the company sold just 40. Today's 20-cubic-foot Frigidaire units come with ice makers, frost-free



## The Fed Weighs In

freezers and more. Yet they're available for just a fifth of the work-time cost of even 1950's models.

Even working a shorter week than at the turn of the century, Americans today don't have to spend as much of their income on the basics. With the gains in what our work time buys, expenditures for food, clothing and shelter consume only 38 percent of a typical household's budget, not the 76 percent they once did.

American Airways' Ford Tri-Motor had a top speed of 120 mph, carried 12 passengers and bumped along 2,000 feet up for the first coast-to-coast plane trip in 1930. The trip included 10 stops, one of them overnight. Passengers carried all their luggage on board, plugged their ears with cotton wool and were warned not to throw anything out the plane's windows. Cabins were not heated, air-conditioned or pressurized. The 36-hour trip cost \$200 -- nearly 2 months' work for the typical factory hand -- so passenger rosters read like the invitation list to a royal ball. The tab for today's 5-hour trip runs about 2 days' wages, just 4 percent of 1930's work price and less than a fourth of 1951's toll. Americans of virtually all income classes travel, racking up a per capita average of more than 1,000 air miles annually.



### PART III. ANSWERING DOOMSAYERS

The editors of *America's Future* have developed a stark perspective of life during the Great Depression:

Are the doomsayers ignoring the underlying strength, resourcefulness and resilience of the American people? There's no denying that times are sometime tough and some people are hurting. But when media coverage concentrates almost exclusively on the "negatives," it can undermine public confidence and prolong the recession. In fact, however, the sky is not falling. Nor is it in our national character to give way to despair. We have rebounded from far worse crises in the past. Just ask any American who lived through the Great Depression.

In the early 1930's, unemployment reached 25 percent, nearly four times what it is today. And unemployment insurance was unknown. Likewise, there was no FDIC to bail out depositors who lost all their savings when more than 10,000 banks failed and closed their doors. Money was so hard to come by that public school teachers in Chicago were paid partly in script, or IOU's. As in many other cities, the municipal government of Chicago was flat broke. Soup kitchens and World War I Veterans selling apples for a nickel each were familiar sights.



## Answering Doomsayers

To make matters worse, in the mid-30's, giant dust storms plagued the Plains states, driving farm families off their land to seek work wherever they could find it. The lucky ones might locate a job paying \$13.50 a week, or less. Many worked just for their rent, or for room and board. Families cared for their own sick and elderly. There was no Medicare, Medicaid or Social Security early in the Depression.

Through all this and more, the American people toughed it out, helping one another as best they could, and relying on their own ingenuity and perseverance to see them through the worst of times. Above all, the vast majority never lost faith in themselves or in their country's destiny. And when called on to fight the forces of totalitarianism in World War II, Americans responded with unprecedented determination, dedication and self-sacrifice.

Since those years, our nation has met and overcome many other challenges and adversities, both at home and overseas. We have made our share of mistakes. Yet, few of our friends and former enemies question our good and generous intentions. And in times of stress here at home, Americans have retained that "can do" spirit inherited from our pioneering forefathers and mothers. In these perilous times, it was for many a daily struggle just to survive. Can there be any serious doubt that today, with our boundless resources, America ultimately will surmount its

## Answering Domsayers

major difficulties? Surely, we can summon again our incomparable scientific genius, inventiveness and energy to achieve new greatness.

Capitalism's critics often say that the wealthy have too much, but income distribution plays a role in developing markets. New products are usually very expensive — outside the reach of all but society's wealthiest. In Korea the initial high bill for the first paid the fixed cost of bringing service to the masses in America.

Without society's wealthy, fewer new goods and services would find their way to the rest of us. Indeed, the wealthy's free spending sparks a virtuous cycle of productivity and innovation. As a result, today's average American lives longer, richer and more educated than his or her counterparts in other nations. The reason for this is the spending of a relatively few and rich. It's not deluging the world with goods and services, but rather the right to society's resources — which distributional mechanisms in a free society provide. It's a virtuous resource.

The true test of an economic system is how productive it is with people's time. The majority of us aren't born with big bank accounts, but we are born with one. Time is the real currency of life, and the value of our time — what we can acquire for its exchange — is our most important asset.





## 9. A Golden Age?

The aforementioned Fed report continues to shed light on how, through our American incentive system, we attained a standard of living beyond the dream of kings:

Capitalism's critics often fret about the wealthy having too much, but uneven income distribution plays a role in developing markets. New products are usually very expensive -- outside the reach of all but society's wealthiest. In footing the initially high bill, the rich paid the fixed cost of bringing service to the masses in America.

Without society's wealthy, fewer new goods and services would find their way to the rest of us. Indeed, the wealthy's free spending spurs a democracy of consumption because it starts the process of lowering prices. As a result, today's average Americans have what only a few could once enjoy. The system harnesses the spending of a relative few and puts it to work delivering goods to the masses. Far from being a blight on society, unequal income distribution is instrumental in driving society forward. It's a natural resource.

The true test of an economic system is how productive it is with people's time. The majority of us aren't born with big bank accounts, but we are born with time. Time is the real currency of life, and the value of our time -- what we can acquire for its exchange -- is our most important asset.

## A Golden Age?

Like a good steward, America's free enterprise system has consistently raised the value of our hours and minutes, making most goods and services affordable for the average worker. The result is a democracy of consumption.

In 1928, Herbert Hoover's presidential campaign promised Americans "a chicken in every pot... and a car in every backyard, to boot." Today, we have all that and much, much more -- not by the grace of government but by the mechanism of markets. When common labor supports the good life, it's truly time well spent.

The reader should note that President Hoover said, "backyard," not "garage" as he is commonly quoted. Truly, before there were cars, garages were a rarity. Garages came after cars, not before.

A recent report from the Cato Institute, described some of the nonmedical ways in which our lives have changed since 1900: "An analysis of almost every indicator of health, welfare, safety, environmental quality and social conditions reveals great progress. Even the poorest Americans today enjoy conveniences that millionaires never dreamed possible 100 years ago."

Here are just a few of their observations, compared with a century ago in America:

## **A Golden Age?**

- Four times as many adults are getting their high school degrees.
- Six times as many women now have bachelor's degrees.
- Nearly all American homes (98%) have telephones, electricity and a flush toilet.
- Accidental deaths have dropped by 61 percent despite all the additional cars and airplanes and the millions of people using them.
- Manufacturing wages are four times higher.
- Household assets are seven times greater.
- More than 70 percent of Americans have at least one automobile, a VCR, a microwave oven, air conditioning, cable television, a washer and dryer -- all things that many of us tend to take for granted.
- The average workweek is 40 percent shorter (35 hours now vs. 50 hours a week in 1909).
- We are spending twice as much time in leisure activities as our forebearers did in 1900.





## 10. Post-Election Economics

According to the Greek mythology, Pandora, the first woman on earth, was given gifts by all the gods. One gift was a box which they warned her never to open. Not being able to resist her curiosity, Pandora raised the lid and all of life's troubles, sins, vices, and diseases immediately escaped. Pandora quickly closed the lid, preserving only "hope," mankind's last refuge.

The fine line that any president walks includes the fact that if he attempts too much too soon, he could short circuit the system and be patently unsuccessful. If he attempts too little, and doesn't take advantage of the honeymoon usually accorded to new presidents, a precious window of political opportunity would be lost. American presidents also tend to develop the attention span of a hummingbird after a while.

Our presidents have to keep alert so many interest groups, with foreign and domestic agendas, which compete for the president's attention. Every administration also has warring factions even within its own Cabinet. This tends to chew up American presidents, age them prematurely, and frequently throws us into a cycle of one-term presidents. Think about it, only three presidents in the last half century have been afforded the luxury of a second term: Eisenhower, Reagan, and Clinton.

This writer has gone on record stating economics is the only game in town. The concerns of the voting public this election year have pretty well proven that.

## Post-Election Economics

Most people in my profession would pragmatically prefer to be neither optimistic nor pessimistic, but rather correct. In many ways America in general, and Americans specifically, are better off. In some other ways, both the country and Americans collectively are worse off. So, it has been neither the best of times nor the worst of times. Frankly, on several fronts, the economy is not as bad as some made it out to be. Nor is it as good as we would like it to be. It's a bit like the economist who, with one foot in the oven, and the other in the freezer, announced "On average, things are not too bad."

Looking around the world, don't we Americans have much to feel good about? We are better off when looking at the reduced number of countries that are called Communist today. We are also better if we look at the reduced ratio of federal employees to private sector employees. The per capita income gains of the last decade, in real dollar terms, have been healthy. The Dow Jones index saw a massive increase in the decade of the 1990's. Infant mortality has dropped significantly, and life expectancy is also up.

On the other hand, Americans pay more total dollars in taxes of all kinds now than 12 years ago. And yet, we still wonder how to get good government at a reasonable cost. There will be times in the next four years when the declared winner of the 2000 presidential election will plead, "Why me?" Conversely, there will also be times when the declared loser will privately exclaim, "Could have been worse -- could have happened to me!"



## 11. The Future in Nostalgia

Fifty-five years have elapsed since peace broke out at the end of World War II. We are indeed survivors. Consider what have we witnessed (contributed from several anonymous sources):

We were born before television, before penicillin, before polio shots, frozen foods, Xerox, plastic, contact lenses, Frisbees and the Pill. We were before radar, jet aircraft, credit cards, split atoms, lasers, and ballpoint pens.

Before pantyhose, dishwashers, clothes dryers, electric blankets, disposals, air conditioners, drip-dry clothes... and before man walked on the moon. We got married first and then had the honeymoon. How quaint can you be? In our time, closets were for clothes, not for "coming out of." Bunnies were small rabbits and rabbits were not Volkswagens.

Designer Jeans were scheming girls named Jean or Jeanne, and having a meaningful relationship meant getting along well with our cousins. We were before house-husbands, computer dating, dual careers and commuter marriages. We were before day-care centers, group therapy and nursing homes.

We had never heard of FM radio, tape decks, CDS, faxes, cellular phones, word processors, artificial hearts, yogurt, and guys wearing earrings. For us, time-sharing meant togetherness... not computers or condominiums; and "chip" meant a

## **The Future in Nostalgia**

piece of wood, hardware meant hardware and software meant nothing.

In 1940, "made in Japan" meant cheap goods, "making out" referred to how you did on your exam. Pizzas, "McDonalds" and instant coffee were unheard of. We hit the scene when there were 5 and 10 cent stores, where you bought things for five and ten cents.

For one nickel you could ride a street car, make a phone call, buy a Pepsi or enough stamps to mail one letter and two postcards. You could buy a new Chevy Coupe for \$600, but who could afford one; a pity too, because gas was 11 cents a gallon! One car per family was just fine, thank you. Two meant you were living on credit or in the wrong neighborhood.

In our day, "grass" was mowed. "Coke" was a cold soda pop drink, and "pot" was something you cooked in, and then was scrubbable. "Rock music" was "Rock-a-bye-baby" and "Rock of Ages," and "aids" were helpers in the principal's office.

"ERA" stood for Earned Run Average. The bully on the block was the kid who threw sand. Every kid in America wore mouse ears and wriggled with hula hoops. Howdy Doody and Uncle Miltie got top billing. Whitewall tires really



## The Future in Nostalgia

had white walls. We got our first television set and sat for hours mesmerized by the test patterns.

If we needed money, we scrubbed floors, mowed lawns, baby-sat, dug weeds, ran errands (not drove, ran), raked leaves, or ironed shirts. A "joint" was an elbow or a knee, and "Give me five" means, "Could you lend me 5 dollars till payday?"

"Snow" was shoveled, "Smack" was what we got for talking back. "Fuzz" grew on a peach. "Speed" was what papa did if we were late for church. "Upper" was a happy story. "Downer" was a depressing tale. "Smoke" meant fire. "Pig" was an animal. "Bad" wasn't good, and "mean" wasn't great.



## 12. The Good Old Days

No wonder there is a generation gap! But we survived. What better reason to celebrate? Yes, there was a time -- a very good time when people knew how to get along, and when Americans -- most of us -- knew what was important. Do you remember this? It's "A TIME TO REMEMBER," by The Americanism Educational League:

- When taxes were merely a necessary nuisance?
- When a man was a man and dressed like one?
- When a woman was a woman and dressed to please the men?
- When the poor were too proud to accept charity?
- When clerks and repairmen tried to please you?
- When the clergy really preached about religion?
- When songs had a tune and the words made some sense?
- When people expected less and valued what they had more?
- When just about everybody knew the difference between right and wrong?
- When things weren't perfect in the United States, but you did not expect them to be?
- When hippie meant big in the hips.
- A trip involved travel in cars, planes, and ships?

## **The Good Old Days**

- Hooked was what grandmother's rugs may have been.
- When fix was a verb that meant mend or repair.
- When groovy meant furrowed with channels and hollows.
- And bread came from bakeries and not from the mint.
- When roll meant a bun, and rock was a stone.
- And hang-up was something you did with the phone.
- When the flag was a sacred symbol?
- When criminals went to jail?
- When you weren't afraid to go out at night?
- When college kids swallowed goldfish, not acid.
- When people knew what the Fourth of July stood for.
- When you never dreamed our country could ever lose a war.
- When you considered yourself lucky to have a good job, and proud to have it.
- When you weren't embarrassed to say that this is the best country in the world.
- When America was a land filled with brave, proud, confident, hardworking people!
- When you bragged about your hometown and native state?



## **The Good Old Days**

- When not everybody felt they were entitled to a college degree even at the taxpayers' expense?
- When a Sunday drive was a pleasant jaunt and not an ordeal?
- When politicians proclaimed their patriotism and really meant it?
- When your government stood up for Americans everywhere in the world?
- When you knew the law would be enforced and your safety would be protected?
- When the law meant justice and you felt a little touch of awe every time you saw a policeman in uniform?
- When the United States was filled with courageous, honest, clean, confident, and proud people -- American people?
- When charity was a virtue, not a telethon.
- When lights -- not people -- were turned on and off.
- When instant recall was a sign of good intelligence, not bad manufacturing.
- When trouble in the streets meant potholes.
- When movies were rated on how good they were, not on who was allowed to see them.



## **Part IV. OUR AMAZING SYSTEM**

One reason this writer became interested in capitalism is that it solves the problems of society better than any other economic system known, by solving the problems of the individual. The application of freedom to the marketplace allows people to achieve much more than under other systems.

Freedom of enterprise is an attitude of responsibility, citizenship, pride, dignity and decency, and above all, it is an attitude of thankfulness. For too long, we who write and speak have mainly emphasized the free market's advantages, when perhaps we should also have been passing the word about its "good news."

In all of human history, only the free market has come to bear successfully on solving the age-old problems of scarcity and poverty. Through our American incentive system, we developed a superb track record of doing things that benefit people.

When America's profit-incentive system is working well, profits (or business savings) provide steady jobs, higher wages, more jobs, worker benefits, better working conditions, safe and modern equipment, rising standards of living, opportunities for the future, and social progress.

Losses also provide a valuable function in the American incentive system. Losses are the market's way of sending a signal to businesses to reallocate their

## Our Amazing System

resources more efficiently, according to the price- and quality-conscious customer's demanding standards.

Capitalism, therefore, contains its own built-in checks and balances. People are required to exercise sound judgment, or suffer the consequences of their own folly. The American incentive system doesn't carry any guarantee. One risks failure along with the prospect of success. And if we are honest, we know that there are no real guarantees possible in life -- not in theory, not in reality.



### 13. What's the Answer?

We Americans work so hard. Often, when our candle flickers a little, we pause to wonder about a basic question, "What is the redemptive value of a lifetime of work and thrift we've incorporated into our lives?" What's the answer? "How Do You Spell Relief?" The answer is, and always has been, "F-A-M-I-L-Y." Family is the past, present and future -- the closest thing to immortality this side of the grave.

What can we all still do to truly make this our best century yet? We can each try to create a strong, loyal family, bound together and deeply rooted in faith and trust. Then we can work with purpose. Families are the past, present, and future. Families take what we've accomplished and build on it. Families are for growing up in, for going away from, and for coming home to. The best Department of Health and Human Services is the family.

The world may not be entirely as we would like it to be. There have always been problems to be faced by individuals, families, business, and industry. Many problems are really conditions that eventually straighten themselves out in time in dynamic societies. But in the perspective of previous decades, and looking at other countries, the American economy will emerge as superior. And we can take that to the bank.

There is still a silver lining in economic storm clouds. We still have the "Grossest Domestic product" in the world! Never forget -- we enjoy a standard of living beyond the dreams of kings. For this, we owe a great

## What's the Answer?

deal of credit, to those who have extended us credit, to whom we owe a great deal (a record level of debt -- personal, business and government notwithstanding -- another topic, another time).

Alas, according to the Tax Foundation and U.S. Treasury statistics, and in terms of adjusted gross income, the progressive tax code is alive and well (like it or not):

- The highest 5 percent paid 42.9 percent of all federal income taxes;
- The highest 10 percent paid 53.9 percent of all federal income taxes;
- The highest 25 percent paid 76.3 percent of all federal income taxes;
- The highest 50 percent paid 93.8 percent of all federal income taxes;
- The lowest 50 percent paid 6.2 percent of all federal income taxes; and
- The lowest 25 percent paid 0.9 percent of all Federal income taxes.



## 14. Our Vantage Point

Why do we knock ourselves, when we are the envy of the world? We have much to be thankful for:

A country of unbounded beauty; almost unlimited natural resources; a standard of living beyond the dream of kings; a judicial system that is the envy of the rest of the world; food so plentiful overeating is a major problem; food processing advances which give us all-season menus; clothing that is more durable, longer lasting, and easier to maintain; a press nobody can dominate; a ballot box nobody can stuff; churches of our choice; 140 million jobs; freedom to go anywhere we want, with the planes, cars, and highways to get us there; automobile tires that last as long as some cars; Social Security; Medicare; hybrid synthetics, metals and plastics that can even replace some body parts; near-miracle drugs which can help us live longer and feel better; unemployment insurance; public and private schools, plentiful scholarships, etc. We are literally a people "free" to do anything we want, if we have the "enterprise" to do it.

Ignore the gloom and doom prophesies and get a life. Make your peace with your Creator on His terms, then live as to be neither ashamed of yesterday nor fearful of tomorrow. Yes, live long and prosper; however, also try to keep a balanced perspective. Always remember that despite all your accomplishments in life, the size of your funeral will be determined by the weather. If it is cold and rainy, don't look for me (only kidding)!

## **Our Vantage Point**

America has come a long way; much is yet to be accomplished. The creation of an economic environment in which all enterprises and the people who do business with them can thrive and prosper has been a recurring item on opinion leaders' minds. A sustained high rate of productivity is the basis for a growing, healthy economy and a rising standard of living. It always has been, and it always will be.

In terms of reinvestment of earned capital, the U.S. has fallen behind other industrial nations. The economic factor that brought the U.S. to world industrial leadership some 100 years ago was a constant and massive investment in new and better tools. This also included our social capital -- our infrastructure of highways, bridges, harbors, utilities, etc.



## **15. Competitive Forces and Productivity**

The highly respected profit incentive system was the dynamic force behind economic growth; the present low estate to which profit has fallen has arrested this growth. Any shrinkage in new tool investment will be accompanied by a reduction in output per man hour. Our level of capital spending does indeed bear direct relationship to unemployment levels, productivity gains, wages and corporate profits -- the ingredients that determine the standard of living.

Our prime competitor in world markets, Japan, encourages private investments to a far greater degree than the United States. Therefore, further measures are needed to stimulate the investments we need in new plants, new machinery, and new business ventures. When overseas competitors boost their productivity, they are more and more able to manufacture products at a lower unit cost than we are able. And that hurts all of us. It allows them to sell at much lower prices in this country a flood of consumer products, materials, industrial components, and so on. The list of these items is practically endless.

Productivity gains, positive changes in the ratio of output to input, are important because they are the only way to raise our standard of living and keep us competitive in international commerce. In our American economy since the 1960's, productivity increases have declined more rapidly than those of the other major industrialized nations. In the 1980's, the productivity of U.S. manufacturing kept pace with foreign competitors,

## **Competitive Forces and Productivity**

however the service sector which employs 80 percent of the work force has had very small increases in productivity.

Overall productivity trends today are such that our standard of living now doubles every two generations, instead of one generation as in the past. That doesn't bode well for our children and their ability to care for us in our old age. The U.S. economy has low savings and high deficits; Japan's economy has boasted, for the most part, high rates of savings, investment, productivity, growth and prosperity.

Failure to find ways for the nation to reindustrialize and keep up with demand will mean the following: low productivity levels; fewer products; fewer new jobs available; shortages of materials and products with accompanying higher prices; a slower growing economy that will produce fewer gains in living standards; and loss of competitive position. No clearer message has been sent since Noah announced, "It looks like rain."

Countries which invest higher percentages of income and savings in new production facilities and educational facilities can and will undersell us in world markets. We need to remember what is at stake -- employment, standard of living, prices, competitive advantage, etc. American productivity, although overall the highest, must be improved. Japan's rate of productivity improvement is twice our own. Several of our western trading partners rank ahead of the United States in current rate of productivity increase.

## **Competitive Forces and Productivity**

Today, the United States is importing 35 percent of all its automobiles. Jobs are exported when products of American businesses are not competitive with products manufactured in other countries. America is not as dynamic as she once was or can be. Incentives, plus labor, business, and government cooperation can combine to recapture our worldwide markets. Otherwise, the United States will continue exporting jobs whenever products of American businesses are not competitive with products manufactured in other countries. The world is our marketplace.





## 16. Treating Capital Gains

All investors in America should be allowed to reinvest capital in the U.S. on a tax-free basis. There should be no distinction between long-term and short-term investments. Investors should be able to operate rationally in the economy, without having to unduly consider the tax consequences of their decisions. Germany, Japan, Taiwan, South Korea, Hong Kong, and Singapore allow their investors to reinvest, and accelerate the compound growth of their respective economies.

In this regard, the United States and Canada are out of step and out of touch. Lower capital gains taxes will consistently yield higher rates of economic growth. The results of a recent study by the Institute for Policy Innovation suggest some specific principles that a pro-growth tax policy should follow:

- Labor and capital should be taxed more equally. Because capital is currently taxed at a much higher rate than labor, tax rates on capital need to be lowered.
- Marginal tax rates of labor and capital should be brought closer to their average rates.
- Policies that focus on the last dollar, such as lower tax rates or investment incentives, are preferable to ones that focus on the first dollar.

## **Treating Capital Gains**

- As tax rates on capital are approximately 50 percent higher than they are on labor, there should be a reduction in the amount of capital gains included in taxable income;
- Increase the availability of Individual Retirement Accounts which lowers the tax rate on capital because earnings on capital held in these plans is taxed only once;
- Liberalize tax depreciation rules to lower the effective tax rate on both corporate and non-corporate capital.



## **Part V. SMALL BUSINESS WORKS**

On the eve of the Reagan Revolution, this writer, representing both Arkansans and Americans, presented the following still-relevant testimony before the House Committee on Small Business Holding Hearings on HOUSE RESOLUTION 1306, SMALL BUSINESS IMPACT ACT to require the preparation of small business impact statements in connection with federal agency rules and HOUSE RESOLUTION 1745, SMALL BUSINESS REGULATORY RELIEF ACT to amend the Small Business Act to provide regulatory flexibility for small business in certain instances so that the effect of regulation matches the size of business regulated. Part V contains the entire text verbatim:

Mr. Chairman and Members of the Subcommittee:

I am appearing today on behalf of small businesses and an economic system in which a person should be "free" to be anything he wants if he has the "enterprise" to do it. Although I'm more of an academic entrepreneur, I speak to you to represent real enterprisers – some of whom I've served in the past as a Small Business Institute faculty adviser.

As sincerely as I know how, I wish to plead the case of the small business person who, in all honesty, doesn't know if he's being a crook or a martyr when it comes to complying with federal regulations and the attendant paperwork.

## Small Business Works

I would like to tell you about a county executive in the Mid South who was asked by a federal installation if the latter's employees could park at the nearby and usually deserted county airport. Our hero requested an environmental impact statement, in triplicate: "How many cars; during what hours; the average EPA rating for vehicles involved; and an affirmative action report on all personnel involved -- preferably back at least three generations." Now that's news. Man bites dog!

The fundamental soundness of our economy is each business' responsibility to operate under its own steam -- to know that it can survive and profit only if it produces something consumers want and are willing to pay for. There are risks involved. Our economy is filled with skeletons, large and small, of those who tried and failed to meet this exacting standard.

It must be recognized that federal regulatory policies often work a hardship on the small firm that the large firm is able to escape. Large firms have at their command a myriad of resources: lawyers, accountants, and a bureaucratic organization that enable them to absorb the impact -- and indeed to deflect it -- of federal regulations. The small firms possess none of these advantages.

I would remind you, as have others, that all regulatory policy should have categories. And

## Small Business Works

without retreat on regulatory objectives, there should always be consideration of cost and reporting requirements for the small firm. By treating large and small alike, one treats them differently.

Once created, regulatory agencies tend to be self-perpetuating -- promulgating more regulations, seeking rulings or test cases against smaller firms before seeking out the big ones, and generally trying always to improve their prestige and "batting averages" before Congress in order to secure larger appropriations for the following years.





## 17. The Darling of American Capitalism

According to the National Federation for Independent Business, the impact of regulations on small business, the darling of American capitalism, is disproportionate in three ways: (1) discovering regulation, (2) understanding regulation, and (3) paying for regulation. This disproportionate impact means that in order to remain competitive with large firms, the small business must cut back in some manner.

The small business can reduce earnings (implying less "take-home" or reduced business investment); it can reduce overhead in some cases (such as cutting employment); or, it can go out of business. As the NFIB has pointed out, if the two former are undertaken with any frequency or if one action is particularly severe, the latter is inevitable. Small firms simply cannot absorb a continually deteriorating competitive position.

I am concerned because it is the small businesses that provide most of the jobs in this country. There are more than 13 million smaller enterprises in the United States. Individual enterprises may be small, but together they form one of the main components of our national economy. Small business currently makes up 95 percent of all commercial and industrial entities in the United States, and employs 60 percent of the labor force.

## **The Darling of American Capitalism**

We count on these same small businesses for 48 percent of our total business output, 43 percent of the Gross Domestic Product, and more than half of our important industrial inventions and innovations. And strong flow of private investment back into smaller companies must be regained if we are to take advantage of their highly labor-intensive potential.

A company may be forced to reduce its size, forced out of business, or be forced to lower the benefits it offers for many reasons: (1) if it cannot or will not invest in new, modern tools and/or adopt modern management methods; (2) if its goods or services are not of competitive quality; (3) if its workers refuse to use modern, labor-saving devices; and/or (4) it cannot economically comply with increasingly restrictive federal regulations.

## 18. Our Dual Economy

(Congressional testimony continued) It is still common to find new developments coming from small businesses instead of from the research labs of large corporations. Small businesses are not tied to existing technology. They are more prone to experiment, to innovate, and most important of all, to take risks.

Small business is what really makes our free enterprise system work, by keeping it lean, tough and competitive. Small business serves as an effective counterweight to the power of the large corporations, and helps to keep our system democratic. The question is, how long will small business be able to perform this role? More precisely, how long will government allow it to perform this role?

I agree with the United States Industrial Council on this:

Small business is slowly but inexorably being squeezed out of our economic system, and all the pressures but one -- the upsurge in product liability lawsuits -- are being applied by government. Heavy government borrowing from private banks has made it difficult for fledgling enterprises to obtain loans. High taxes and inflation are eating into other sources of investment capital. Increases in the minimum wage are putting labor out of



## **Our Dual Economy**

reach for many employers. But the biggest single problem that small businesses face is the government regulations.

Since the mid-1960's, federal regulation of business has tripled. For the large corporation, this added burden is an expensive nuisance, but for the small business, it is a life-or-death struggle. The owner-operator of a small firm cannot possibly keep up with all the standards and rulings that are churned out by the bureaucrats in Washington, and he often cannot afford the legal advice and extra clerical help he needs to cope with them.

In the same way, he often lacks sufficient funds to redesign his product, change his method of operation, or otherwise bring his business into line with federal requirements. Consequently, he has no choice but to sell out to a larger company or to close his doors. It is no accident that during the same period in which federal regulations doubled, the number of business bankruptcies also doubled -- and most of the casualties were small businesses.



## 19. The Fourth Branch of Government

(Congressional testimony continued) Examples abound of the government's intrusion into the private sector. A small 5,000-watt radio station in New Hampshire spent \$26.23 to mail its bulky application for license renewal to the Federal Communications Commission. One milk plant, licensed by 250 local governments, three states and 20 other agencies, reported that it was inspected 47 times in one month.

There are those who argue that business is a special interest that stands apart from society as a whole -- that "The People" are not affected by regulations. In reality, every person who works for a business, every person who buys products and services, as well as those who invest in businesses, are affected by the excessive and often ill-conceived policies of the regulatory agencies. A review of the impact of some of these policies underscores the need for a serious reappraisal.

As Murray L. Weidenbaum, director of the Center for the Study of American Business at Washington University, has concluded, "The public needs to grasp the notion that government regulation is a potent and expensive medicine. It needs to be taken very carefully, in limited doses and with full regard for all the adverse side effects -- inflation, unemployment, loss of productivity, delay in getting new products, and loss of capital formation."

## **The Fourth Branch of Government**

Inventiveness lies at the heart of America's high standard of living. With 5 percent of the world's people and 7 percent of the world's land, we produce 25 percent of the world's goods and services. The increasing intrusion of regulatory agencies into every aspect of our economy is tending not only to waste valuable resources and decrease productivity but also to stifle America's inventiveness and dynamism.

Yes, Congress should periodically review the need, soundness and fairness of regulatory statutes and evaluate the rules and regulations formulated by the regulatory agencies. Probably the most urgent need for change in regulatory processes is in the area of cost-benefit analysis. It hardly seems improper to suggest that benefits of regulations should be weighed against costs before they are applied.

For instance, when farmers complained about the lengthy applications and \$10 check required by the Environmental Protection Agency for a permit to discharge waste water, the Commission undertook to determine the cost effectiveness of its action. They discovered it was costing the agency \$15.09 to process each \$10 check and \$270.10 to process each application.

According to James J. Kilpatrick, the cost of government regulation ordinarily is computed in two ways -- what it costs the government to enforce its rules, and what it costs the private



## **The Fourth Branch of Government**

sector to comply with them. A third price is paid, says Murray Weidenbaum. This is the unreckonable cost of what we don't receive.

Anyone who believes that regulatory costs are something that are ordained at enactment ought to thumb through the Federal Register. There is a small telephone directory's worth of standards and procedures spelled out in the Federal Register every day. It is important to remember that most of those standards and regulations impose some kind of cost on somebody.

Federal regulations issued daily throughout the year, except December 25, are 200 pages thick -- and it's the law of the land. Business people have to hire lawyers at \$200 an hour to read it daily to see if it applies to them.





## 20. What To Do Now

(Congressional testimony continued) To treat large and small business as the same is both irrational and unfair. As a first step towards reversing the tide against small business, I agree with the NSBA in recommending institution of "two-tier" systems of regulations and laws in the areas of antitrust, patent and regulatory policy.

Let us not forget why the small business community is the darling of American capitalism: The ability of small business to give personal service and provide quality goods and services; to provide an alternative to large corporations for both consumers and employees; to police the marketplace through competition between many companies; and, not least, to provide an outlet for the independent and adventurous spirit that is the hallmark of the small business entrepreneur.

I wish to point out that big business is, to a large degree, dependent on small business -- small business is the supplier of the products which larger companies assemble into finished products. Sound development of the small business community is necessary for economic growth of the economy overall.

Therefore, all government agencies should begin or increase their efforts to ensure that their regulations and the application thereof do not have a disproportionate economic impact on small business. All government agencies should

## What To Do Now

make a concerted effort to reduce the record-keeping paperwork burden placed on small business. Particular attention should be focused on simplification, standardization and non-duplication of existing regulations and requirements.

Agencies should have to identify alternatives for the proposed regulation, and choose the least costly. The agency would have to justify choosing a more expensive alternative. A "sunset" provision should require that once every 10 years an agency must review regulations having an impact on the economy of \$100 million or more.

Twice a year each agency should have to publish an agenda of major regulations expected to be acted upon, and projected dates for action. An agency contact, telephone number and address should be listed for each regulation. These agendas should enable you to get the jump on new regulations before they are proposed.

The economic impact statements should be done by the promulgating agency itself. Objectivity could be greatly enhanced by direct small-business participation. And the agency review should conform to a standard method approved by the Congress. The Federal Register should be indexed for small business interests. In it should be increased inclusion of small



## What To Do Now

business representation on regulatory and advisory commissions.

I agree with the Small Business Legislative Council that, as part of its oversight function, Congress must determine whether agencies it has created are issuing rules and regulations contrary to law, inconsistent with legislative intent, and going beyond the statute it is supposed to implement. When an agency does commit abuse, the damage to small business subject to such rule or regulation may be irrevocable. Therefore, the review period of 60 days or longer is essential.

What else, then, can be done to help small business survive in our increasingly regulated economy? Create special exemptions from regulation for small business, particularly in the area of time-consuming and often irrelevant paperwork. Require that federal agencies investigate and report on the likely impact of new regulations on small business before such regulations are promulgated. Reimburse small companies for legal expenses incurred while challenging government regulations in court, if such a challenge results in a verdict against the government.

The self-perpetuating regulation industry must be confronted at the sources of its mandate, so that you might transform the burden of over regulation into a manageable and even positive

## What To Do Now

force. Yes, all laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost.

But let's go further. Officials at decision-making levels in regulatory agencies should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself. Unlike ineptitude, conflicts of interest can be curbed, if need be, by vigorously enforced criminal penalties. Regulatory bodies should all the more be subject to real periodic Congressional review, to limit their life spans.

I would like to have made some modest and uncomplicated proposals. They would amount to little more than requiring the regulatory industry to operate by the same rules as the industries they regulate. Any corporation that ignores either economies or competence for long simply ceases to exist -- and that is precisely the right fate for a good part of the regulatory system.

I would conclude with a word of caution regarding regulatory reform. Baron Von Frankenstein was a man who meant well. Death distressed him, and with the best intentions he sought to "re-create life." Using transplants, he made a dead man alive -- produced an unnatural creature who was at first benign but rapidly deteriorated into a fiendish monster.



## What To Do Now

Let's be super-careful to do only those things that continue to give decent life to the system that supports us -- our economic horn-of-plenty that we call free enterprise.





## Part VI. GLOBAL ENTERPRISE DYNAMICS

Mexico got into serious economic trouble in 1994 as a result of a precarious decade when the country's debt grew significantly faster than its Gross Domestic Product. At this writing, Mexico is bouncing back and working through the negative externalities that resulted in the short run. By shrinking its budget deficit, holding to a tight money policy, Mexico has reduced inflation and returned its stock market to pre-crisis levels. As Mexico has begun repaying her loans, the long run looks positive and should be examined accordingly, along with other very significant alphabet organizations which form trading blocs.

"What do you think of NAFTA?," asked Congressman Tim Hutchinson (R-AR) in late 1993, as we had a delightful conversation during his recent visit to our campus. "Well," I replied, "if you want a short answer -- here it is: NAFTA (North American Free Trade Agreement) is going to save our economic hide for the next generation and beyond."

Short answers are often simplistic; but as the earth rotates, it's obvious that our planet is evolving toward three major trading blocs: the Americas; a United Europe; and the Pacific Rim. Thanks to NAFTA, although it was happening anyway, our trading bloc will be the largest. From the Yukon to the Yucatan, it involves upwards of 400 million people and \$8 trillion in goods and services.

Yes, we are well into a new era of our continental prosperity. Prior to the recent pro-NAFTA vote in late

1993, the unification process was well advanced. Since 1987, Mexican imports from the U.S. had tripled. During that period of time, tariffs on U.S. goods flowing into Mexico fell 90 percent. Today, Mexico is our third largest export market, behind Canada and Japan.



## 21. NAFTA Too Good To Be True?

Quietly, in the last half decade, 400,000 Mexican export-related jobs have been added to the U.S. work force. That is why most state governors were near unanimous regarding the NAFTA controversy. The governors have seen positive job growth -- a significant net gain. Certainly, there will continue to be those who would parade joblessness of some Americans before the TV cameras. However, the conditions which led to NAFTA have already proven to be a significant net job gainer.

Will there be some unskilled jobs lost to Mexico? A nominal amount. But let's remember that 80 percent of our unskilled workers in America are producing services, not manufactured goods. After a few more years, we will see that most of the low skill and medium skill jobs lost to Mexico were, in fact, lost not by America but by more direct competitors of Mexico -- other developing nations.

Environmentally, Mexico City is like the Los Angeles basin: 20 million people in a close metropolitan area surrounded by mountains, creating a natural basin for smog. Industry is jammed up against that in horrible conditions. NAFTA allows industry to move up and out to other enterprise zones.

One of the more visible opponents to NAFTA said in 1993 that, "Mexico needs us -- we don't need them." That's the point -- we'll sell much more to them than we will buy from them. In fact, we don't have to wait for the results. Between 1987 and 1993 America moved from

## NAFTA Too Good To Be True?

a \$5 billion trade deficit with Mexico to a \$5 billion trade surplus.

Under the process that was formalized by Congress, NAFTA contains rules to insure that benefits occur only to North American companies. NAFTA retains stringent U.S. trade remedies for dumping products, and it grants U.S. investors in Mexico and Canada equal treatment with local investors. NAFTA also establishes a process for harmonizing health, safety, and industrial standards at tough U.S. levels.



## **22. WTO – NAFTA on Steroids**

What about GATT? The General Agreement on Tariffs and Trade dates originally back to 1947. GATT is NAFTA on steroids. More than 120 nations have just gone through seven grueling years to develop the most comprehensive agreement which will significantly eliminate national tariffs, subsidies, quotas and other forms of protectionism.

Just as with the NAFTA, GATT should result in all the good things that free market economists have been preaching about free trade: more products, lower prices, rising standard of living, more jobs, reduced trade barriers, improved diplomatic relations, elimination of monopolies, and may even make the weather perfect every day.

That's what GATT is all about. It was created to set fair and common rules for the ways in which each country must conduct its trade with others. Just as GATT has come into the limelight, we will see it go through a metamorphosis, with its successor organization called the World Trade Organization (WTO).

Much has been accomplished since former President Reagan launched the new round of GATT discussions in 1987. One could say that the benefits from the GATT pact would be similar to those outlined in greater detail by NAFTA. We should always remember that it may take years, and even decades, to fully play out, and that these agreements were still at best, formulated by fallible, mortal human beings.





## 23. The APEC Trading Bloc

Lesser known is APEC. A new organization, dating back to 1989, APEC stands for Asia-Pacific Economic Co-operation Forum. The members of APEC encompass the single largest chunk of USA foreign trade: Australia, Brunei, Canada, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and, of course, the United States.

All combined, the Department of Commerce lists goods and services traded within APEC as on a par with the near \$400 billion worth of goods and services traded between the NAFTA partners. APEC has resulted in open and constructive dialogue between these key nations.

Again, the results are likely to be freer trade, more regional economies developing, and above all, the preservation of peace in our times. As we look to formal agreements which will come out of the APEC meetings, there is certainly a lot of common ground on which to develop treaties and accords.





## **24. Resources, Markets, and Borders**

In the Nineteenth century, the French economist Frederick Bastiat put it this way, "if goods do not cross borders, armies will." One has only to think back over the decades and centuries to recall the wars, large and small, that flared up over the issue of resources and markets. So, although it may be too soon to fully tell, this writer says "Three cheers for NAFTA, GATT, and APEC!" We will all be the better for them.

The next question is, "What does the United States do now in order to make sure that we remain on the leading edge of all aspects of these new relationships, to gain maximum benefit?" First of all we need to look at a mixed bag of circumstances. It is estimated that the economic impact of GATT for the World Economy would be in the range of \$500 billion, including an increase in economic output of \$110 billion in the United States. Also factored in would be an increase of 1.4 million jobs in the United States over the next decade.

As the United States is in a very significant position, compared to most of our trading partners, we have a great deal to benefit as the biggest exporter in the world. Our own markets are already the most open to imports. America's grain growers will potentially gain a massive foothold nearly everywhere.



## **Part VII. TAX CODE REFORM ISSUES**

American investment has lagged behind our major trading partners. Why? We have hamstrung profits. Money goes where it will make money. Money has no nationality, and American investment does not have to stay in America where profits are being penalized. How pervasive is the effect of taxes on savings and new capital? Taxes reduce spendable income. Taxes reduce ability of individuals to save. Taxes reduce ability to buy capital goods. Taxes shift individual and business spending to government spending.

Why isn't this crucial problem taken seriously by Americans? Because most people do not realize how important modern power tools are in multiplying productivity, lessening inflation and increasing real income. Most Americans overestimate the size of profits -- the reward for those whose savings and investment pay for these tools.

The Tax Reform Act of 1986 eliminated the 60 percent exclusion for capital gains. In so doing, the maximum tax rate on capital gains income was effectively increased from 20 percent to 28 percent. The stated goal was to increase revenue to offset individual and corporate tax rate reductions. This did not occur. Contrary to the optimistic governmental projections, instead of generating additional federal revenue, capital gains receipts fell, and remain lower than they were in 1985 when the economy was a third smaller.





## 25. Treating Flat Tax Fever

It's a common concern of taxpayers from time to time: "What is my tax bracket (and yours for that matter)?" I look up the word "bracket" in the dictionary and learn that it is "... a thing that nails objects to the wall!" I dare to want to know more and want to be able to confidently trust what I learn. Over time, I have believed in Santa Claus, the Easter Bunny, and more recently the Flat Rate Tax -- with equal sincerity and for good reason.

What little I know about them, they sound almost too good to be true. The idea of a flat rate tax is very seductive. And there are two schools of thought on this issue; some people were absent both days. I have sincerely gone into a study of the flat tax with an open mind; as of yet, it just does not seem to compute, although it sounds good on the surface.

The flat rate tax idea does seem so clean, neat and right -- like apple pie, motherhood and solar energy. The flat rate tax is, and has been, oversold. It is a two-edged sword -- neither all good nor all bad. It could mean the end of a maze of deductions that seem to let us escape some taxes. However, it could also cut in half the rates paid by the wealthy, compelling the rest of middle Americans to pick up the slack by paying more taxes in dollar terms.

Taxes can be complicated and fair, treating every situation differently as needed. Or taxes can be simple

## Treating Flat Tax Fever

and unfair, treating everyone the same when they are not, therefore being discriminatory. Our original income tax in 1913 was a flat tax: one percent of the income above the first \$3,000; only the wealthy professionals were in that bracket.



## 26. Nothing Heals Like A Tax Cut

Observing what has happened since then with taxflation -- average Americans being bumped into higher tax brackets (until it was indexed in 1986) -- of greater concern than the actual bracket initially selected would be this: how easy would it be to raise the bracket? To keep the proposed flat rate tax flat, House Majority Leader Dick Armey (author of the 1996, election year Forbes plan), is pressing for a three-fifths majority vote to be required on all tax votes in both chambers.

Why is the flat tax so popular? Is it really practical? Could it be implemented? Surveys show that Americans want such a tax because they're convinced that their neighbor is paying less than he should. So, if my neighbor had to use the same form as I, he'd have to pay his fair share. It just seems to me that there are bigger issues: What is the legitimate role for government in the late 20th century, and how can we get a good government at a reasonable cost without diminishing personal freedoms and property rights?

Some proponents of a flat rate tax claim that economic growth could double, say, from 2.5 percent to 5.0 percent annually, as measured by the Gross Domestic Product. That would be very unlikely, as we have averaged 3.3 percent a year since the Civil War, 125 years ago. In reality, other things affect growth: private sector performance, applied science breakthroughs, business leadership, employee performance, and price movements, etc.

## Nothing Heals Like A Tax Cut

According to Norman Ture, former Under Secretary of the Treasury for Tax and Economic Affairs, the outbreak of "born-again" enthusiasm for the flat tax among Washington politicians may simply reflect Congress's "urgent desire to find some way of increasing federal revenues in a manner that will convince taxpayers good things are being done to them even while additional taxes are being extracted." The popular flat rate tax proposals do fit well with the current anti-big government mood of the taxpaying electorate.



## 27. Something For Everyone?

A less publicized but equally critical problem with the flat-tax proposal concerns the proposed blanket elimination of deductions. If a flat-tax proposal results in the elimination of such deductions, it could stifle private sector alternatives to government programs. Further, a truly flat rate might benefit the wealthy. And the poor would probably then receive a tax credit to keep from being hurt. Alas, that leaves the middle class to carry the burden.

Don't be surprised that if, with the flat tax plan's favorable capital gains provision for individuals (i.e., the elimination of taxation of unearned income -- interest, dividends, rent, and capital gains), combined with possible exclusion of mortgage interest and itemized deductions, the middle class might pay more money. It would also be possible, therefore, for wealthy investors to pay little, if any, income tax by moving all forms of compensation into the realm of unearned income.

Example: Suppose my business partners owe me \$200,000 in compensation for 1995. Instead of paying me that amount as a taxable salary, we could arrange for them to buy me a \$200,000 condominium at a nearby resort of my choice. No income tax would be paid by me under the popular Forbes proposal.

The 1994 Tax Reform Act did accomplish much to achieve a measure of fairness. It lowered the top rate to 28 percent and broadened the tax base. Later in 1993, Congress increased the top rate to 39.6 percent.



## Something For Everyone?

Currently, there are five federal income tax rates starting at 15 percent and running through five brackets to that top rate of 39.6 percent.

Specifically, the 15 percent rate is for the income range from zero income to \$39,000. The 28 percent bracket weighs in on incomes of \$39,001 to \$94,250. The 31 percent bracket is for incomes of \$94,251 to \$143,600. The 36 percent bracket encompasses incomes of \$143,601 to \$256,500. The 39.6 percent bracket is applied to incomes of \$256,501 and up.

## 28. Domestic Taxation Wedge

One-third of all American taxpayers now file short forms. Two-thirds of us will continue to file long forms, schedules, use tax accountants and attorneys. We will buy safes, fences, and burglar alarms because we really don't know up front how much, if any, money we made. And by the way, the progressive tax code is alive and well. This year, the wealthiest 20 percent will pay over 60 percent of all federal tax dollars.

I'm concerned that a premature embracing of a flat rate tax would amount to traumatic, open heart surgery on the current progressive tax code with all of its exemptions, deductions, and credits. Presently, there are 28 million taxpayers who have home mortgages for which they have the incentive to deduct significant amounts of interest payments.

There are 31 million Americans who gave charitable gifts last year. Under proposed new flat tax programs, all such contributions would be made with more expensive "after tax" dollars. Two-thirds of under-65 population in America now have company health insurance excluded from their taxes. That would change under the flat rate plan.

The flat rate tax plan by Mr. Forbes, and patterned after Representative Dick Armey's proposal, would keep Medicare and Social Security taxes intact -- the largest single tax on low income workers, as a matter of fact. The Forbes flat tax plan would place a levy on previously untaxed health insurance for both the employer half and the employee half at a 17 percent flat



## **Domestic Taxation Wedge**

tax rate on both business income and on personal income, respectively. Under the Forbes flat tax proposal, state and local income taxes are no longer deductible, nor would there be credits for the care of children, the elderly, the disabled, etc.

The proposed Forbes flat tax plan would exclude from personal income tax the following: interest, dividends, rental income, and capital gains. The inheritance tax would also be eliminated. Simultaneously, the income tax rate on the wealthy would be cut in half from 39.6 percent to 17 percent. One would only have to wonder if later on we might have to entertain the possibility of a tax surcharge on the wealthy to regain some progressivity.

Keep in mind, as well, that the rate on the poor goes up to 17 percent. We could also envision a tax credit down the road, to try to absolve some of the poor from what could be a greater tax burden than under the old tax code. The Forbes flat rate plan is indeed a tax proposal that essentially would allow wealthy investors to not pay taxes while the working poor's tax could go up to 17 percent (albeit there are generous personal exemptions for each family member).

The Forbes plan does exempt the first \$36,000 earned by a family of four. Herein lies a hint that those in the great American middle class could be paying more tax dollars at lower rates. Remember, at the other end of the spectrum, the Forbes plan reduces the rate on the wealthy from 39.6 percent to 17 percent, exempting any form of non-labor income. How can a flat tax based solely on labor be viewed as fair?



## Domestic Taxation Wedge

The Gramm plan (Sen. Phil Gramm, R-TX) includes deductions for mortgage interest and charitable deductions and yet touts a lower flat rate (16 percent) than Forbes' 17 percent. That does not compute. To generate the same amount of tax revenue, the Gramm proposal described herein as embracing major deductions would have to require a higher flat rate than the Forbes plan.

Actually there are two effective rates in the Forbes' plan: Zero (for the working poor) and 17 percent. I would worry about attitudes which could develop in those citizens who do not pay even a nominal amount to support the body politic. There is an old adage, "He who is carried on the back of another does not care nor appreciate how far off it is to the town." Thus, we could be encouraging an ever expanding constituency, wards for the state, who press for more government largess.

The U.S. Treasury Department estimates that the flat rate would have to be pegged at 21 percent to avert enlarging the current federal budget deficits through a shortfall in tax revenue. Further, the Treasury estimates that most middle class Americans would end up paying 10 percent more than presently, due to exclusions of both mortgage interest and charity deductions, along with the inclusion of newly taxable fringe benefits.





## **29. Business Performance Dynamics**

Under the Forbes flat rate proposal for businesses, all enterprises would be treated the same with one rate: proprietorships, partnerships, and corporations alike. Businesses would be taxed on their net cash flow, not net income. This would eliminate, says J.D. Foster of the Tax Foundation, all the complications of attempting to match the timing of income and expenses. Some fringe benefits, health insurance, and payroll taxes, now tax sheltered, would also be subject to a 17 percent flat rate on business income.

According to the Tax Foundation, the business sector which now bears 31 percent of the total federal tax burden would, under the Forbes (Armey) plan, bear about 50 percent of the federal tax burden -- an increase of about two-thirds as the burden is shifted from individuals to businesses. That is, the loss of deductions for state and local income taxes and for the payment of employee fringe benefits (such as health insurance coverage) would cost businesses significantly more tax dollars. I don't think the word is out on that yet, as many in the business community have currently jumped on the flat tax bandwagon.

Would employers react by cutting back on future employee fringe benefits? And would families be left to buy their own coverage with fewer post-tax dollars? Would this not also bring new pressures on the finances of state and local governments? Inquiring minds want to know. The estimates from the Arkansas Department of Finance and Administration is that such a flat tax could cause an annual shortfall in revenue of \$40 million.



## **Business Performance Dynamics**

I believe that, although the flat tax is currently experiencing a great populist ground swell; it is a form of bumper sticker economics or "pop economics," if you will. Most of us have mere superficial understanding. Many questions remain to be answered. This writer is reminded of the story that surfaced a few years back about a troubled man, who during income tax season, stood up in a darkened theater and shouted, "Is there an accountant in the house?"

The jury is still out on this issue. It will need further study, for there is a sizable built-in lobby in favor of the status quo: accountants and tax lawyers for whom the current, complex tax code is a full employment policy. Alas, we go through three stages in our relation with Santa Claus: first we believe in him; second, we don't believe in him; and finally, we are him. The last stage is the most expensive.

## **Part VIII. MEASURING GOVERNMENTAL EFFECTIVENESS**

The decade of the 1980's began for Americans with a noxious mixture of double digit inflation, high interest rates, chronic unemployment, declining productivity, slow economic growth, diminished defense capability, and a sagging national self-image. Almost categorically, the next ten years witnessed a phenomenal turnaround of the above mentioned indicators.

All of that good news has been accompanied by record debt of the personal, business, and governmental kind. So, the debate goes on. "Are we undertaxed or overspent?" Can we continue to try to stand in a circle with our hands in each others pockets and all expect to get rich? Time will tell.





### 30. Debt Burden Legacy

To ensure that today's debt and spending commitments do not unfairly burden Americans, should our government act now? This is the message coming from the Congressional Bipartisan Commission on Entitlement and Tax Reform. Otherwise we will perpetuate the long-term imbalance between the government's entitlement promises and the funds it will have available to pay for them:

- In 2012, unless appropriate policy changes are made in the interim, projected outlays for entitlements and interest on the national debt will consume all tax revenues collected by the Federal Government.
- In 2030, unless appropriate policy changes are made in the interim, projected spending for Medicare, Medicaid, Social Security, and federal employee retirement programs alone will consume all tax revenues collected by the Federal Government. If all other federal programs (except interest on the national debt) grow no faster than the economy, total federal outlays would exceed 37 percent of the economy. Today, outlays are 22 percent of the economy and revenues are 19 percent.

## Debt Burden Legacy 08

Representative Jim Saxon, Vice Chairman of the Congressional Joint Economic Committee, has gone on record as saying that economic expansions do not die of old age. Rather, they are killed off by misguided government policies. Indeed, the 1980's taught us a very valuable lesson.

The experience of the Reagan revolution demonstrated that the economy performs admirably when government reduces its size and scope relative to Gross Domestic Product. There are, therefore, important areas where Congress should act: first, reduce taxes (especially taxes on capital); second, reduce spending; and third, reduce regulatory burdens. Otherwise, the government continues to grow at the expense of the private economy.



### 31. Derail The Federal Gravy Train?

How can Americans give momentum to a movement that would derail the federal gravy train? There is a saying going around these days in Washington, D.C., that "...all the king's horses and all the king's men will never be able to cut government spending again." The legacy of fiscal irresponsibility is that runaway, big spending government is out of control. And it's a bipartisan problem. Neither political party seems to know what to do about it. Even leaders with relatively clear sets of principles find it politically difficult to make those tough policy decisions that are required to turn the state of our economy around.

Again, at the heart of the current debate is this question: "Are we undertaxed or overspent?" In the 1980's, federal revenue, taxed at significantly lower rates, rose approximately six percent annually. Federal spending grew through the decade at an annual rate of nearly nine percent. That is, for every \$1.00 increase in revenue, spending increased \$1.50. The question answers itself. We are a nation of people who, individually and collectively, can't balance our checkbooks. And we want more from government than we are willing to pay for in taxes.

Has deficit spending ever snapped any country out of a business slump? Not really. A recovery comes when businessmen, sensing fresh consumer demand around the corner, start ordering new goods and



## **Derail the Federal Gravy Train?**

building up inventory. As the process picks up steam, production rises and men and women go back to work.

Every American must be made aware that government excesses -- especially growing government regulation and the government borrowing that often takes four out of every five dollars from the long-term capital markets (thus leaving only 20 percent of available capital for investment in industry) -- are destroying the dollar, threatening our free enterprise system, and eroding our personal freedom.

The basic economic truth is that in the long run, far from "creating new jobs," deficit spending actually throws people out of work. When the government spends more than it takes in, it borrows the difference by selling bonds. Money raised from the floating of bonds would otherwise have been available to private borrowers, business people who need cash to build new plants and purchase new equipment, thereby opening up new jobs. To add just one employee to the work force requires an investment of about \$50,000. By hogging the supply of credit, the government elbows private firms out of the market. Strapped for funds, businesses languish and unemployment rises.

Stimulating demand through Federal spending has spawned ever growing numbers of special interest groups. And should it be a surprise that each of these groups has vigorously guarded "its" so-called share of the federal government's budget? After all, we now call

## Derail the Federal Gravy Train?

them "entitlements." We need better control of government spending.

Office seekers know that many voters realize increased federal spending, without corresponding increases in taxation, will cause an inflationary bias. Candidates and voters alike also know that such a practice can lead to recession and unemployment. And so, politicians, whose actual policies and programs would oblige a significantly larger federal budget, are apt to camouflage this fact.





## 32. Everything Has A Cost

Alas, there is no free lunch. Everything has a cost that must be paid by someone, sometime, somewhere. In the past three decades, the federal government has been doling out money for many programs that had never been part of its responsibility earlier. If such money, heretofore thought of as "free," could potentially be reduced through a line item veto amendment, the "victims" would be complaining about economic and social injustice. If those programs are in fact important, then couldn't the would-be casualties petition their state legislatures for similar programs? Some of the programs might no longer be so important, if the citizens were asked to pay for them directly.

Nearly a decade ago, the governor of Illinois said he would put off a line item veto of funds for a mental-health center if the legislature found equal savings somewhere else in the budget. This give-and-take process is certainly helped along by the stark reality that states cannot legally resort to printing press money to cover their deficits. It might have been better for all Americans if our leaders of those past decades had the resolve to go even farther and start the process toward an honest-to-goodness balanced budget amendment.

The typical version of a balanced budget amendment would require Congress to enact each year a budget whose outlays did not exceed expected revenues. Peacetime deficits would be allowed only with the consent of three-fifths of both houses. Wartime deficits

## Everything Has a Cost

could be approved by a simple majority. Congress would increase spending substantially from year to year -- but only if it were willing to vote for higher taxes. Without such a vote, revenue increases would be held to a pace no greater than the nation's rate of economic growth.

Congress should address the problems in the tax code. The current tax system is too burdensome and intrusive. Further, technology is making the current tax system obsolete. "Future taxes," says Lawrence Hunter, Chief Economist for the Joint Economic Committee, "should be capital friendly, simple to administer, broad-based, and limited in scope."



### 33. Taking Care of Business

What can business people do? Business people must make clear to all in their sphere of influence the fact that profits create new jobs, enable business to improve the quality of its products and services, provide vital tax funds for essential community services, make possible the upgrading of employees, control pollution, and even make strides in solving some social problems.

Let's change the tax laws so that business can be more certain to recover the cost of research and development, thus reducing the risk of losing money on efforts that, by their very nature, must prove disappointing in many cases. America must develop a better climate for investment by making it advantageous for people to invest. Existing tax laws don't do this. Specifically, we need a tax system that would allow business to deduct faster the costs of putting up a new building or buying new machinery.

Depreciation under present law is a complicated system that puts a damper on investments. It needs to be replaced by a system of simple and rapid deductions designed to generate investment funds that lead to new jobs and foster economic growth. Let's allow industry also to write off the cost of investments in new plant and equipment more rapidly.

Technological advances are meaningless unless put to work. People also need to be encouraged to save more and to invest more -- directly through the stock market or indirectly through savings institutions. In a



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number of countries, some money that is put into savings accounts is exempt from income tax.

## PART IX. INCENTIVE-BASED ECONOMIC REFORM

Have the chickens come home to roost? At odds today are the neo-classical, incentive-based economics and the Keynesian, demand-side economics, sometimes alluded to as "flow through" and "siphon off" approaches respectively. Six decades of education based on demand-side economics have understandably caused this approach to be deeply imbedded in the thinking of our elected leaders, scholars, and the media. Therefore, an understanding of incentive-based economics is still beyond the grasp of many today, even though it is pure, vintage Adam Smith.

The ideas of John Maynard Keynes have dominated the last six decades, and his theories have been imposed on western democracies. What were his basic premises? He preached that prosperity would be the result of increased consumer demand and increased government spending through an inflated currency. Keynesian "siphon off" policies have drained away the private sector's vitality. The notion was that we could continually prod the economy into prosperity through force feeding it with annual budget deficits. That created a noxious mixture of slow growth and chronic price increases that we call "stagflation."

Those results should have knocked Keynesian economics off its pedestal. But it hasn't happened. Why? Another type of deficit, this in our export/import trade, is the prime reason that those chronic, triple digit federal budget deficits have not spawned more inflation during the last decade. Those trade deficit dollars have flowed back into the American economy as foreigners

## **Incentive-Based Economic Reform**

have been purchasing our government and corporate debt.

Incentive-based economics, in its simplest form, is the application of price theory to the economy. It has its foundation in the belief that the free market is stable and, if the government keeps its hands off, the result will be an efficient allocation of goods, services, resources, and income. Far from being new and unsound, the basic principles of incentive-based economics have been standard operating policy through most of America's history. Its legacy has been the phenomenal development of American capitalism.

One needs only to contrast that early American record, and Great Britain's wonderful achievements in the 19th Century, to the Keynesian legacy of falling productivity, persistent inflation, relatively high tax burdens and the quantum leap in the size and scope of government and its debt in the past 60 years and ask which policy was the fluke, which one was unsound, and which one failed?

The problems with the American economy are not the result of malicious actions by mean people. Rather, the problems are the cumulative toll of well-intentioned folks who either have not done their homework or have not considered the long run consequences of short run, quick-fix policies. As I tell my students "it's not just the crook in business you have to worry about -- it's also the honest fellow who doesn't know what he's doing. He can hurt you, too."



### 34. Golden Eggs of Prosperity

Incentive-based economics is as ancient as that 2,500 year old "Aesop's Fables" about "The Goose That Laid the Golden Egg." In the fable, some well-intention folks want to catch and kill the golden goose to get the rest of those golden eggs. However, sounder minds prevailed. The people in that tale learned that it was in their long run interest to nurture and stroke that golden goose. The result would be more golden eggs in perpetuity.

Adam Smith, author of An Inquiry Into the Nature and Causes of The Wealth of Nations, in 1776, was one of the first to propose an incentive-based theory that stood apart from mercantilist protectionist economics. His principles were not followed by government leaders until Britain's Prime Minister Gladstone formally embraced them in the latter half of the 19th century. History records that his program was indeed highly successful.

Prime Minister Gladstone's program did involve sizeable tax reductions, rapid economic growth and the elimination of budget deficits. Recognized as the dominant view of fiscal macroeconomic policy of its day, this approach can hardly be indicted today for being radical or new. Incentive-based economic principles are rooted in classical macroeconomics.

It really isn't difficult to trace through the logic of incentive-based economics. A reduction in tax rates is like a raise in pay which results in higher savings, lower interest rates, and higher investment. Corporate tax

## **Golden Eggs of Prosperity**

rate cuts and/or increases in the investment tax credit, combined with accelerated depreciation allowances, improve business investment by increasing average after-tax rates of return.

Higher business investment results in productivity increases, more output per unit of input. The transfer of resources from the government sector to the private sector increases productivity rates still further, since productivity gains in the government sector are usually nominal.

The subsequent increased rates of economic growth provide the needed factory capacity to create additional goods and services demanded because of the tax cut. The result is balanced economic growth with neither shortages nor surpluses. Reduced tax rates result in lower demands for wage increases, because real income has risen as a result of the tax cut. With the wage-price spiral somewhat broken, lower inflation results in an increase in real income.

Consumer spending, output and employment, will subsequently be on the rise. Lower tax rates give individuals more incentive to work, and quite naturally the result is more and better work being performed. The private sector's productive capacity is further increased, and the underlying inflation rate is reduced further.

Cuts in Federal spending and stable money supply growth are both vital to our economic success. So,



## Golden Eggs of Prosperity

another cornerstone to it all, is a central bank policy that holds the line on money supply increases. This, in tandem with more goods available for purchase, would throttle the inflationary problem of too much money chasing too few goods.

In large measure, the remarkable resurgence of Japan and the former West Germany to become the third and fourth largest economic powers can be attributed to tax policies which encouraged growth. Japan and the former West Germany have fairly low rates of tax on earnings and profits. It is incentive-based economics personified: a narrow tax base and low rates of direct taxation promote rapid economic growth which results in high and ever-increasing tax revenues.

These low tax rates bring about high rates of real economic growth, resulting in rising revenues which can be made available for public sector spending for well-run social programs. At the same time, welfare states like Sweden rely on high tax rates, and continue to labor under serious economic difficulties. Critics of tax cut plans still say that it will be making 250 million Americans the guinea pigs for an untested economic theory. That hardly seems to be the case, in light of economic history. Pay your money, and take your choice.





### **35. A Republican-Democrat Connection**

Incentive-based economists enjoy pointing out that prior to former President Reagan, the last real growth-oriented politician in the United States was President Kennedy. Mr. Kennedy launched a very abrupt change in economic policies in the United States, cutting taxes the most on those who earned the most.

Mr. Kennedy believed that no person has ever truly prospered by trying to pull down another. His point was that we don't work just to pay taxes; we work to have what is left after taxes. Furthermore, entrepreneurs don't look at factories with humanitarian motives; they are looking for rate of return on investment. Nobody saves to go bankrupt; we save to augment our wealth.

Mr. Reagan told the nation that federal tax reductions will not be held hostage to spending reductions. In fact, Mr. Reagan clearly said that "government revenues will increase as the economy grows... because the economic base will have been expanded by reason of the reduced (tax) rates." Mr. Kennedy in his 1963 Economic Report of the President made the same point as follows: "Tax reduction thus sets off a process that can bring gains for everyone"... and explained why "reducing taxes is the best way open to us to increase revenues."

What about the issue of helping the poor to cope with the hardships of life? Here, Reagan and Kennedy share sharply different views from the Keynesian

## A Republican-Democrat Connection

redistributionists. Time and again, Kennedy remarked that the best form of welfare was still a good, high-paying job. This notion was characterized by the phrase that "A rising tide raises all boats" and that a growing economy elevates the standard of living of the poor, along with the more affluent.

Redistributionists turn the Kennedy "rising tide" phrase on its head and refer to the same policies as "trickle down" economics. A better term would be "flow through." Reagan, remaking Kennedy's point stated: "Our aim is to increase our national wealth so all will have more, not just redistribute what we already have which is just a sharing of scarcity."



### 36. Flow-Through Economics

So-called "flow-through economics," can be a sound economics. In a market economy, taxable revenues are created by the deployment of capital. If we don't penalize by high tax rates, those who have the capital, the benefits do "flow through" the economy. Such has been the very positive heritage of our American Industrial Revolution. In the 1963 Economic Report of the President, Mr. Kennedy put it this way:

Tax reduction thus sets off a process that can bring gains for everyone, gains won by marshaling resources that would otherwise stand idle -- workers without jobs and farm and factory capacity without markets. Yet many taxpayers seem prepared to deny the nation the fruits of tax reduction because they question the financial soundness of reducing tax when the federal budget is already in deficit. Let me make clear why, in today's economy, fiscal prudence and responsibility call for tax reduction even if it temporarily enlarged the federal deficit -- why reducing taxes is the best way for us to increase revenues.

It looks as if we need another strong R & D effort to get us back on track. By R & D we mean "Republican and Democrat." After all, there is plenty of blame to go around for both parties.





### 37. Tax Code Changes

Is better control of government spending a must? Yes. Increasing deficits require borrowing by the government; and government borrowing takes away from the amount of loanable funds available for corporate borrowing -- there's just so much available. And what about the tax code? Lower tax rates on corporate earnings are necessary. We need to continue and expand tax credit for productive investment. Let's also remove the double taxation of corporate profits. Lower the capital gains tax to bring us in line with our trading partners.

We need allowance for more rapid, more realistic depreciation, to recover investment in equipment sooner, for new investment. Recovery of a large portion of cost of pollution control by providing a tax credit for required investment is a must. We should make time schedules more realistic and related to overall problems. Where possible, let's reduce regulation of business where gains in safety and health are small relative to the costs of achieving them.

Politicians will nearly always be politicians. They survive by catering to special interest groups throughout the land. As long as we allow it, our politicians will literally spend money as if there were no tomorrow. When the day of reckoning does come, their track record indicates a propensity to raise taxes or borrow the money to cover their fiscal folly. Proof positive is that it doesn't seem to matter who is president or which party controls Congress.



## Tax Code Changes

We have lost our requisite self-discipline to resist voting ourselves more and more benefits from the public trough. One real hope is to change the system's rules, so that politicians can still be politicians without dragging an insolvent economy over the edge. Isn't it imperative that stronger fiscal controls be exercised?

## Part X. GAUGING PUBLIC SECTOR EFFICIENCY

As voter demands mount for accountability and cost control, the attitude toward governmental operations is also being modified. John Naisbitt in his *Trend Letter* reports that as angry taxpayers reject tax hikes to maintain or increase services, government is trying to emulate business by doing things smaller, cheaper, better, and smarter. Both states and cities across the U.S. are acting less like public benefactors and more like businesses.

Most prominent in the U.S., the trend is growing stronger as the federal government moves toward shifting more programs and burdens to the states. That's forcing state and local governments to do more with less. Public bureaucracies rarely have been breeding grounds for efficiency and productivity, but that's changing. Elected officials realize they have no choice but to change the system, so they're trimming staff, bidding competitively, eliminating waste, and cracking down on fraud and abuse.

Anti-poverty programs, because of their magnitude, head the list of concerns. Of course, as a nation, we all seem to want more from government than we are willing to pay in taxes. That doesn't bode well for the future.

When reporting poverty statistics, the Census Bureau ignores all sources of wealth and income other than money income. Thus, such major benefits as food stamps, Medicaid, and housing and energy assistance have no effect on the reported poverty rate. These

## Gauging Public Sector Efficiency

results create aberrations such as the Institute for Policy Innovation (IPI) has cited (Alice would have loved this "Wonderland"):

- 91 percent of those defined as poor own a color TV;
- 56 percent of the poor own a microwave oven; and
- 40 percent of those in poverty own their home, with 71,000 "poor" people owning homes worth more than \$300,000.



### **38. Poverty Unmasked**

What causes poverty, asks IPI researchers? Several factors cause people to suffer poverty levels of income. First, there is genuine lack of economic opportunity. A person may simply be unable to find a job, or to find a job that pays a high enough wage to support a family. Then there are those who are obviously incapable of supporting themselves because of illness or handicap, either temporary or permanent. But others have simply opted out of the system, either because they have realized that the state will provide them a living without any effort on their part, or because they have decided to do things other than work, such as attend school or engage in some other activity.

One would imagine that the majority of poor persons either are unable to support themselves, or simply cannot find a job. However, IPI analysis of Census Bureau and Bureau of Labor Statistics data presents us with the following discouraging data: 61 percent of those defined as being below the poverty level are attributable to behavioral decisions, rather than incapacity or lack of opportunity.

This observation is critical in analyzing any proposal for fixing what ails the current welfare state. Most of the resources of the welfare state are being consumed by persons other than those for whom it was designed. The overwhelming evidence is that transfer programs are ineffective as a means of moving people into the labor market.

## **Poverty Unmasked**

When President Clinton formed the Bipartisan Commission on Entitlement and Tax Reform, he asked 32 Members of Congress and distinguished private citizens to address the most challenging fiscal issues facing the country. Here is how Commission Chairman J. Robert Kerrey put it in the Interim Report back to the President:

The message is simple, yet disturbing. America is at a fiscal crossroads -- if we act, we can help ensure continued growth and prosperity, but if we fail to act, we threaten the financial future of our children and our Nation. This Report demands action. If the country does not respond, Americans 10, 15, and 20 years from now will ask why we had so little foresight. Mr. President, the target is ambitious and there are no easy answers. But turning back is not an option. Reform is critical to America's future.



### 39. Toward Insolvency?

One concern of the Commission was that to ensure that funds are available for essential and appropriate government programs, the Nation cannot continue to allow entitlements to consume a rapidly increasing share of the federal budget:

- Entitlement spending and interest on the national debt together consume more than 60 percent of federal outlays today (47 percent for entitlements and 14 percent for interest), double the percentage of just 25 years ago.
- The Congressional Budget Office projects that entitlement spending and interest payments together will exceed 70 percent of total federal outlays by 2003 (58 percent for entitlements and 14 percent for interest).
- Accordingly, by 2003, unless appropriate policy changes are made, less than 15 cents of every dollar the Federal Government spends will be available for non-defense discretionary programs that can raise productivity and contribute to economic growth.

To respond to the Social Security Trustees' call to action and ensure the long-term viability of Social Security, the Commission urged that spending and revenues available for the program must be brought



## **Toward Insolvency?**

into long-term balance. Any savings that result should be used to restore the long-term soundness of the Social Security Trust Fund:

- Social Security is an important source of support for many of the Nation's citizens. Today, the poverty rate for senior households is about 13 percent, but without Social Security, it could increase to as much as 50 percent. Social Security provides 90 percent or more of the total income for almost half of the senior households below the poverty line. Half of all American workers do not have employer-provided retirement programs and must rely upon Social Security and their own savings.
- Once the baby boom generation begins to retire in 2010, the cash flow surplus from Social Security will rapidly decline. By 2013, Social Security benefit payments will exceed the tax revenues dedicated to the program. After 2013, the cash flow shortfalls in Social Security will cause the total federal deficit to increase rapidly unless appropriate policy changes are made.

## 40. Budget Cuts and Workfare

Despite much talk of "draconian cuts" during the Reagan years, reports Heritage Foundation's Peter J. Ferrara in Issues '94, welfare spending is at an all-time high by every measure and is projected to continue soaring in future years. Since the start of the War on Poverty, federal, state, and local governments have spent \$5 trillion on means-tested welfare assistance for the poor -- more, even when adjusted for inflation, than America spent on World War II.

And despite the increase in spending, the poverty rate is about the same today as in 1965 when the War on Poverty began. Consequently, growth of "behavioral poverty" among the poor -- unemployed, high rates of illegitimacy, family breakup, and long-term and even intergenerational welfare dependence -- have worsened material poverty.

Is workfare a good substitute for welfare? "Yes," says Lawrence M. Mead, The Brookings Institute, in his statement before the Subcommittee on Trade, Productivity, and Economic Growth, Joint Economic Committee, U.S. Congress. "No," says Morton H. Sklar, in his statement before the same subcommittee.

Mead argues that the fundamental problem with AFDC is that welfare mothers are not obligated to work. Since few of these recipients of welfare aid have experienced the discipline of the workplace, they become disinterested and discouraged with all that happens around them. They give up the right of self-determination. They slip out of the American



## Budget Cuts and Workfare

mainstream and get caught in the backwater eddies of "welfare dependency."

Sklar does not reject the importance that Mead attaches to work experience. Rather, he argues that blaming all the problems of welfare on a lack of a work obligation is a "gross misconception." He finds that the problems of those who are welfare dependent are far more complex. Those who seem trapped are those who are least able to compete in the marketplace. They are poorly educated. They have low skill levels. In short, they are the least likely to benefit in a fundamental sense from short-term work experience.



## **41. Reasonable Options Available**

As we consider further research, the following are conservative reform ideas which surfaced recently in several national polls:

- Require unemployed fathers to work;
- Take money out of the paychecks and tax refunds of fathers who refuse to make child support payments that a court has ordered;
- Require all able-bodied people on welfare, including women with small children, to work or learn a job skill;
- Require teenage mothers to stay in school to receive any welfare support at all;
- Deny welfare to legal immigrants until they are citizens;
- Replace welfare benefits with tax credits and strengthen child support enforcement;
- Require teenage mothers who are unmarried to live with their parents in order to receive welfare;
- End increases in welfare payments to women who give birth to children while on welfare; and

## Reasonable Options Available

- Give additional assistance to unwed mothers on welfare who marry.

Because of its perverse incentives, the welfare system in America has failed to cure poverty. By providing substantial subsidies to those who are not working, and by withdrawing those subsidies when households try to leave welfare and earn their own incomes, it discourages work and encourages non-work; and by providing substantial subsidies to single mothers with children, it discourages marriage and encourages illegitimacy.

The key to reform, and it is well-documented in the above mentioned Heritage Foundation Study, is to reverse these incentives by providing essential assistance in a way that promotes rather than undermines work and stable families.



## Part XI. REGULATORY REFORM MANDATE

Although free, competitive markets can provide us with a "full-service" economy, we have, unfortunately, a state religion in the country. It's the Federal Bureaucracy -- the highest power to which to appeal in the minds of most. The federal government's role in the last 60 years has shifted from that of "protector" to that of "provider," from referee to quarterback. The rising regulatory burden has profoundly negative consequences for the economy.

Regulation is like taxes: it raises the cost of consumer goods and services; it lowers wages and increases unemployment; it dampens business investment; and it reduces technological innovation. The evidence provided by the Institute for Policy Innovation strongly suggests an inverse correlation between regulation and economic performance. According to their recent study, whenever regulations increase, investment activity appears to decline.

What is the private sector best at achieving in our nation? The private sector should be free for creativity and innovation. No economy that has prevented private profit-seeking planning based on the wishes of the customer has ever achieved a high level of prosperity in terms of material blessings.

And what toll does the public sector exact? It is impossible for government to interfere with a balanced and integrated market system without creating unreasonable distortions, many of which are invariably counter-productive. Government solutions frequently



## Regulatory Reform Mandate

reward the inefficient and penalize the productive which the market will not allow.

Government is subject to the influence of special interest, rewarding those who find political favor and penalizing those who do not. The intrusion of government into the market always creates enormous "confusion penalty." Government solutions, when successful, are always extremely costly. The growth of unchecked regulation has struck at the very heart of business investment, productivity and the formation of new jobs.

## 42. A Life of Its Own?

Once created, regulatory agencies tend to be self-perpetuating -- generating regulations, seeking rulings or test cases against smaller firms before seeking out the big ones, and generally trying always to improve their own prestige and "batting averages" before Congress in order to secure larger appropriations for following years.

According to the National Federation for Independent Business, the impact of regulations is disproportionate in three ways: discovering regulation, understanding regulation, and paying for regulation. This disproportionate impact means that in order to remain competitive with large firms, the small firm must cut back in some manner.

What is the philosophy of public sector regulator? On the one hand, he is usually convinced that business is bad, and that big business is very bad. However, he is also frequently convinced that people in general are not very smart. Because of their task orientation, regulatory employees are likely to have only a limited knowledge of the industries they regulate. In fact, it frequently seems that they pay little attention to the effects of their actions on the basic purposes of business and industry -- to provide goods and services for the public.

There are presently more than 80 federal regulatory agencies and commissions and over 100,000 government workers whose job is to interpret and implement regulatory laws passed by Congress.



## A Life of Its Own?

Salaries paid to employees of federal regulatory agencies total \$5 billion a year -- and are rising steadily.

Few would disagree with the announced goals of these agencies -- clean air, safe working conditions, pure food and drugs, clean water, equal opportunity for all in the job market. There is a growing body of evidence, however, that the regulatory agencies are frequently not achieving their goals and that the costs of pursuing their objectives often exceed benefits to society.

Increased federal regulation is damaging the business system across the country, causing managements to curb or to abandon the decentralized business approach. Why is that happening? Front offices are so uneasy over government rules that they're directing divisions and branches to clear everything with home base. The result? The people in the field now make fewer decisions on their own -- spend more time on regulatory paperwork, less on making and selling products.

With a recentralizing trend, top officials also are hobbled. And for a similar reason -- more time and money are devoted to handling compliance with regulations, less to devising creative marketing strategies, other plans. Managers are looking over their shoulders, obsessed with legal hazards, the risk of suits or charges by the agencies, consumer or environmental groups. Preoccupation with regulatory issues inhibits the development of aggressive line personnel and



## A Life of Its Own?

spawns an air of timidity that balloons the number and cost of staff positions that add little to profit.



### **43. Recapture the Mandate**

There should be passage of broad-based legislation to reform the regulatory system, by way of imposing cost justification requirements upon the regulators prior to implementation of regulations, and I recommend that the same requirements be placed upon the legislative process. The self-perpetuating regulation industry must be confronted at the sources of its mandate, so that one might transform the burden of over regulation into a manageable and even positive force. Yes, all laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost.

Should we go further? Yes. Officials at decision-making levels in regulatory agencies at the national level should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself. Unlike ineptitude, conflicts of interest can be curbed, if need be, by vigorously enforced criminal penalties. Regulatory bodies should all the more be subject to real periodic Congressional review, to limit their life spans.

Political leaders in Congress are followers of public opinion; usually they are not themselves opinion-leaders. They will enact legislation allowing the free market to operate only when it becomes politically profitable to do so. Only in this way will politicians unknowingly act for America's long-range economic good.





## 44. Restore the Balance

Americans can press our leaders to diminish government controls which tend to distort normal market practice, raise costs, and decrease needed profit. We must recognize the needs for adequate profits. We should require federal agencies to undertake an analysis of the economic consequences of regulations they propose. This would include an analysis of the impact of the regulations as reflected in increase in consumer prices -- a significant cause of inflation.

We need a commitment to a comprehensive plan for dismantling regulations that have been impeding the competitive process and for modifying others that have been running up costs and prices unnecessarily. There should be a plan of legislation scheduling reductions of business taxes in each of the next five years -- the reduction to be quite small in the first two years but to become substantial in later years.

There should be the establishment of a uniform procedure for Congressional review of the activities and regulations of "independent regulatory" agencies (those agencies which are not in the Executive branch but are arms of Congress), which may be contrary to law or inconsistent with Congressional intent, and permitting either the House of Representatives or the Senate to prevent an objectionable regulation from going into effect by passage of a simple resolution.





## 45. Finding Common Ground

The vast majority of Americans agree that some government regulation is desirable and necessary. Susan Eckerly of the Heritage Foundation points out that most highway traffic regulations, for example, save lives and improve the flow of traffic with minimal costs. Such regulations obviously provide a huge net benefit to everyone, but regulations also can be both counter-productive and harmful to society in at least three circumstances:

1. When the total costs imposed clearly exceed any benefits;
2. When the regulation serves merely to reward a powerful special interest at the expense of the public; and
3. When the goal can be accomplished through less costly, alternative regulatory requirements or through other means.

Good public policy requires basic reforms in the regulatory process that will eliminate harmful and counterproductive regulations and retain beneficial ones. Representative Jim Saxon, Vice Chairman of the Congressional Joint Economic Committee points out that the U.S. economy has largely been spared the ravages of statism that have plagued other industrialized countries. The result is the most productive economy in the world. For too long now, government has squandered the hard-earned fruits of workers' labor and stifled the spirit of entrepreneurs.

## Finding Common Ground

The American dream is eluding too many Americans. The combined weight of forty years of government bureaucracy and taxation has shifted dollars from families to policy makers. The new majority, Saxon states, seeks to redirect government policy so that government can provide an environment for economic growth. The guiding principle to achieve this "prosperity-friendly" environment is to make government smaller and less invasive.

Americans can also carefully build a constituency for creative capitalism. If we will adhere to the principles that result in sound and balanced growth, we can realize the goal of bringing all of our people into the economic mainstream.

If a sustained period of growth could cure many of our current ills, what else could be done to sustain the economic recovery if there is to be any possibility of funding even a few of those entrees on the domestic political economic menu? We could reform the Tax Code, thereby recreating investment through more incentives, especially in real estate, and lowering taxes on capital gains. Additionally, we could bring back more liberal IRA's, to allow greater numbers of people to accumulate savings free from taxes.

What should business people do, especially now? Increase profit margins, perhaps selling off operations which heretofore produced returns below the cost of capital. Find more ways to do more with less -- we're

## Finding Common Ground

talking productivity. Lock in low cost credit terms, possibly refinancing current debt.

Alas, conservative economists, a small but capable and humble minority, should do well even in these times of change and uncertainty, if they continue to qualify themselves to explain to others these matters regarding tradeoffs and opportunity costs. Remember, in the economics profession, we give people a number or a date -- never both.





## **Part XII. EDUCATION ISSUES ON THE TABLE**

The results are in -- What are the top nonscholastic problems that our nation's public schools report facing today? Drug and alcohol abuse, pregnancy, suicide, rape, robbery, and assault. The biggest problems in the 1940's and 1950's? Talking, spitwads, chewing gum, making noise, running in the halls, cutting in line, not putting paper in wastebaskets, sticking pony tails in ink wells.

The need for continuing education and training throughout one's lifetime may be becoming a necessity. Management consultant, Peter Drucker, put it this way:

By the end of the century, the one occupation career may be history. The rapid pace of technological advance, with its unpredictable twists and turns, threatens almost every skill and occupation with obsolescence. Retraining and re-employing workers will assume new importance, and the pace of economic development will depend in large measure on how quickly workforces can be redeployed. Efficient redeployment will require large investments in human capital. Entrepreneurs also need to acquire the skills required to set up and manage a new enterprise. Yet at all levels, from first grade to post-graduate study, our capacity to make these needed investments is being questioned.





## 46. Leveling the Playing Field

In its strategic plan, entitled Designing Arkansas: The State of the Future, the Commission for Arkansas' Future superbly stated what should be a commitment to excellence in education: "Arkansas will have a public life-long education and employment training system with flexibility to assure competitiveness in the national and global economy." The report established its priority goal as "Strengthen Arkansas' educational system, pre-school through higher education, to a position of national excellence."

The Commission for Arkansas' Future further identified the following issues for possible further consideration regarding education and training programs in Arkansas:

- Aggressively improve and upgrade the state's educational standards;
- Provide for more management flexibility in both education institutions and the local school community;
- Expand and strengthen early childhood education programs and opportunities for parental participation;
- Improve the literacy rate for Arkansas adults through such efforts as expanding adult education programs;

## **Leveling the Playing Field**

- Provide entrepreneurial education programs;
- All programs should be assessed and held accountable;
- Educate Arkansans about the value of education;
- Consider funding individuals rather than institutions;
- Review education and labor regulations with the intent to revise, streamline or eliminate those regulations that restrict or hinder opportunities for education and training;
- Improve the collaborative efforts between educational and other organizations having an educational or training function or interest;
- Strengthen the educational governance capacity and aggressively continue education reform;
- Allow the governing bodies and agencies the authority to target resources more efficiently and to concentrate more on

## Leveling the Playing Field

setting overall statewide policy and standards;

- Allow separate districts or institutions the flexibility to develop programs and methodologies to best accomplish its identified goals based on the established statewide policy and standards;
- Encourage competition while at the same time discouraging unnecessary duplication.





## **47. School Choice Options**

Is choice a panacea for the ills of public education? "Yes," say political scientists John E. Chubb and Terry M. Moe. They believe that the United States must free public schools from "political and bureaucratic control" and instead rely upon "markets and parental choice" in the quest for quality education. "No," says public school superintendent Bill Honig. He replies that privatizing public schools through a system of choice is both unnecessary, given the school reforms of the 1980's, and dangerous, in light of the expected market consequences.

The consequences of this educational attainment are far-reaching. Not only are individuals better off -- there is a high positive correlation between education and income -- but society is better off. There are externalities, or spillover effects associated with the consumption of education. Those who are educated and earn higher incomes are less likely to engage in criminal activity or become dependent on welfare. As the average level of education increases in a community, economic productivity is enhanced, and this in turn results in a higher rate of economic growth.

Some argue that this public monopoly stifles creativity and has led to inferior education. These individuals cite the large number of school dropouts and the decline in Scholastic Aptitude Test (SAT) scores as evidence of the flagging effectiveness of the public school system. During the 1980's, corrective steps were taken by many state governments: spending was

## School Choice Options

increased, standards were raised, rigorous testing was introduced, the teacher certification and training requirements were augmented.

Whether these actions are sufficient, or whether there is a need to introduce market competitors into the education system is being debated. The ultimate resolution of this clash of educational philosophies could dramatically reshape schools.

American education is in crisis, says Peter J. Ferrara of the Heritage Foundation. Government spending on education has grown rapidly, even during the 1980's, yet school performance and student achievement have fallen, leaving young Americans ill-equipped to compete in today's increasingly competitive world.

Might America's education crisis be solved by adopting a set of institutional reforms centered around school choice for parents, school autonomy for local teachers and principals, and genuine teacher professionalism? Would the result be freedom of choice for parents and students, greatly improved school performance and student achievement, and a vastly improved working environment for teachers and principals? The possibilities are worth exploring.

Let's start with what we think we know. Education spending accelerated through the 1980's and is now at an all-time high. There appears to be little correlation between spending and performance. Increased spending does not necessarily translate into better



## **School Choice Options**

school or student performance. Does increased spending fail to improve student performance because much of it is lost in bureaucratic waste?

It appears from Ferrara's rather thorough Heritage Foundation research that comprehensive reform, which includes these three components -- parental choice, school autonomy, and teacher professionalism -- could have numerous tangible benefits:

- Parents and students would be free to choose the schools they preferred, with the curricula, content, policies, and other features each wanted most;
- These reforms could create healthy competition among decentralized, locally controlled schools, encouraging improvements in quality and student achievement; and
- The existence of decentralized, competing schools would encourage the development of different specialties, different teaching methods, and different curricula. This would allow students to attend schools that best suit their needs.



## 48. High Tech Infostructure

Research by the Commission for Arkansas' Future also indicates that there is currently inadequate data available on the information industry in Arkansas from which to make specific assessments and recommendations. However, the information age is indeed here, characterized by the increased usage of computers, fax machines, modems and other forms of high speed data transmission. In order for Arkansas to stay competitive in today's global economy, Arkansans must become proficient in all forms of technology. We must gain a technological advantage, says the Commission, or at the very least, not be at a disadvantage with competing economies.

The Commission for Arkansas' Future identified the following issues for possible further consideration regarding infostructure:

- Allowing communications companies regulated by the state to retain a portion of their earnings to be invested in upgrading their infostructure systems; i.e., upgrade to fiber optics, more advanced computer technology utilizations, etc.
- Upgrading the state government's infostructure capabilities in order to maximize efficiency, productivity, and cost effectiveness by (1) encouraging the purchase and use of newer computers and related high-technology equipment in



## High Tech Infostructure

state government; (2) providing adequate employee support and training; and (3) encouraging a state management information system that allows cross-communication between agencies and their programs to better serve the citizens of Arkansas.

## 49. Furthering Their Education

We have to find a way to get more of our young people to finish school.

Yes, there seem to be more problems than solutions. I've always been impressed by the old European approach to goal-setting. There, the local clergyman in the parish often takes the lead, makes the rounds in the community, visits with the family members and helps them set goals for themselves. Whatever the solution, we have to deal with the problems. Our children won't wait.

Some years ago, United Technologies ran the following "PLEDGE" in the *Wall Street Journal*:

1. I now realize that the greatest power in the world is the power of knowledge .
2. I want to be smart. Dumb, misinformed people go through life missing so many rewards that could be theirs.
3. I will learn my basic skills and be expert in them.
4. I will read books on the subjects that interest me most. But I will also read books and articles on other subjects to broaden my awareness of what is happening in the world around me.
5. I will discuss at dinner time what I have learned or questioned at school today.

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6. I will study the ideas and dreams of our history to see how they can help me today.
7. I will set aside some time each day to think about my future, to discuss it with people I respect, and to work on accumulating the knowledge that can guarantee that future.
8. I pledge this to those who love me and are trying to help me succeed. More important, I pledge it to myself.

Student signature

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Teacher (I'll help you)

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Parent Guardian (endorsed with great love)

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What shall we then do? It all comes back to establishing priorities early in life. In the late 1950's, James Michener was invited to dinner by President Eisenhower. Michener declined in a letter saying he was going to a dinner to honor a former elementary school teacher. The President wrote in reply saying that Michener had made the better choice.



### **PART XIII. HEALTH-CARE ECONOMICS**

How in the world can Americans afford to get the medical care they need, when they need it, and still retain control over their own health-care? This is a major medical and economic question. The growth of public and private health-care costs poses an immediate problem that must be addressed.

Federal health-care spending has been increasing at annual rates averaging 10 percent or more during the past 5 years, far in excess of overall economic growth. Private sector health-care costs have increased comparably. If the increase in health-care costs is not restrained, federal spending on Medicare and Medicaid is projected to triple as a percentage of the economy by 2030.

Should we switch to trusting our government more and our doctors and ourselves less? Anyone who prepares many years for a medical career and is dedicated to alleviating pain, increasing mobility, enhancing quality of life, mending broken bodies, defeating disease, warding off premature death -- managing all that -- has this writer's undying gratitude.

There are those who say that there has been an oversupply of doctors for the last decade. Not so. There is an oversupply in some urban areas; there is a shortage nationwide of primary-care physicians in rural and inner city hospital settings. If anything, a growing supply of doctors could help reduce the workload of existing physicians, shorten their work week, and upgrade the quality of medical care.





## **50. Health-Care Options -- Womb to Tomb**

It has been said, "There are Seven Ages of Man: spills, drills, thrills, bills, ills, pills and wills." Fact is, the only way not to die is not to be born. And not being born would certainly take all the pleasure out of not dying -- unless, of course, there is a health-care crisis in the land.

Warning signs appeared years ago. Christmas time 1993 was not a good time to get sick in Toronto, Canada. There in Toronto, home to one-third of all Canadians, hospitals were closing off many of their wings, emergency rooms, operating facilities, etc. The shutdowns over the holiday weeks were for economic reasons, not for health-care reasons. The Canadian system, which had been a model for the efforts of some to reform the U.S. system, was running short of taxpayer dollars.

"This is not about health-care. This is about the deficit," said Theodore J. Freedman, president of Mt. Sinai Hospital in Toronto. It amounted to a scary, teeth-rattling notion -- health-care needs taking a back seat to a federal government budget deficit. A rare occurrence? Hardly. Similar shutdowns have been standard fare since 1990 in an attempt to contain government-funded health-care system costs. Also for budgetary reasons, more than 20,000 Toronto-based physicians were furloughed for one week during the early spring of 1994.

In January 1994 more than 560 eminent economists, including some Nobel Prize recipients, signed on to an



## **Health-Care Options -- Womb to Tomb**

open letter to President Clinton, citing concerns of an eroding quality of health-care under the Administration's proposed reform plan. Their concerns centered around proposed price controls masking the true cost of medical services, diminishing the quality and quantity of care, retarding the development of life-saving drugs, and impeding advancements in medical technology.

So, today, the question before the House is this, "What shall we now do about significant health-care reform?" The major of the mid-1990's proposals was the Health Security Act, sponsored by the Clinton Administration.

At first blush, there would have been some obvious winners from the Administration's proposal: the working poor who would gain coverage... employers who now insure and have budgeted that expense... nurses who would have expanded roles and greater responsibilities... the uninsured and disabled who would also gain coverage... primary care physicians (family practice, internal medicine, obstetrics/gynecology, pediatrics) whose numbers were mandated to grow larger as the proposed "Gatekeepers" in the new system... the elderly and sick who would have extended coverage at home and reimbursement for prescriptions.

There also appear to be those who would have lost under the Administration's proposal: anyone who had treatments delayed, cut back or rationed in order to try to contain costs... small business owners who had not been able to fund employee health-care... medical

## **Health-Care Options -- Womb to Tomb**

specialists who, because of their higher costs and fees, would lose out to the preferred general practitioners in the new system... the young and healthy who would probably pay far more than their share of health-care costs... and high-income taxpayers who would bear additional costs of funding universal coverage.

As stated earlier, six plans are now being considered by Congress. There were many before, and there will certainly be others to follow. Recently, the Heritage Foundation submitted a plan that was meant to constrain Americans into becoming more sensitive to the cost of health insurance. It is their opinion that even Medicare deductibles could further increase, constraining the elderly to become more cost conscious as users. It was concluded by the Heritage Foundation that insurance rates could drop as coverage would be restricted to the more expensive procedures and related health-care costs.

Nevertheless, the future, when it comes to funding medical programs for the American people, is a moving target. It's a place we have never been before. Back in 1990 the Bush Administration attempted to predict Medicare and Medicaid spending three years out, that is, for 1993. Keep in mind that Medicare and Medicaid are long-established and somewhat predictable health-care programs that have been in place for decades. The Bush Administration missed the mark, coming in \$15 billion low.



## Health-Care Options -- Womb to Tomb

Obviously, that raises questions about our ability to forecast adequately and budget for major health-care reform. Such is the stuff of the remainder of PART XIII, taking on an ambitious, nonpartisan project: (1) cataloging the questions and concerns that our various publics and constituencies have about such major legislative reforms of our health-care system -- indeed, our lives; and (2) providing some factual answers along with normative counsel on the subject.



## **51. Alternative Medicine Questions**

Rudyard Kipling once said, "I had six honest serving men -- they taught me all I knew. Their names were Where and What and When and Why and How and Who." Following Mr. Kipling's advice, this section of our book is dedicated to those tough questions that need to be asked about comprehensive health-care reform. Perhaps these questions could prove to be a checklist or guide as we collectively work through nothing less than major open heart surgery on our health-care system in the years and decades to follow.

These questions, some 144 of them, are grouped on pages 183-202 under 13 subtitles according to the following major themes and criteria: (1) Rights and Privileges; (2) Role of Government; (3) Funding Requirements; (4) Administrative Challenges; (5) Consumer Benefits; (6) Employer Perspectives; (7) Employee Effects; (8) Physician Roles; (9) Patient Requirements; (10) Market Forces; (11) Price Dynamics; (12) Insurance Requirements; and (13) Leading Edge Innovations.

### **Rights and Privileges Questions**

1. Is health-care for all Americans a basic right for every citizen, or is it in fact, more of a privilege?
2. Is universal health-care coverage mentioned anywhere in the Constitution?

## **Alternative Medicine Questions**

3. Should each American have the freedom to choose the health-care plan that is best for him?
4. Is comprehensive health-care for all a moral imperative?
5. Do peoples' needs for health-care supersede the freedoms of those who produce and deliver medical care?
6. Should government sponsor health-care programs to compensate for differences in luck (such as good luck and bad luck)?
7. How can a truly fair health-care program be designed?
8. What criteria -- medical, economic, political and social -- should be used to judge fairness of health-care reforms?
9. If personal freedom is best in every other aspect of our economic lives, is it not also right in principle on the subject of health-care?
10. Is comprehensive and universal coverage a social experiment that has been tried elsewhere?
11. Is socialized medicine working well anywhere in the world today?



## **Alternative Medicine Questions**

12. Does comprehensive health-care reform represent the largest piece of social engineering ever in the United States?
13. In the long run, does socialized medicine mean decreased quality and increased cost?

## **Role of Government Questions**

1. Is our health too important for Americans to entrust to the government?
2. Even in the health-care arena, is there such a thing as a "free lunch?"
3. Have Canadian and British health-care systems provided any lessons we could learn vicariously?
4. In the last three decades, which share of health spending, compared to total U.S. consumption, has grown the fastest -- the government share or the private sector share?
5. Do we want government to be responsible for an additional 14-20 percent of our Gross Domestic Product?
6. How much would fully implemented health-care reform add to the National Debt?



## **Alternative Medicine Questions**

7. What other programs (welfare, environment, etc.) will take a back seat to health-care reform this year?
8. Will centralized health-care become one more means to achieve redistribution of wealth and income?
9. Does "managed competition" mean increased regulation, more bureaucracy?
10. What would happen to the size of the federal and state bureaucracies as a result of health-care reform?
11. Is it easier to start a new bureaucracy than to dismantle an existing one?

## **Funding Requirements Questions**

1. How can health-care reform financing be fair and yet broad-based?
2. Can the health-care reform package that we end up with pay for itself?
3. If more money is required due to incorrect forecasts of health-care costs, where would the money come from?

## **Alternative Medicine Questions**

4. Would there be major new taxes to fund the price tag of health-care reform?
5. What percentage of the total health-care expenditures by the government are accounted for by Medicare for the elderly and Medicaid for the indigent?
6. Have costs of Medicare and Medicaid programs vastly exceeded the most generous original cost projections, despite price controls on doctors and hospitals?
7. Who will pay health-care subsidies for the poor, for small business, etc.?
8. What would covering 37 million additional people do to the cost of operating the health-care system?
9. How would a nationally sponsored health-care program avoid major cost overruns?
10. How would the final version of the health-care plan control costs and reduce cost shifting?

## **Administrative Challenges Questions**

1. Can there be major health-care change without difficult choices and sacrifices?

## **Alternative Medicine Questions**

2. Can the Clinton Administration's "reforms" goals of "security, simplicity, saving, choice, quality and responsibility" be fleshed out into a viable health reform legislation?
3. How manageable would a new, intricate health-care reform plan be?
4. How would administrative costs be affected by major health-care reform?
5. What would be the timetable for implementing comprehensive health-care reforms, both on the funding side and the coverage side?
6. In public monopolies, even health-care, doesn't bureaucratic reform and lack of entrepreneurship add to costs?
7. How are the pioneer states reforming "managed care" through partnerships with group medical practices such as HMOs?
8. Might states be allowed flexibility in choosing various health-care plans under the new system?
9. Do we need 50 separate, state-run bureaucratic monopolies on health-care?



## **Alternative Medicine Questions**

10. Would "managed competition" severely limit consumer choice, choice of insurer, choice of benefits, and choice of physician?
11. Currently, under Medicaid, how many layers of review are there?

## **Consumer Benefits Questions**

1. Do we have an honest-to-goodness health-care crisis in this country?
2. Don't we presently have the best health-care system in the world?
3. Should there be access to coverage for all employees -- not free, not required, just access?
4. Will this Administration's planned Standard Benefits Package be as good as what most Americans are used to now?
5. What will happen to the demand for medical services if health-care becomes cheaper, seemingly free, and/or universal?
6. Will price controls on goods and services in the health-care industry lead to shortages, rationing, etc.?

## **Alternative Medicine Questions**

7. When everything is said and done about health-care reform, will patients travel further and wait longer for medical treatment?
8. What assurances can be put in place that Medicare would remain intact and/or improved?
9. Would coverage of 37 million previously non-covered citizens, which amounts to 15 percent of our population, still allow for the system to provide quality care?
10. Under a newly reformed system, would special health-care needs be addressed for urban dwellers, rural dwellers, and regardless of income or age?
11. Can we afford to have home-community-based and nursing-home care available to people regardless of age?
12. How can we find an acceptable balance between providing more access to health-care services and maintaining high-quality care while also containing costs?

## **Employer Perspectives Questions**

1. Up to now, haven't employer-paid health plans been one more course in the "great American free lunch" in the minds of most employees?



## **Alternative Medicine Questions**

2. How much would it cost American businesses, large and small, to fund coverage of comprehensive, universal health-care coverage?
3. Might health-care reform bail out big business while pushing small businesses closer to insolvency and bankruptcy?
4. Doesn't this drive a wedge between the real consumers and the real providers, obscuring the real cost of health-care coverage?
5. Will the taxpayers end up bearing the financial burdens for big corporations which, in the past, made unrealistic commitments of generous health benefits to their retirees?
6. How much would the new health-care reforms dramatically reduce the health-care costs for many large, high-wage companies such as automakers?
7. Would large corporations dump their early retirees into a national system to avoid health-care costs?
8. How big a payroll tax on business would be required to upgrade coverage for Medicaid beneficiaries, thereby pushing them into new health insurance purchasing pools?
9. Would some workers be laid off to reduce a company's health insurance burdens?



## **Alternative Medicine Questions**

10. Can the business sector become a more demanding buyer by overhauling the way it purchases health-care, steering workers to providers who perform best?

## **Employee Effects Questions**

1. Would universal health-care coverage be available regardless of employment status?
2. How much less would the employee receive in take home pay because of funding requirements for the new health-care system?
3. How would the funding for major health-care reform affect employment and unemployment?
4. In terms of health-care reform language, who is considered an employee?
5. How can the security and affordability of health insurance be safeguarded for workers who change jobs or get laid off?
6. For the low income worker, doesn't the deductible in the traditional insurance policy offer disincentive, and then later an incentive, toward spending throughout the calendar year?

## **Alternative Medicine Questions**

7. Is the public ready for price increases, and possible job losses for small firms, to pay for health-care reform?
8. How would part-time workers be covered under a newly reformed health-care system?
9. What about comprehensive health-care for freelance workers, independent contractors?
10. Would it be advantageous from a cost standpoint for the employer to convert employees to independent contractors?
11. How would the proposed health-care reform packages handle the funding requirements of the self-employed?

## **Physician Roles Questions**

1. Are doctors and hospitals committed to working toward reform, regardless of what happens to the plans now before Congress?
2. Assuming that both patients and doctors support health-care reform, how can it be best accomplished to keep real-world, doctor-patient relationships intact and the quality of service high and rising?

## **Alternative Medicine Questions**

3. Under a new system, will Americans be able to keep their doctors? At what cost?
4. Looking back, didn't health-care providers amply adjust to Medicare and Medicaid when those programs came along in another era?
5. How easy will it be for the 500,000 doctors and 7,000 hospitals in America to change the way they deliver medical care?
6. How many "gatekeepers" will there be after health-care reform?
7. Could creating large networks of doctors and more levels of regulation create more micromanagement of health-care?
8. Under comprehensive health-care reform, will doctors have less control over the treatment of patients than they had before?
9. How easy will it be to change the way 250,000,000 Americans buy their medical care?
10. Currently, what percentage of total physician costs are paid by the government?
11. Under the new system, what exactly would the phrase "Pregnancy Related Services" include? Abortion?



## **Alternative Medicine Questions**

12. Will doctors or hospitals affiliated with the government-sponsored plan be able to opt out of the above under a "conscience clause"?

## **Patient Requirements Questions**

1. Should decision-making control over medical services rest only with the patient?
2. Under comprehensive health-care reform, could Americans buy additional coverage if they wanted to?
3. What percentage of Americans will be without health-care coverage sometime in the next two years?
4. Do Congress and the President need to make each American more conscious of health-care cost on the personal level?
5. Is preventive medicine for the uninsured less expensive than last-minute visits to the emergency room?
6. Do the current health-care plans have too few consumer choices in them?

## **Alternative Medicine Questions**

7. Will the health-care reform bills lead to longer waits for service, deterioration of facilities, and a slowdown in the adoption of new medical technologies?
8. When health-care consumers believe that someone else is footing the bill, what does that tend to do to their health-care costs?
9. Will universal coverage be like putting all Americans on Medicaid (originally designed for the poor)?
10. Why are senior citizens, never shy about telling Congress what they think, so conspicuously quiet now regarding the Administration's health-care reform proposal?
11. Should we require consumer alliances to which everyone would belong?

## **Market Forces Questions**

1. Would the new health-care reforms hold down the income of many doctors, hospitals, insurers, and drug manufacturers through stiff federal cost controls?
2. What would the above-mentioned disincentives do to the amount of health-care that is provided through the pipeline?



## **Alternative Medicine Questions**

3. Do medical school debts sometimes nudge graduates into higher-paying specialties in an attempt to service these debts?
4. What is our ratio of medical specialists to all physicians, compared to other western nations?
5. If there are fewer specialists, will we have to ration these leading-edge forms of health-care?
6. Right now, what percentage of hospital costs are government-paid?
7. What if hospitals and doctors have to shift costs to the private sector to make up for low payments from government programs?
8. Will it become legally and financially risky for physicians to operate outside of government-sanctioned health consortiums?
9. Do additional paperwork and governmental oversight have some embittered physicians already to the point of quitting?
10. Will we end up with a two-tiered system in which most Americans would be plugged into a "take-a-number" medical assembly line, while the rich could afford the best possible care?



## **Alternative Medicine Questions**

11. Will the new health-care system push Americans away from private doctors and into less expensive group medical practices, such as HMOs?
12. In the end, must universal coverage be sacrificed at the expense of cost control?

## **Price Dynamics Questions**

1. How much more or less will health-care cost the average individual under a new, reformed system?
2. Could health-cost spirals be broken by informed consumers who have the incentive to choose the basic plan that delivers service with the best combination of quality and cost?
3. What would happen to the stock prices of low-cost health-care alternatives?
4. How would increasing comprehensive health-care costs affect individual product prices?
5. How would rising universal health-care costs affect inflation in general?
6. How would additional health-care costs affect production-factor costs and, thereby, foreign and domestic market shares for American industries?

## **Alternative Medicine Questions**

7. What effect would price controls have on the research incentives for new drugs and breakthrough medical technologies?
8. Percentage-wise, how much more do Americans spend on health-care per person than the next most expensive country, Canada?
9. How much more would the average American pay as a customer for similar health coverage under a new plan?
10. In health-care, as in everything else, in the long run don't we get what we pay for?

## **Insurance Requirements Questions**

1. What percentage of all Americans now have health-care insurance and ready access to doctors and hospitals of their choice?
2. Does health-care cost shifting to third parties (insurance companies, government, etc.) encourage overuse?
3. Are the twin goals of comprehensive universal health insurance and cost control at odds?
4. Will health-care reform be to the advantage of larger insurance companies over smaller ones?

## **Alternative Medicine Questions**

5. Could health-care insurers aggressively compete for customers on the basis of benefits offered, crafting policies to truly meet the need of the purchaser?
6. Would the new health-care reforms result in relieving consumers from the nightmare of medical billing and insurance claim forms?
7. To what extent would the new health-care reform costs go up for the businesses that now pay little toward workers' health insurance?
8. Would it be possible to successfully and smoothly mandate employer-paid insurance?
9. As a result of the new health-care reforms, will the physician be responsible to the insurer or to the patient?
10. What would happen to health-care costs if a cap were put on malpractice awards and contingency legal fees?
11. Why should juries care how big an award they give in a malpractice suit, if the jury doesn't pay the award?



## **Alternative Medicine Questions**

### **Leading-Edge Innovations Questions**

1. For any health-care program to work, doesn't the entire system need a productivity revolution?
2. Can our health-care system operate more efficiently through restructuring it to create incentives to save money?
3. If we don't orchestrate health-care change, will the change orchestrate itself?
4. Could privatization be accomplished through vouchers provided at state level for medical care coverage, with recipients pooling vouchers into group policies?
5. Could tax credits be used to focus government health-care help on those who really need it?
6. Should health-care buyers band together in large alliances to bargain with competing networks of health-care providers?
7. Could other forms of health-care coverage offer "lifestyle incentives" or rebates for nonuse?
8. Could there be some tax incentives for companies that fund "wellness programs?"

## **Alternative Medicine Questions**

9. Could individual medical accounts (tax-free IMAs) be another key to controlling health-care costs, strengthening the role of the individual as health-care consumer?
10. Is it possible that the new world of instant, electronic billing could be part of health-care reform?

## 52. Keeping the Doctor Away?

"How can anyone," asks *Chicago Tribune's* Mike Royko, "know how much a doctor should earn, when few know what it takes to become a doctor?"

Excellent grades in high school and college with a heavy load of math and science classes... four extremely challenging years in medical school... including two demanding years of clinical rotation with its 70-hour weeks... one more year as an Intern... followed by perhaps four to six years of specialized training... and topped off with a career of more 70-hour work weeks and a potential post-graduate debt load in six figures.

And we're all familiar with the bumper sticker slogan, "Don't cuss a farmer with your mouth full." Well, there is a corollary to that when it concerns our medical doctors. This schizophrenic piece comes from the Indianapolis Medical Society Bulletin: "When you are in need of a physician, you esteem him a god. When he has brought you out of danger, you consider him a nobleman. When you have been cured, he becomes a mere human. When he sends you a bill, you think him a devil."

Just as we especially appreciate doctors who listen intently to us as patients, now is the time for all good Americans to listen to our various medical scientists for solutions to our health-care reform dilemma. Wouldn't it be a shame if the answer were right under our nose, and we blew it?



## Keeping the Doctor Away?

Can we have it both ways? Can we say, "I expect the best hospital care, no matter what the cost," and at the same time insist that hospitals must get their costs in line with what we can afford? The question answers itself.

### **53. The Cost of Healing -- Paying the Bill**

Nobel economist Dr. Milton Friedman has often stated, "Watch how people vote with their feet when they can vote no other way." Where do the world's rich and famous go for their medical care? To the U.S. of A. Not so coincidentally, over 600 Canadian physicians fled to America in 1993. So, where is the health-care crisis, if we are the envy of the planet when it comes to medical treatments, techniques, pharmaceuticals, physician availability, etc? Inquiring minds want to know.

Who are the 37 million uninsured, and why? First of all, its membership is constantly changing, and it amounts to 15 percent of our total population. Some are between jobs. Others are young and healthy and/or old and rich. They often choose not to buy insurance. Many have spouses who have coverage for these dependents. Some honestly believe that it is the responsibility of their family or church to accept liability and pay for health-care related debts. And yes, many are poor, need medical care, and don't receive it.

Tough questions have to be asked. Because there are some homeless people, shall we convert everyone to public housing? Because others go hungry, shall we collectivize agriculture? Eastern Europeans have learned the answers to those questions the hard way.

That off-stated number of 37 million Americans not covered by health insurance is inflated. According to the latest data from the Health Insurance Association, two-thirds of the uninsured families have at least one



## **The Cost of Healing -- Paying the Bill**

fully employed worker, usually either self-employed or working in a small firm. Some of the number are, in fact, also young people who, because of their youth and good health, have opted to spend their money on other things -- a choice this middle-aged writer would not make. Nevertheless, we do live in a land of free choices -- for now.

And those who are poor and homeless, although they may not be insured, don't necessarily do without health-care. It's just that when they do receive health-care at emergency rooms and trauma centers, it is usually of the most expensive type and involves a lot of cost shifting to various third parties.

In the United States, according to a recent survey by the Gannett News Service, only 25 percent of total health-care costs are paid by the patient. The remaining 75 percent is paid by employers or the government. Today 63 percent of hospital costs are paid by the government. The government also pays 48 percent of total physician costs. Of the total health-care expenditures by the government, 42 percent are accounted for by Medicare for the elderly and Medicaid for the indigent (double what it was 30 years ago).

By the year 2003, Medicare is projected to be as expensive as Social Security. Medicare costs rise significantly as the population ages. Consequently, the American patient expects the finest health-care there is and also expects cost shifting to third parties to absorb



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most of the personal financial burden. Can this all continue?

Considering all the goods and bads of our current health-care system, if there is an agreement on anything, it is that, as it now stands, our current health-care system cannot be continued into the future years and decades. Costs appear to be going up too rapidly, being shifted too frequently, and the number of people who are uninsured is approaching 40 million. In the long run, these factors are all extremely destabilizing to the status quo in health-care as we know it.

The world operates not only on what is true, but also on what people believe to be true. This was verified by a recent survey by Northwestern National Life of several hundred employee-benefit managers. Their opinions varied widely on what was driving up health-care costs.

There is no easy answer to the riddle; however, included on the list would certainly be the following items: (1) population growth, (2) aging, (3) affluence, (4) frequency of physician utilization, (5) medical practice expenses, (6) malpractice insurance premiums, (7) office expenses, (8) marketing costs, (9) new technology, (10) in-patient vs. out-patient demand, (11) competition, (12) uneven hospital capacity utilization, (13) uncompensated care, (14) cost shifting, (15) administrative overhead, (16) increases in mandated benefits, and (17) past cost-containment failures.

## **The Cost of Healing -- Paying the Bill**

All of the above causes are outlined in a single publication titled The Crisis in Health Care: Costs, Choices, and Strategies. The authors of that book -- Coddington, Keen, Moore and Clarke -- do an excellent job of cutting through the problem and clarifying it as much as possible. Each of the authors is a consultant specializing in the health-care field. It is recommended reading for anyone who would like to know more about this thorny topic on our national agenda.

It is the opinion of those authors that (1) there is little hope that cost increases for health-plan payers will be moderate; (2) the system is too fragmented (many payers, many providers); and (3) there is little incentive for providers to change the way things are. Therefore, the current health-care system is not sustainable.

All the major players are taking sides. The insurance industry hopes to reduce the price ceilings on premiums and avert attempts to replace insurance companies with a governmental single payers system. Consumer action groups tend toward wanting a Canadian-style system. Labor unions are pushing for generous universal benefits packages and are in opposition to a taxation of employee benefits.

Lawyers are opposing the reduction of contingency fees and lowered caps on jury awards. Drug companies are lobbying to prevent price controls on pharmaceuticals. Doctors, nurses, and hospitals are working through their professional associations to avert limits on physician fees and hospital charges.



## The Cost of Healing -- Paying the Bill

Other groups representing the alcohol and tobacco area are lobbying to block large tax increases on their products as penalizing the poor. The powerful American Association of Retired Persons (AARP) is quietly but firmly lobbying for greater long-term care and prescription coverage. AARP includes nearly 40 million voting-age Americans (who vote at twice the percentage of the average young person). It may be the strongest special interest group in the country.





## 54. Won't Hurt a Bit?

In the past, some economists have deservedly gotten into trouble for promising more than they had a right to deliver, usually in terms of forecasting future events. What people want most from us economists is that which we are least able to provide -- a detailed forecast of the next 30 to 90 days. The best we can do is put all the known variables on the scales and try to point out which way the scales are tilting.

The same is true with our health-care system and government in general. We are creatures of great contradiction. We distrust government, and yet we want more from it. We all want good health-care regardless of our ability to pay. We each do not want our choices limited in any way, and yet we don't want to be made to feel poorer by rising health-care costs. Above all, we seem to be reluctant to deal realistically with these mutually exclusive goals.

As we examine all the major health-care reform proposals on the table, let's consider that it is also possible that little change will be forthcoming. All of life is a compromise. In the recent past, Congress hasn't been too willing to become involved in health-care issues. Additionally, any change would be supported, as well as resisted, by countervailing and powerful special interest groups.

How can we keep these significant reforms -- eliminating waste, lowering overhead cost, bypassing unneeded tests and operations, etc. -- from clashing with the above mentioned public preferences for the

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best of care and the maximum freedom? With so many mutually exclusive goals and special interests to be satisfied, is the problem solvable? Yes, probably through compromise, we can become more realistic and develop a health-care system that can be more fair, more durable and more efficient than today's patchwork system.

And by the way, the elderly in general, and specifically my friends who are members of AARP (at 58, I'm an Apprentice Senior Citizen), will not like this: It is a myth to say that the elderly are poor. The percentage of the elderly in poverty differs very little from those of the overall population. For decades it has hovered between 11 and 14 percent. However, be advised that taxes bearing too heavily on the younger folks involve nothing less than an inter-generational transfer of wealth from the young to the old. We need to be extremely careful about that.

Yes, per capita health-care in America costs approximately 30 percent more than in Britain, Canada, and France. What has gone relatively unnoticed is that if we examine the last two decades, and look at annual per capita cost increases, then the rates in Britain, Canada, and France have been rising much faster than ours. They have taxpayer-funded, government-administered national health insurance schemes.

The countries with lower annual per-capita increases in health-care costs over the last two decades are Germany, Holland, Japan and the United States. Not



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so coincidentally, all have systems wherein there is active competition, not only among those who provide health insurance but also among those who provide health-care.

And who will pay the AIDS bill? Not the insurance companies, if they can help it. More cost shifting is in the works -- and with it a range of options: state-run risk pools, national health insurance, and possibly some public-hospital crises. One way or another, either through higher premiums, higher prices, lower wages or higher taxes, etc., the population at large will be bearing the burden of the cost of AIDS, no matter what the new health-care system becomes.



## **55. Portability Crisis Looming**

The vast majority of working Americans have health insurance and are quite satisfied with the way they receive medical care and with their access to the health-care system. Even those without health insurance normally can obtain emergency care, and some level of routine care, from emergency rooms and other facilities.

The main political impetus for reform, says Stuart Butler of the Heritage Foundation, comes not from those who are uninsured, but from those who fear they will become uninsured: Americans with insurance who are afraid of losing their benefits in the future or of experiencing cost increases that might jeopardize their ability to afford what they consider adequate care.

People who change jobs in America neither lose life insurance nor have to requalify. Nor do they have to requalify for mortgages and risk losing their homes if they are turned down. They do lose their health insurance, however; and if they cannot get adequate coverage in their next jobs, or if their new jobs do not carry insurance, employees can find themselves in serious financial trouble when they get sick.

The tax penalty against paying for health-care directly or obtaining insurance from any source other than an employer leads to many problems. The reader is referred to Butler's exhaustive study which cites the following:



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- The "portability" problem is caused by Americans' fear that a change in jobs will mean a loss of insurance. One of the main concerns raised among Americans is the related phenomenon of "job lock," which occurs when an employee or family member does not move to a more attractive job for fear of losing health benefits.
- Overinsurance among families with employer-sponsored coverage occurs because insurance is tax-free but direct spending on health must be paid for in after-tax dollars. Thus, Americans have the perverse incentive to urge their employers to provide insurance to cover the most minor health items.
- Uninsurance among families without employer-sponsored insurance results from their having to pay for coverage in after-tax dollars.
- Rapid cost increases in employer-sponsored insurance occur because employees live under the illusion that "someone else pays" and have little or no incentive to economize on their use of health-care services.

True reform of the health-care system, says Butler, means addressing these problems, both by changing the tax treatment of health-care spending and by

## Portability Crisis Looming

changing the way in which insurance is provided, in line with three basic goals:

1. Each family, not employers and not the government, should decide for itself what health plans and what benefits it will have;
2. Each family, not employers and not the government, should own the plan that provides its health coverage; and
3. Each family, not employers and not the government, should decide for itself how much it will spend on health-care and insurance.





## 56. Taking Our Medicine and Effecting the Cure

Perhaps if we take the long view, the following perspective is helpful. As my son started medical school seven years ago, I asked an area doctor, "What will health-care be like, for both doctors and patients, when my son graduates from medical school and is practicing as a physician?" His reply was to the effect that "the change would be so gradual, between now and then, that the participants wouldn't know what they missed along the way." Today, our son is a family practice physician. Truly, it's the same planet but a very new world.

That's probably true. Just think back to the 1960's and remember that our health-care providers -- doctors, nurses, hospitals, insurance companies -- have all adapted handily over the years, if not always willingly, to the changes that have come with the major reforms of that era -- Medicare and Medicaid. No doubt, when everything is said and done, we will probably get the health-care we need, and we will pay for it.

Then there is the tale about the neighbor who had to be admitted to the local hospital for treatment. During a visit his friends remarked that he had a nice, pleasant room, although the price seemed quite high. "True," the patient commented. "It does seem like a lot of money, but remember, they give us some mighty long days in here."

Yes, here early in the 21st century, we're now treating diseases so rare they haven't even held a telethon for them yet. But if our doctors and hospitals --

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truly the world's finest -- remain worth their sodium chloride, they'll have us up and complaining about their bills before we know it.

Probably one source of containing rising health-care costs would be Americans developing more healthful lifestyles. It has been said that health is a crown on a well person's head; yet, no one can see it but a sick person. We all live, laugh, love, grow, mature and die. Our doctors have trained and dedicated themselves to help us try to keep things in that proper order.

If we do change the direction of health security or national health insurance, we need to realize what "socialized medicine" is all about. Talk to any American Indian, any Veteran, etc. It's possible that under such a system we'd find that medical decisions would not be made by us, nor by a doctor, but rather by state employees or federal employees responsible to Washington.

Under socialized medicine, our medical records could become no more private than a phone book. Let's also remember that the government cannot provide medical care any more than the government can grow food. Doctors, nurses and hospitals provide medical care, just as farmers grow food.

Again, talk to that American Indian, that Veteran or anyone who receives medical care from the federal government. Socialized medicine is neither a new idea nor an experiment with an unknown result. Many countries of the world have it, and it can come



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in tandem with poor quality of care and longer waits for service. As with any form of price controls, rationing is what we are describing here.

The British government estimates that, at any given time, one million British citizens find their names on waiting lists for major medical care. The estimate for Canada is 250,000 people whose quality of life is short circuited by rationing -- unless, of course, they go outside the system and pay for medical care in the private sector (for comparison, the U.S. population is nearly 10 times larger than Canada's).

Sure, America's health-care costs are higher per capita than Britain or Canada, but perhaps the old adage still applies, "You get what you pay for." Getting the health-care we need is far different than getting health-care when we need it.

So there's the riddle: how to provide better public access to health-care, retain patient control, preserve doctor-patient relationships, while focusing on the quality of that health-care. However, regardless of what happens in our national debate over health-care, it is good to know that it is on the agenda. Perhaps it is true that a problem well-defined is half-solved. If so, then this book has taken at least an intermediate step toward that goal.

If, when we enter the medical marketplace, we are mostly spending someone else's money rather than our own, then perhaps in the name of better stewardship, a



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"Tax-Free Savings Account for Medical Expenses" much like our Individual Retirement Account (IRA) has some merit as a form of honest-to-goodness private planning. Accordingly, we as individuals could set money aside for routine medical expenses and use health insurance for major medical episodes.

Such was the recommendation recently of the National Center for Policy Analysis in Dallas. They recommend that individuals should be allowed to make tax-free deposits each year to individual "Medisave Accounts" -- a type of self-insurance and an alternative to the use of third-party insurers for routine and minor medical bills. The approach, although a bit simplistic, seems to allow for a maximum amount of freedom for the individual, rather than having his decisions made by someone else, an insurance company or the government, who may not fully know his situation.

Optimistically, there may very well be other ways in which comprehensive health-care reforms might be good for everyone. We could all start by improving our health habits. Better and more timely health-care could reduce employee absenteeism and boost worker productivity. Streamlining health-care programs could boost competitiveness, reduce waste, and eliminate unnecessary tests and procedures. Lower caps on malpractice awards, coupled with greater accountability by juries, could return us to greater reasonableness in medical care.

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Entrepreneurism in health-care could create lower cost approaches to a broad range of medical and administrative procedures. As is now happening under the umbrella of managed care, new niches are being created as health-care providers reorganize, cut costs, develop greater efficiencies, form alliances, innovate, consolidate, network, integrate, unite, etc. Just as we have seen circumstances evolve in retailing, so can health-care providers move the direction of better and more timely patient care through one-stop shopping.

The debate goes on; that's good. In all probability, our political leaders and their respective parties, along with all the special interest groups, will blend their various proposals into a final plan allowing for, however not requiring, all U.S. citizens to buy into at least a nominal level of health-care coverage. That would also solve the all important hot-button issue of portability.

In the meantime, what to do? Eat right, breathe deeply, live uprightly, cultivate serenity, maintain a healthy outlook toward life, make your peace with your Creator on His terms, live as to neither be ashamed of yesterday nor fearful of tomorrow, and check the newspaper obituary column each morning; if your name isn't there, give thanks, and have a great day!





## PART XIV. EFFECTIVE CRIME DETERRENCE

Crime is a pervasive problem in America. As with pollution, the problem is particularly pronounced in our urban areas. Crime rates are higher in urban than in nonurban areas, and higher in central cities than in suburbs. It has always been so. There is greater crowding or higher population density.

In small towns, the local law enforcement officers can discern residents from strangers and can, if necessary, closely monitor the latter. Such a personalized approach to crime prevention is not possible in large cities. Our cities are also great repositories of wealth; that attracts criminals. Further, a large percentage of the criminal element comes from poor families. Consequently, and like it or not, the concentration of the poor in our urban areas creates a sizeable reservoir of potential criminal activity.



## 57. Being Swept Along

The tidal wave of crime began in the 1960's, and it continues to roll across America. According to the Bureau of Justice Statistics, U.S. Department of Justice, the numbers are grim:

- Each year, about 6.6 million Americans become victims of murder, rape, robbery, or assault.
- A murder occurs every 22 minutes, a rape every 5 minutes, a robbery every minute, and an aggravated assault every 28 seconds.
- About 29 million Americans each year are victims of arson, burglary, and larceny-theft.
- A motor vehicle theft occurs every 20 seconds, a burglary every 11 seconds, and a larceny-theft every 4 seconds.
- Eight out of every ten Americans can expect to be victims of violent crime at least once in their lives.

Is it any wonder that today the United States is the most violent and crime-ridden society in the industrialized world, and this also affects international competitiveness? According to Dushkin Publishing's Annual Editions, America has five times more homicides, 10 times more rapes, and 17 times more robberies than Japan. New York City alone has twice



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as many homicides as Japan. There are 218.2 robberies per 1,000 people a year in the United States, compared to 33.4 in West Germany and 2.1 in Japan. The societal costs of this crime wave are enormous. Japan's taxpayers support 50,000 inmates while the U.S. taxpayers support 546,000 adult prisoners.

## 58. Poverty and Family Status

"The real root cause of violent crime," says Patrick F. Fagan, Fitzgerald Fellow, Heritage Foundation, "is the breakdown of the family." The following are condensed portions from his essay in the National Review and is also reprinted with permission from Imprimis, the monthly Journal of Hillsdale College:

Social scientists, criminologists, and many other observers at long last are coming to recognize the connection between the breakdown of families and various social problems that have plagued American society. In the debate over welfare reform, for instance, it is now a widely accepted premise that children born into single-parent families are much more likely than children born into intact families to fall into poverty and welfare dependency.

While the link between the family and chronic welfare dependency is much better understood these days, there is another link -- between the family and crime -- that deserves more attention. Why? Because whole communities, particularly in urban areas, are being torn apart by crime. We desperately need to uncover the real root cause of criminal behavior and learn how criminals are formed if we are to fight this growing threat.

There is a wealth of evidence in the professional literature of criminology and sociology to suggest that the breakdown of family

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is the real root cause of crime in America. But the orthodox thinking in official Washington assumes that crime is caused by material conditions, such as poor employment opportunities and a shortage of adequately funded state and federal social programs.

Since 1965, welfare spending has increased 800 percent in real terms, while the number of major felonies per capita today is roughly three times the rate prior to 1960. As Republican Senator Phil Gramm rightly observes, "If social spending stopped crime, America would be the safest country in the world."

Still, federal bureaucrats and lawmakers persist in arguing that poverty is the primary cause of crime. In its simplest form, this contention is absurd; if it were true, there would have been more crime in the past, when more people were poorer. And, in poorer nations, the crime rates would be higher than in the United States.

Official Washington also believes that race is the second most important cause of crime. The large disparity in crime rates between whites and blacks is often cited as proof. However, a closer look at the data shows that the real variable is not race but family structure and all that it implies in terms of commitment and love between adults and between adults and children.



## Poverty and Family Status

A major 1988 study of 11,000 individuals found that "the percentage of single-parent households with children between the ages of 12 and 20 is significantly associated with rates of violent crime and burglary." The same study makes it clear that the popular assumption that there is an association between race and crime is false. Illegitimacy, not race, is the key factor. It is the absence of marriage and the failure to form and maintain intact families that explains the incidence of crime among whites as well as blacks.



## 59. Future Violent Criminals

There is a strong, well-documented pattern of circumstances and social evolution in the life of a future violent criminal. The pattern is summarized by Fagan in five basic stages:

Stage One: Parental neglect and abandonment of the child in early home life:

- When the future violent criminal is born his father has already abandoned the mother.
- If his parents are married, they are likely to divorce by the third year.
- He is raised in a neighborhood with a high concentration of single-parent families.
- He does not become securely attached to his mother during the critical early years of his life.
- His child care frequently changes.
- The adults in his life frequently quarrel and vent their frustrations physically.
- He, or a member of his family, may suffer one or more forms of abuse, including sexual abuse.
- There is much harshness in his home, and he is deprived of affection.
- He becomes hostile, anxious, and hyperactive. He is difficult to manage at age three and is frequently labeled as a "behavior problem."
- Lacking his father's presence and attention, he becomes increasingly aggressive.



## **Future Violent Criminals**

Stage Two: The embryonic gang becomes a place for him to belong:

- His behavior continues to deteriorate at a rapid rate.
- He satisfies his needs by exploiting others.
- At age five or six, he hits his mother.
- In first grade, his aggressive behavior causes problems for other children.
- He is difficult for school officials to handle.
- He is socially rejected at school by "normal" children.
- He searches for and finds acceptance among similarly aggressive and hostile children.
- He and his friends are slower at school. They fail at verbal tasks that demand abstract thinking and at learning social and moral concepts.
- His reading scores trail behind the rest of his class.
- He has lessening interest in school, teachers, and in learning.
- By now, he and his friends have low educational and life expectations for themselves.
- These low expectations are reinforced by teachers and family members.
- Poor supervision at home continues.
- His father, or father substitute, is still absent.
- His life is now primarily characterized by his own aggressive behavior, his aggressive peers, and his hostile home life.

## **Future Violent Criminals**

**Stage Three:** He joins a delinquent gang:

- At age 11, his bad habits and attitudes are well established.
- By age 15, he engages in criminal behavior. (And the earlier he commits his first delinquent act, the longer he will be likely to lead a life of crime.)
- His companions are the main source of his personal identity and his sense of belonging.
- Life with his delinquent friends is hidden from adults.
- The number of delinquent acts increases in the year before he and his friends drop out of school.
- His delinquent girlfriends have poor relationships with their mothers, as well as with "normal" girls in school.
- Many of his peers use drugs.
- Many, especially the girls, run away from home or just drift away.

**Stage Four:** He commits violent crime and the full-fledged criminal gang emerges:

- High violence grows in his community with the increase in the number of single-parent families.
- He purchases a gun, at first mainly for self-defense.
- He and his peers begin to use violence for exploitation.

## Future Violent Criminals

- The violent young men in his delinquent peer group are arrested more than the non-violent criminals. But most of them do not get caught at all.
- Gradually, different friends specialize in different types of crime: violence or theft. Some are more versatile than others.
- The girls are involved in prostitution while he and the other boys are members of criminal gangs.

Stage Five: A new child -- and a new generation of criminals -- is born:

- His 16-year-old girlfriend is pregnant. He has no thought of marrying her; among his peers this simply isn't done. They stay together for awhile until the shouting and hitting start. He leaves her and does not see the baby anymore.
- One or two of his criminal friends are real experts in their field.
- Only a few members of the group to which he now belongs -- career criminals -- are caught. They commit hundreds of crimes per year.
- Most of the crimes he and his friends commit are in their own neighborhood.



## **60. Single-Cause Consensus -- Do the Time**

The root cause of America's most serious crime problem is simple: a hard-core group of repeat offenders commits most of the violent crime, says Peter J. Ferrara, researcher for the Heritage Foundation. In his article "Crime," Ferrara notes that whenever these individuals are on the street, even when awaiting trial or on probation or parole, they are often committing crimes. The solution, therefore, and according to Ferrara, is equally simple: consign as many as possible of these repeat offenders to long prison terms, during which they would be unable to prey upon the public. The crime rate would drop dramatically, and America's streets and homes would be much safer places.

Study after study shows that habitual repeat offenders, who amount to a tiny fraction of the total population, commit most of the violent crime. Accordingly, one major flaw in current criminal justice policies is the degree to which convicted criminals are sentenced to probation with no prison time at all, or to jail terms of one year or less. Additionally, criminals generally serve only a fraction of the sentences imposed on them in court, even while sentences themselves are often quite short. Hard-core repeat offenders even continue to commit crimes while out on bail pending trial on previous criminal charges.

Crime imposes a wide range of costs on society (as reported by the National Center for Policy Analysis):

- Victims suffer direct economic damage in loss of funds and property.

## **Single-Cause Consensus -- Do the Time**

- They also experience pain, suffering, cruelty, temporary or permanent physical impairments, and sometimes loss of life.
- Potential victims suffer fear, inconvenience, and loss of freedom in trying to avoid crime, and the economic costs of extra locks, bars, guns, and other equipment to deter crime.
- Neighborhood businesses lose sales when customers fear crime while shopping.
- Neighborhood workers lose jobs when businesses and investors are scared away by fear of crime.
- Children lose the opportunity to learn when their schools become dominated by gangs and drug dealers who destroy the learning environment.

As most crime is under the jurisdiction of state and local governments, most of the changes in policy need to be made at the state level. The key to crime reduction in the U.S. is to identify repeats and keep them in prison for long terms so they cannot continue to prey on the public. How do we get from here to there? Ferrara's proposals for reform include these:

## **Single-Cause Consensus -- Do the Time**

1. Sharply restrict pre-trial release for dangerous defendants;
2. Sharply limit probation;
3. Adopt strict sentencing guidelines;
4. Abolish parole;
5. Acquire adequate prison space;
6. End furloughs and other temporary release programs;
7. Require prison work;
8. Impose the death penalty for heinous crimes;
9. Assure victims' rights;
10. Reform the juvenile justice system;
11. Make greater use of community policing; and
12. Guarantee the right of self-defense.

Each of the above mentioned 12 proposals involves comprehensive and complex guidelines and sanctions, the stuff of further study and research, no doubt.





## 61. Fighting Crime Effectively

In "The Economics of Crime," Ed Rubenstein, Economic Analyst for the National Review, sums up the situation this way:

Although crime is a national problem, it is best fought by local initiatives. Unfortunately, Congress doesn't see it that way. The 1994 bill is laden with federal micromanagement. And keeping career criminals off the street is essential to fighting crime. "Three strikes and you're out" is a good start, but it's expensive. Maintaining a single criminal behind bars costs taxpayers at least \$25,000 per year. However, the Rand Corporation reports that the average professional criminal commits between 187 and 287 crimes a year, at a cost to society of \$2,300 per crime -- more than \$400,000 a year. So paying for new prisons is really a bargain.

Yet we must remember that the ultimate cause of criminal activity is a breakdown in internal controls -- call it character or personal morality. Some people simply never learn the difference between right and wrong. Public policy cannot directly change the internal controls on which human character, and ultimately human behavior, depend. But the criminal justice system can perform the essential role of reminding society that crime is wrong and that it carries serious consequences.

## **Fighting Crime Effectively**

Listen to Fagan's parting shot as he links the violent criminal to family status, government action, community resolve and moral development:

For the future violent criminal, each of these five stages is characterized by the absence of the love, affection, and dedication of his parents. The ordinary tasks of growing up are a series of perverse exercises, frustrating his needs, stunting his capacity for empathy as well as his ability to belong, and increasing the risk of his becoming a twisted young adult. This experience is in stark contrast to the investment of love and dedication by two parents normally needed to make compassionate, competent adults out of their children.

Government agencies are powerless to make men and women marry or stay married. They are powerless to guarantee parents will love and care for their children. They are powerless to persuade anyone to make and keep promises. In fact, government agencies often do more harm than good by enforcing policies that undermine stable families and by misdiagnosing the real root cause of such social problems as violent crime.

But ordinary Americans are not powerless. They know full well how to fight crime effectively. They do not need to survey the current social science literature to know that a family life of



## **Fighting Crime Effectively**

affection, cohesion, and parental involvement prevents delinquency. They instinctively realize that paternal and maternal affection and the father's presence in the home are among the critical elements in raising well-balanced children. And they further acknowledge that parents should encourage the moral development of their children -- moral development that is best accomplished within the context of religious belief and practice.

None of this is to say that fighting crime or rebuilding stable families and communities will be easy. But what is easy is deciding what we must do at the outset. We begin by affirming four simple principles. First, marriage is vital. Second, parents must love and nurture their children in spiritual as well as physical ways. Third, children must be taught how to relate to and empathize with others. And, finally, the backbone of strong neighborhoods and communities is friendship and cooperation among families.

These principles constitute the real root solution to the real root problem of violent crime. We should do everything in our power to apply them in our own lives and the life of the nation, not just for our sake, but for the sake of our children.

## **Fighting Crime Effectively**

Americans must move forward with creative solutions to our crime problems. One and a half percent of the entire adult population of the United States is under "correctional supervision." Drugs also relate indirectly to the quality of our work force. Studies show that as many as 10 to 20 percent of U.S. workers use drugs at the workplace.

The financial and psychic strain of a society that increasingly lives behind bars to protect itself from an increasingly violent and crime-infected society will make it harder and harder for us to marshal the skills and dedication necessary for America to compete in the international marketplace.



## PART XV. HIGH OCTANE

"The Department of Energy currently spends \$1.3 billion on research in energy efficiency technologies and renewable energy sources in an effort to reduce total energy demand, conserve natural resources, and improve national energy independence. This is a waste of taxpayer dollars," says the Competitive Enterprise Institute (CEI), "Private industry is fully capable of investing in energy efficiency research, and many of the technologies subsidized with federal research are not cost-effective alternatives to fossil fuel consumption."

CEI's recommendation is to get rid of all federal energy conservation programs. CEI insists that curtailing government spending "should be fun, not an occasion for hand wringing and apologies but a great adventure, an exhilarating hunt to bring down the outmoded, the parasitical, and the preposterous."

In the late 1970's, the service station attendant implored me, "Fill it up?" Reluctantly, I replied, "Fill it up." He opened the cash drawer and said, "Fill it up." I filled it up, emptying my wallet. Then he filled my gas tank, doubling the value of my old, gas guzzling car.

By the mid 1980's, the pendulum had swung to the other extreme. I breezed into the service station in my new, fuel efficient model and happily challenged the attendant to "fill it up." He moaned, "I haven't seen gas prices this low since it was put in the trolling motor of Noah's ark!"



## High Octane

Today, those high gas prices again make us feel as if we are "paying through the hose." Aside from trying to face any energy crisis with a sense of humor, the fact is, gas is at least \$1 more per gallon in Canada and \$2 more in parts of Europe. Most of that price differential is attributed to the size of the respective countries' gas tax.

Examining the situation closer, the news at the pump gets even better. After adjusting for inflation, current gas prices are on a par with the prices that fueled our 1950 cars. In real terms, we have the least expensive gas in the industrialized world. In 1930, the average pay for an hour of factory work would purchase about 3 gallons of gasoline. As of March 2000, average wages for that hour's work would buy about 8 gallons.

At this writing, few Americans view motor fuel to be the bargain it really is. Incredibly, and according to the American Petroleum Institute, motor fuel prices, as compared to inflation adjusted per capita income, have fallen 50 percent since 1981. Literally, if we priced today's motor fuel in 1981 dollars, we would be paying about \$2.70 a gallon for motor fuel and oil would be approximately \$69 a barrel.

What really drives gas prices? Inventory replacement costs, spot market prices, and buyer-seller psychology will always determine feedstock prices downstream into refineries, wholesale markets and retail outlets. Prices at the pump usually rise 2.5 cents per gallon for each \$1 increase in crude oil prices.

## High Octane

What about those surging prices at the pump? Price increases for gasoline and heating oil shouldn't continue to be as great as feared or stay as high as those experienced during past oil crunches. The price of crude oil rose 400% in 1973-74 and 300% in 1979-80. Circumstances are basically and structurally different today. To also gauge what a low price we pay for motor fuel, try pricing a gallon of drinking water these days.

Nevertheless, our economy cannot thrive except under peaceful conditions. The very foundation of our economic lives -- our freedom of choice to manage our individual, business, and national affairs -- is a direct result of sustained peace in our time.





## 62. Over a Barrel in 2000

Always a balancing act, in a typical year, it is standard operating procedure for American oil refineries to convert from the production of heating oil to the production of gasoline shortly after the New Year starts. Only by doing that conversion on a timely basis can the energy companies meet and anticipate the growing demand related to summer travel by Americans.

Did such a conversion occur in the winter of 1999-2000? No. The equation was different in that, globally, there was a shortage of crude oil; prices at the wellhead were triple what they had been a year earlier. As with most things in economics, it really all does come down to supply and demand. During what would have been a normal conversion process the winter of 1999-2000, U.S. inventories were at their lowest levels in over two decades.

I'm certainly not predicting a petrocession, an energy shortage induced recession, nor even a dramatic shift in consumer spending habits. Only after a sustained period of adverse economic signals, combined with chronic shortages and persistent record high prices, would we expect to see a petrocession.

According to the chief economist at Conoco, during the winter of 1999-2000, "Inventories are low and crude oil is too expensive to buy and run through refineries at normal rates." Lest we think there is price gouging in the works, American energy companies have not allowed motor fuel prices to rise as fast as crude oil prices have gone up at the wellhead.

## Over a Barrel in 2000

Essentially, what was hoped for in the spring of 1999 ended up working all too well. That is, OPEC, the Organization of Petroleum Exporting Countries, did cooperate in restricting the supply and flow of crude oil in early 1999 as part of an attempt to salvage sectors of the depressed American oil industry when prices at the wellhead were then around \$10.00 per barrel.

Alas, the fix worked too well, and within one year's time, the marketplace responded from an earlier time of abundance and low prices to a new era of shortages and high prices.

If gas prices stay high, what would be the result domestically? New England will be hurt the most on heating oil costs. Texas, Oklahoma, Louisiana, Alaska economies will pickup (Mexico, Venezuela, too). Price inflation could rise 0.5 to 1.0%, resulting in less downward pressure on interest rates. U.S. exports could weaken with a stronger dollar, as exports become more expensive.



### **63. Has America Acted Fuelish?**

Have we been "fuelish"? Not really. We have grown 75% in real Gross Domestic Product (GDP) since 1973, and we did it with only 20% more energy. Some would accuse us of being "energy pigs." No, we are not "energy pigs" any more than our children whom we push to go on in school are "education pigs". Yes, we use about 25% of the world's oil flow. We also produce (and sell to ourselves and others) nearly 25% of the world's goods and services.

Do we realize how far we've come? Our 2000 model cars go twice as far on a gallon of gas compared to 1973 (29.3 vs. 14.2). Trucks have shown a 50% improvement. The equipment in our houses, cars, factories, and aircraft is 30% to 60% more efficient than 25 years ago. Total residential fuel bills have held steady for the last decade, despite an increase of 20 million dwellings (a 25% gain in total dwellings).

These improvements put us ahead of every major Western trading partner, and almost equal with Japan, in terms of energy efficiency gains. Japan has one-fifth the cars and a total land mass that would fit inside the state of Montana. This is a tremendous achievement, considering the topographical size and diversity of our land and population. Oil now powers 6% of our electrical energy, compared to 17% in 1973. We have come a long, long way in just a quarter century.

We have been pumping oil domestically for 140 years. As a result, we are down to averaging 19 barrels a day from our American wells, compared to 240 barrels



## **Has America Acted Fuelish?**

per well each day in the Persian Gulf. So where do we go from here? Our strength and future is in coal, natural gas, and nuclear.

With environmental considerations, we may also have to tap into our Western off-shore continental shelf for new, major oil reserves. Beyond that, the sun is expected to shine for several billion years. Nuclear fusion creates its own fuel. The oil shale of the mountain states, although not commercially recoverable below \$60 a barrel, may rival the Mid-East reserves. Recent discoveries in Venezuela have effectively doubled known world reserves.

One hundred billion barrels of oil are estimated to be in America's continental shelves. Oil, natural gas, gasoline, and methanol can be synthesized from coal, as was accomplished by Germany during World War II. Additionally, we are literally the Persian Gulf of coal. Currently, coal accounts for 80% of American fossil fuel reserves.

## **64. When Peace Broke Out**

To be sure, America's primary economic goal must be to guarantee a stable supply of reasonably priced oil. Two-thirds of the world's oil stock is in the Persian Gulf, as is one-fourth of the world's current flow of crude oil. Our lack of resolve to tap our own recoverable reserves, combined with our willingness to do business with OPEC, as if a cartel is an honest and legal marketing situation, has contributed to the power and pervasiveness of OPEC for three decades.

Do we have another spike in energy prices because we still import too much of our oil and are wasteful? No, the planet's chronic energy crisis is that oil provides 40% of the energy and that two-thirds of verified oil reserves are in the Persian Gulf known by its shifting sands of strife for millennia. Not to go unnoticed logistically, during "Desert Storm" in 1990-91 the only refinery in the entire Persian Gulf that could produce jet fuel was in Kuwait.

Oil reserves in Iraq and Kuwait alone are 200 billion barrels. We use 17 million barrels a day. We could not simply withdraw and cross our fingers that there would be no more such crises. In 1990-91, we embarked on a course that will continue to require collective resolve, diplomatic savvy and mega quantities of manpower and equipment.

We went "over there" to the Persian Gulf in 1990-91 for many reasons: to protect the interests of America's friends in the Middle East; because Iraq with nuclear weapons would endanger the entire world; to protect



## **When Peace Broke Out**

those oil fields and oil company investments; because a big spike in oil prices threatens our economy; and to create that elusive "new world order."

Is there some truth to each of those points? Yes, and summed up they were probably ample reasons to send our finest into battle. However, there were many other reasons. All were related; some are more compelling than others. Each tile became joined together into a compelling mosaic.

It is in our national and international interest to assure a stable flow of oil from the Persian Gulf at reasonable prices. American troops could be rotated into the Persian Gulf for years. Additionally, the loss of control of the oil fields in the Persian Gulf could shake the foundations of the international banking system. Why? There are scores of oil-importing, underdeveloped countries which owe tens of billions of dollars to overexposed major banks.

A sharp, sustained increase in crude oil prices, and those nations may not be able to service their debts. The world's biggest and most vulnerable banks would take a significant broadside. If the banks are pushed to the edge, those who suffer won't just be bank stockholders. We, all of us, our enterprises, and our loved ones could also suffer, at least temporarily, due to financial deflation and confusion.



## 65. Wartime Petronomics

The term "wartime economics" may seem to be a contradiction. The language of "war" is "compulsion, victory, defeat, survival, destruction, violence, waste, tactics, assault, defense, fear, and patriotism." The language of "economy" is "voluntary action, gain, loss, creating, producing, peaceful work, industriousness, commerce, free trade, and consumer sovereignty."

What would have happened if Iraq developed a monopoly on Persian Gulf oil? It could have held captive the world's economy and severely affect industrial output. By that time, it could have stifled the coalition's military power and will to resist. Was the war about cheap crude oil? No, it was about heading off the terrible misuse of oil power. We did not send nearly 500,000 Americans to the Persian Gulf just to hold oil prices at \$20 a barrel.

Our young men and women were there to keep Iraq from controlling two-thirds of global oil reserves and from using that control to blackmail the industrial world possibly with nuclear weapons. The case for fighting in 1990-91 was, frankly, that Iraq (already possessing the world's fourth largest military) would be militarily, politically, and geographically harder to fight later.

What we did was a pragmatic attempt to maintain access to the oil on which the world depends. It was nothing less than an effort to sustain the well-being of billions of people including Americans. We import half our oil, but even achieving self-sufficiency would not fully protect us from war in the Gulf. Our prosperity is

## Wartime Petronomics

heavily linked to countries that are heavily dependent on Mid-East oil.

If the price were all that mattered, we could rely on the marketplace. Even for producers, excessively high prices don't maximize profits. They drive away buyers by promoting conservation and inducing new oil production. And sanctions don't restrain a leader who protects his military first while sacrificing his civilian population.

Is America a war-mongering nation? Nay. Rather, we are a cautious trustee of our planet. Only the United States is strong enough to be the guardian of justice. As President Bush stated in 1990, "Such is the price of leadership." We desired so much to live in a world where fighting would not be necessary. The leader of Iraq did not view things that way.

To some extent, the 1990-91 allied coalition members were unwitting partners in creating Iraq's fortress in the first place (and a decade earlier) as we feared Iran would defeat Iraq. Iraq's aircraft and tanks are Russian- and French-made. Italy designed Iraq's nuclear reactor. Those chemical plants were constructed by Germany. U.S. made computers, dual-use chemicals, and U.S. grown food flowed into Iraq throughout the 1980's. The British engineered Iraq's underground aircraft bunkers.



## 66. Oil In the Family

There have been many energy crises. In 1973, Arab nations refused to sell to Israel's allies, then tripled prices. In 1980, Iran's revolution and the Iran/Iraq war led to panic buying led by Japan. That resulted in oil prices increasing to an all-time high of \$40 a barrel. In 1986, Saudi Arabia flooded the market, drove prices down to \$12 a barrel and effectively eliminated, for several years, some of our recoverable reserves.

Is oil merely "another commodity"? No, it powers the engine of our market economy and fortifies our national defense. We cannot have it both ways. We cannot have low-priced, offshore fuel from unstable foreign sources while we sacrifice our strategic defense capability and our own recoverable energy reserves. Pay your money and take your choice.

Economists have long known that quantity available in the marketplace, both supplied and demanded, is always a function of price. We must avoid the temptation of making energy predictions on the assumptions that our stockpile, technology, and environment are fixed. Throughout our history, various crises and technology breakthroughs have had a way of bringing new resources into existence while rendering old ones valueless.

Consider that for a thousand years, from approximately 900 A.D. until the 1860's, mankind's principal source of lubrication and lighting came from whale oil. By the time of the Civil War, the relative scarcity of whales and the tandem upward price spike



## Oil In the Family

of whale oil led to the development of refining processes for the then so called non-resource crude oil, discovered in Pennsylvania in 1859. More on this later.

If economists know anything, it's that free markets, when allowed to operate in their own channels, have a way of resolving shortage and surplus conditions. Prices will respectively rise and fall in response to supply and demand conditions.

Isn't it odd that, internationally speaking, such a slippery thing as oil seems to cause so much friction. The 1990-91 Mid-East crisis removed the world's cushion of excess petroleum production. The global supply system remained tight, fragile, and vulnerable to further shortfalls in volume and delivery.

Although domino theories have been out of vogue lately with the thaw in East-West relations, consider this scenario. A major oil cutoff would surely hobble Europe and Japan. As major trading partners, their economic implosion could throw our economy into a free fall. One big winner in short run? Russia is a large oil producer. The rise in oil prices could partially rescue the Russian economy. Ironically, that could impair Russia's primary customers: fuel inefficient Eastern Europe.

## 67. Creative Juices Flow

Entrepreneurs with a good feel for applied science brought the Petroleum Age into full flower. We owe them much of our standard of living (products), our material comforts (heating and cooling), and longevity (medicines from petroleum bases). Only when we try to bypass ordinary market processes and throttle creative juices do we then face possible prolonged and protracted energy crises.

From the birth of America to the mid 1800's, the principal sources of energy in the U.S. were wood, coal, and whale oil. Around 1829, the demand for whale oil was so great, and the cost of hunting whales so high, that prices increased over 400%. The only other oil available was kerosene made from petroleum that had seeped to the surface.

It sold for \$42 a barrel in 1850 dollars -- roughly twice the current price of a barrel of oil in today's inflated dollars. Then, using data provided by a Yale chemist, a group of New Haven investors decided to drill for oil. On Aug. 27, 1859, near Titusville, Pennsylvania, they struck oil and a new industry was born.

Our supply of fossil fuels is finite, but we are certainly not in the last days of the Petroleum Age. Curiously, at frequent intervals over the last 135 years, various government bodies (Revenue Commission, Bureau of Mines, Department of Interior, etc.) have respectively and oft declared the end of our reserves to be 10 to 20 years hence.



## **Creative Juices Flow**

Then, new reserves would be discovered, exceeding all previously known reserves and all oil pumped out of the ground to that date. Examples abound from Texas, Oklahoma, and Louisiana 100 years ago, to the more recent and major finds on the north slope of Alaska and in South America.

Come what may, we will have the energy we need, and we will pay for it at rates that, in the short run, may seem like a "gold arm and a platinum leg." No doubt we will end up with far more energy at lower prices in the long run if we can avoid so-called quick fix solutions.

Such was the case with the abortive price controls attempted in past decades. Those controls attacked symptoms, were cosmetic, obscured root causes, aggravated shortages, curtailed buyer-seller freedom, masked true market costs, encouraged wastefulness, and discouraged exploration.

Government policies have kept the price of domestic oil and gas well below world market values. This has discouraged conservation because the public simply hasn't considered it necessary to skim on a low cost commodity. Legislative controls on prices have at the same time discouraged exploratory drilling that would have led to increased supplies.



## 68. Energy Facts Of Life

So, what are the energy economic facts of life? Those who lobby against coal-fired power plants, nuclear energy, off-shore drilling in our own backyard, and exploration of mineral rights on federal lands, should be more reasonable, or we'll have to shut down the country and return it to native Americans.

How can we fight back against the painful swings in world oil prices? One approach could be to implement a countervailing tariff whenever the price drops below \$25 a barrel. If the price falls to \$20, the fee would be \$5. When and if the price goes up above \$25 again, this variable import fee disappears. The revenue generated can be used to refill our Strategic Petroleum Reserve.

If the price goes above \$25, oil could be released from the Strategic Petroleum Reserve to dampen the price increase. In effect, we would buy low and sell high, at the expense of the Mid-East oil cartel. It's a tough job, and we've got to do it.

America's energy dilemma is serious and real, but much good can come from it as has been the case with past crises. Shortages? Yes, from time to time. But there is no shortage of energy reserves waiting to be identified and commercially developed. Then, the 21st Century will also be known as the "American Century," and you can take that to the bank.



## PART XVI. ENVIRONOMICS

Do we have a future? In 1950, there were 61 accidents per 100,000 people. Today, the statistic is 47 accidents per 100,000 people. Bladder cancers, which the experts say are the true measure of toxins in the ecology, are down in the last decade.

In the past 30 years since the first Earth Day in 1970, there have been great changes in our environment and in the ways humans affect it. Emissions of major pollutants have been reduced. Lakes and rivers have become more fishable. Forest inventories have grown, and recycling has made significant progress. Ironically, according to a 1992 account, 875,000 people celebrated Earth Day in New York City and Washington, D.C. At the end of that day they left behind 161.3 tons of garbage.

In 1970, environmentalists warned of a "New Ice Age." Today, using essentially the same data, they predict "Global Warming." And yet, the earth's average temperature has increased less than one percent in the 20th Century, mostly before 1940. According to the National Center for Policy Analysis, claims that "all scientists" agree that global warming is occurring, that it is a real threat to the earth and that human activities are contributing to it, are belied by a recent Gallup poll of climate scientists in the American Meteorological Society and in the American Geophysical Union.

It showed that a vast majority doubted there has been any warming to date that could be identified specifically as caused by humans: 49 percent said there



has been none; 33 percent said they didn't know; and 18 percent thought some has occurred. Significantly, of those who are actively involved in research and who publish frequently in peer-reviewed research journals, none believed that any temperature changes in the data record could be distinguished from normal variability.

According to the Associated Press, environmental extremists in Greenpeace, which pressured the oil giant Shell into scrapping plans to dump an old drilling platform at sea, admitted in the summer of 1995 that part of its campaign was in error. The group had wrongly claimed 5,500 tons of oil remained aboard the platform. The amount of oil aboard the Brent Spar was as little as 50 tons, or about 350 barrels -- less than one-hundredth the amount Greenpeace initially claimed.

## 69. Was Chicken Little Wrong?

Business Week's Mary Beth Regan reports that Chicken Little may be part of an endangered species. With the recent 30th anniversary of Earth Day came the release of a spate of books on the environment -- including several suggesting that the apocalypse may not be coming after all. Perhaps the best of these revisionist efforts is Gregg Easterbrook's A Moment on the Earth: The Coming Age of Environmental Optimism, a refreshing, evenhanded appraisal of the state of the planet:

Once-damaged forests are rebounding, the number of bird species has not plummeted as predicted, and even smog has been dissipating in most U.S. cities. yesterday's toxic-waste sites often teem with wildlife, he says, while "degradation of pristine rivers by new water pollution has essentially ended in the U.S." After expanding on several such cases, "ecorealist" Easterbrook sends a stern warning that green groups risk losing whatever political clout they still have in Washington by sounding the alarm long after it has been shown that the sky isn't falling. "Accurate understanding of the actual state of the environment will serve the Earth better than expressions of panic," he contends.

The environment is better than we think. So says Mobil Corporation. In the years since the environmental movement began, rivers are cleaner, the bald eagle is thriving, and the air is significantly more breathable. Technology has solved many pollution problems. And



## **Was Chicken Little Wrong?**

when technology itself caused pollution, better technology helped clean it up.

Cities faced a severe environmental problem 100 years ago as a result of horse-drawn transportation and the animal waste that littered the streets. The introduction of motorized vehicles solved that problem, but the gasoline-powered engine caused new ones. Thanks to new technology, we are now seeing a decline in pollution caused by automotive emissions. Today's technologies are developing better processes and products that use fewer resources, produce less waste and cause less ecological disruption than technology of the past. Industry is producing better, cleaner products with less packaging and more recycled content.

As Easterbrook points out and Mobil Corporation confirms, air in the U.S. is significantly cleaner in the 90's than it was in the 70's. Smog in the U.S. declined even as the economy grew and the number of cars on the road increased. Air pollution from lead declined by more than 90 percent, and emissions that form smog and acid rain declined substantially. The number of cities that do not meet national ambient air-quality standards has declined by 50 percent since the mid-70's. This is progress.



## 70. Science vs. Policy Tradeoffs

Unfortunately, there have been many cases in recent years where sound science and economics have been sacrificed to support preconceived public policies and political decisions. According to the Institute for Public Policy, our policymakers should consider the following reforms that would restore sensibility and accountability to the regulatory process, weigh the costs of regulation against the benefits, and force government agencies to prioritize regulations:

- Require risk/cost-benefit analysis for all new environmental regulation;
- Compensate property owners for regulatory "takings;" and
- Require Congress to fund regulatory mandates imposed on state and local governments.

Americans want to protect the environment. They want, as Heritage Foundation's Susan Eckerly describes it in her article "The Environment," to breathe clean air, enjoy clean streams, and keep their children safe from cancer-causing pollutants. They also realize, however, that they need jobs and a decent standard of living. The issue, therefore, is not whether we should preserve the environment, but how we can use our resources to guarantee a reasonably safe and clean environment at an acceptable cost and in the most efficient manner.

## **Science vs. Policy Tradeoffs**

The U.S., Eckerly found, spends at least \$100 billion annually to comply with environmental requirements at significant cost to business, consumers, and state and local governments. Unfortunately, examples abound of examples of billions spent inefficiently and/or chasing after very small risks. What we need, her landmark study shows, is a strategy to target resources to address the most significant environmental hazards. Too often, environmental regulations and laws are not based on sound science and are written in a one-size-fits-all fashion that ignores other, less costly alternatives.

We should take the initiative, says Eckerly, by calling for legislative and regulatory policies that take into account the costs and benefits of government action:

- Strategies, based on markets and property rights, that promote conservation and reduce pollution to acceptable levels at the lowest cost in jobs and living standards.
- Policies based on sound and credible science to ensure that environmental problems are real, not orchestrated by media hysteria, and that solutions actually address these problems.
- A priority list of environmental problems to make certain that we receive the maximum

## Science vs. Policy Tradeoffs

environmental "bang for the buck" with the fewest pink slips for American workers.

- The quality of the air we breathe is improving continuously and levels of air pollutants have declined since 1970.
- Although there is more air pollution, water quality also has been improving steadily. The country has some of the best drinking water and air quality in the world.
- America's population has increased by more than 40 percent since 1970, yet the land used is only 2 percent of the land mass and the amount of forest and land in production has not declined.
- The amount of solid waste being sent to landfills declined from 81 percent in 1980 to 66 percent in 1990. In the same period, the amount of waste recycled increased from 13 percent to 33 percent.





## 71. False Alarms Set Off

Environmental alarmists and the media tell us our environment is deteriorating from acid rain, holes in the ozone layer, deforestation, and similar potential disasters. This approach has its uses, because it helps build public support for additional billions of dollars for new regulatory programs. Only one thing is missing: any serious discussion of the facts. As Joseph Bast of the Heartland Institute states, "the world faces environmental problems, not an environmental crisis:"

- The quality of the air we breathe is improving continuously, and levels of all air pollutants have declined since 1970.
- Although there is room for improvement, water quality also has been improving steadily. The country has come a long way from the time when rivers caught fire or Lake Erie could be declared dead.
- America's population has increased by more than 100 percent since 1920, yet the land used is still less than 2 percent of the land mass and the amount of unused arable land has not diminished in that time.
- The amount of solid waste being sent to landfills declined from 81 percent in 1980 to 66 percent in 1990. Improvements in relevant technology have made landfills and incinerators safer for the environment,

## **False Alarms Set off**

and recycling programs continue to grow nationwide.

Gould Corporation, in its "Dialogue on Technology," points out that technology in itself is neither good nor bad:

The good or bad result only from the uses made of technology. One should remember that quite recently the chief goal of technology was to promote economic growth by supplying new and better goods and services at low cost. Now, as a result of growing awareness that the human race must avoid wastefulness in the use of natural resources and carelessness in the disposal of waste materials, the goals of technology are broadening to include resource conservation and protection of the human environment. Technology can be expected to meet this challenge as successfully as it has met others. To lay the blame for our problems on technology is to attack the best hope for solutions.



## **72. Cost-Benefit Analysis**

State and local government officials and many members of Congress are, says Susan Eckerly, beginning to question how the government sets both its regulatory agenda and the cost of that agenda. State and local officials are seeking legislation to stop unfunded environmental mandates, and at least twenty bills have been introduced in Congress to address this problem, which can be particularly expensive. Eckerly also points out that because of the proliferation of environmental rules adopted since the 1980's, small businesses face a complex set of reporting and record-keeping requirements.

This imposes an especially heavy financial burden on smaller firms, which typically lack the capital and employee resources available to large companies, and is especially worrisome because small businesses are the primary engines of job creation in this country. Proposals for reform, says Eckerly, need to deal with fundamental issues requiring new environmental policy priorities based on sound science and economic feasibility:

1. Federal and state legislation is needed to force environmental agencies to base their evaluations of proposed regulations on sound scientific criteria;
2. A regulatory budget would place a ceiling on the estimated total cost of all regulations promulgated by the agency;

## **Cost-Benefit Analysis**

3. As a regulatory budget, prohibiting the federal and state governments from passing unfunded environmental mandates down to lower levels of government would force regulators to account for the cost of their proposals;
4. Whenever possible, regulators should rely on markets rather than red tape.
5. The U.S. Constitution requires that government compensate property owners for the full market value of any property it takes; and as pointed out in a recent study by the National Center for Policy Analysis (NCPA),
6. Apply the cost-benefit rule. Cost-benefit analysis is a comparison of the estimated costs of an action with the estimated benefits it is likely or intended to produce. Almost all business decisions involve some measures of costs versus benefits. Yet many governmental decisions are taken without adequate consideration of either. That is one reason the private sector is more efficient and productive than government.

Some regulations impose astronomical costs relative to the benefits they produce. And for many environmental regulations no benefits have ever been proven. They have only been assumed. This has led

## **Cost-Benefit Analysis**

some to assert that simply taking an opinion poll can tell us how much a particular amenity is truly worth.

Proper cost-benefit analysis, says NCPA Senior Fellow Kent Jeffreys, provides an objective listing of independently estimated costs and benefits of a given regulation, which public officials (or the voting public) may ignore or embrace. Thus cost-benefit analysis is simply a tool for separating good intentions from good ideas. It does not curtail or eliminate the decision-making authority of elected officials, but its analysis does generate the critical information all public servants require.





## **PART XVII. BOTTOM LINE CONCERNS**

The bottom line? Americans know that learning economics won't make us millionaires nor will it keep us out of the soup line. It will just give us a better understanding of how we got there. History is also a good teacher. "Posterity," said John Quincy Adams, "you will never know how much it has cost my generation to preserve your freedom. I hope you will make good use of it."

This we know: More resources must remain with the private sector if America is to overcome its economic problems. Changes in productivity can come from changes in production techniques, equipment, the skill of the work force, upgraded education, managerial ability, the scale of operations, materials, product mix, the state of labor-management relations, and the quality of the work environment.

We need fiscal restraint to control federal spending. We need to improve the climate for capital formation and make money available for investment. We need to create sensible government regulation and reform our regulatory network. We need sound policies to use natural resources, including energy, effectively in a balanced manner.

America's ability to compete can be restored through greater productivity gains. We need more investment to replace and modernize facilities and equipment. We need more investment to increase productivity to assure domestic growth, restrain inflation, and keep the U.S.

## Bottom Line Concerns

competitive. We must reject the old demand to tax business, not the individual. This has to be an insult to the thinking consumer, who is the only real source of business revenue.



### 73. Will We Go Full Circle?

Can government do everything at once? No. Some worthwhile programs must be postponed. Some problems are better left to private sector solutions. We cannot demand too much, too fast, of our economy without paying the price of possible inflation.

It has been said that our redistributive American society has evolved through three stages. First, we taxed the wealthy, stealing from the rich. Second, through deficit spending and inflation, we used unbalanced red ink budgets to steal purchasing power from the middle class. Third, through over consumption caused by producing less and demanding more, we stole from our children by providing insufficient capital for economic growth. The notion that we could continually prod the economy into prosperity, through force feeding it with annual budget deficits, has created intermittent "stagflation."

Is there a definite cycle that most civilizations have historically gone through? Yes, the British historian and professor at Edinburgh University, Alexander Fraser Tytler, has studied the rise and fall of great civilizations and has concluded two things. First, there is an identifiable cycle. Secondly, 21 of the 23 literally decayed from within -- becoming easy prey to predator nations. The cycle which has been identified contains the following steps in elaboration:

1. A person in bondage resents his bondage so he looks to some higher power than his

## Will We Go Full Circle?

bondage master. This usually results in spiritual faith.

2. As he recognizes and acknowledges a higher power, it gives him courage to try to become free from bondage.
3. This courage based on a higher power, stimulates the desire for freedom and usually wins out through some means.
4. As a person becomes free, his initiative is released and he produces to help himself -- usually helping others in the process.
5. Production under freedom will produce an abundance of goods and services if based on personal reward.
6. As abundance is produced, people tend to get selfish. Those without abundance covet what others have, whereas those that have are not motivated to share without compensation. This generally brings civil action to take from him who has and give to him who has not in exchange for votes or favors.
7. Once the have nots have legal authority to live off of the goods of the producers, they become complacent since they now have

## Will We Go Full Circle?

legal sanction to live off the production of others.

8. Complacency leads to apathy or to a why-should-I-care attitude -- I have a legal right to food, etc.
9. This apathetic attitude creates a nation of dependents on the handouts of others and on the force of government to see that they are taken care of.
10. When enough persons become dependent for their well-being on the production of others, and on the force of government to redistribute goods to them, they become critical of both government and the industrious. They criticize and refuse to defend their heritage of freedom and are ripe subjects to go back into bondage. National decay has set in and freedom is lost.





## 74. Send a Message

Elected officials enjoy delivering benefits to the voting public. It involves no small pain for them to be the messengers when programs and benefits are cut. We might react by throwing the rascals out and getting a new set of rascals. A bit of schizophrenia exists here: we are uncomfortable with big government, and yet we expect so much (and then more) from it. To demand a painless way out of our situation is being like the young man who, as he was about to be sentenced by the judge for bumping off his parents, pleaded, "Your Honor, I need mercy, because I'm an orphan, you know."

We should especially keep the pressure on newly elected members of Congress, because they are the ones who generally are more responsive to the folks back home. Then, they unwittingly act in behalf of our long-range economic well being.

One productive way to reduce the deficit is to slow the rate of growth of government spending, perhaps through an honest-to-goodness budget freeze for two years at last year's spending levels. Nobody would like it, but most would accept it if there were no exceptions (other than for interest on the national debt or national emergencies, etc.). Suddenly, the deficit evaporates like magic.

On the contrary, a tax rate increase would slow down economic growth. If we raise tax rates, there will be perverse results on spending, saving, investment, and federal revenues, as Americans become poorer.

## Send a Message

Such action could throttle back the economic recovery, nudge us into recession, and unwittingly add another \$100 billion to the annual budget deficit.

If we could keep the deficit down to no more than \$200 billion for each of the next, say, 10 years, and if at the same time we had nominal Gross Domestic Product growth of 6 percent compounded (which means perhaps 3 percent inflation and 3 percent real growth), then in that 10-year time frame we would reduce the ratio of budget deficit to GDP by about 50 percent.

At that point, a \$200 billion deficit would not look all that imposing compared to our annual output of goods and services measured by Gross Domestic Product. Sound farfetched? That's basically what happened in the 1980's.



## 75. Reinvesting In Our Future

What should we write about to our legislative representatives? Tell them what not to do for us, what not to give us, that all we want from them is a solvent America and a government that lives within its income. We should propagate the truth that government has no wealth, that whatever it gives to the people, it must first confiscate from them through oppressive taxation, ruinous inflation, or both.

We should cast our vote to eject from political office those who are responsible for public spending beyond the people's ability to pay. We should resist with every means we possess the attempts of those who seek to infect our country with the disease of socialism.

"To build a better world," Friedreich von Hayek wrote in his book The Road to Serfdom, "we must have the courage to make a new start. We must clear away the obstacles with which human folly has recently encumbered our path and release the creative energy of individuals."

Let's be super-careful to only do things that continue to give decent life to the system that supports us -- our economic horn-of-plenty that we call free enterprise. I believe that if a basically free enterprise economy survives and flourishes, it will be due to a greater sense of objectivity among our opinion leaders, the reasoned arguments of business leaders, the unbiased research of economists, and to the more responsible actions of educators.

## Reinvesting In Our Future

Today, we can still argue with reason and good conscience that the market economy and limited constitutional government stand or fall together because both are deeply rooted in the nature of man. An ounce of initiative sometimes produces a pound of profit.



## 76. Back to the Basics

We all have an opportunity to help mobilize public opinion toward an outcome in which government and business each attend to their respective roles. This is a difficult and high sounding goal. But it is one that can be based on common sense economics.

It was America's first great economist, Pelatiah Webster (1726-1795), who stated the following in an essay in opposition to the Continental currency inflation: "An error in finances, like a leak in a ship, may be obvious in the fact, alarming in its effects, but difficult to find." We in the United States seem unwilling or unable to spot the leaks and seepages in our twin ships of monetary and fiscal policy. But as Webster also said: "The first thing necessary to correcting an error is to discover it. The next thing is to confess it, and the last to avoid it."

It's a tough job, and we have to do it. Let's get started. Write to your elected representatives; tell them what not to do for us and what not to give us. Tell them that we expect a solvent economy and a government that lives within its means. Cast your vote to remove from office those who would have public sector spending go beyond the ability to pay of "We, the people...."

Alas, this will remain the "land of the free" only as long as it is the "home of the brave." So isn't it a good time for Americans to rethink our goals, reinvent ourselves, restructure our processes, reassess our



## Back to the Basics

priorities, and redouble our efforts? It's still "A Wonderful Life."

Finally, be not dismayed or discouraged when there emerge contentious discussions on contemporary issues of interest to citizens. John Milton once said, "When there is much desire to learn, there, of necessity, will be much arguing, much writing, many opinions; for opinion in good men is but knowledge in the making." Let's hope so and work toward that vantage point. Then, the coming generations in America, who will be the true judges of what we do today, will find us worthy of our task.

## **77. Reinventing Ourselves Every Day**

It seems as if I am always giving advice to young people; they really are America's greatest natural resource. I like to catch them at the threshold of their careers. Often, that time comes as I have the chance to speak at high school or college commencement exercises.

Commencement is a wonderful ceremony marking the beginning of a new life of "freedom" to support themselves. The students are seated there at graduation thinking, "Here I am world; I know my ABC's." And yet the world says, "Come on out here son or daughter, and we will teach you the rest of the alphabet."

I try to make it a point to remind our young people that if they don't plan, their next summer job could be for the rest of their lives. Indeed, their first order of business should be to develop a marketable skill. Then they can become independent and self-supporting.

Consequently, they will never have to ask mother, father, brother, sister, church, or government to take care of them (we'd all come to their rescue, if truly needed). You see, now is the time for all good people to come to the aid of themselves. This is practical economics.

According to Henry J. Taylor, "Imagination lit every lamp in this country, produced every article we use, built every church, made every discovery, performed every act of kindness and progress, created more and better

## **Reinventing Ourselves Every Day**

things for more people. It is the priceless ingredient for a better day."

No "onward and upward" from me; they know the direction. The world is not out there eagerly awaiting their talents; the world has gotten along just fine without them. All that our current graduates have is a one-year head start on next year's graduates. And this new crop must make the most of it, for a year from now there will be others after their job. It is so hard to convince young people of this old adage, "You don't get more until you do more than you get paid for."

There is a certain amount of fear of the unknown as our children grow up and graduate. There is always that concern and wonderment, "Is there life after graduation?" Very few people know the rules of life, and so they lay themselves open to pain. Time after time they spend most of life as spectators on the sideline just observing the game.

Louis Pasteur had this profound observation: "I hold the unconquerable belief that science and peace will triumph over ignorance and war, that nations will come together not to destroy but to construct, and that the future belongs to those who accomplish most for humanity."

I have always felt that the ideal vocation would be to pick something that we loved to do anyway as a hobby, if we were independently wealthy. Then, we can get really good at that and go out and find some



## Reinventing Ourselves Every Day

organization that would be willing to pay us to do just that. Then, we would never really work another day in our life. That is, we wouldn't call it work at all.

Andrew Carnegie once put it this way: "If a man would eat, he must work. A life of elegant leisure is the life of an unworthy citizen. The republic does not owe him a living; it is he who owes the republic a life of usefulness. Such is the republican idea."

The story is related that one summer evening, when Thomas Edison returned home from his work, his wife said, "You have worked long enough without a rest. You must go on a vacation." "But where will I go?" he asked. "Decide where you would rather be than anywhere else on earth, and go there," was the answer. "Very well," promised Mr. Edison, "I will go tomorrow." The next morning he returned to his laboratory.



## **CONCLUSION -- Where Are We Headed?**

The American economy is foursquare in the middle of a rebuilding binge that could run for two more decades. During this era of restructuring and implementing of new ideas, we will, in both goods and services, continue to be able to compete with any other nation in the world at a profit.

Is business in a new age? Yes! The best and brightest graduates now graduate toward businesses which foster personal growth. Now, the manager's new role is that of coach, teacher, and mentor.

The top-down management style is yielding to a networking, people-style of management. Entrepreneurship is revitalizing companies from the inside out. Large corporations are emulating the personal and productive qualities of small businesses.

One hundred years from now -- 50, 25, 10, 5 years from now -- America, and especially the Mid-South, will be the place to be. People all over the world will look to us for growth, stability, and the good life. Our life expectancy is up 40 percent in this century alone. We can expect to live fairly long lives, relatively free of pain, and die in good health (your mileage may vary).

Today, there are many questions on our minds. Even our National Anthem seems to end with a question mark:



## Where Are We Headed?

Oh, say does that star spangled banner yet  
wave,

O'er the land of the free and the home of the  
brave?

The answer is a resounding, "Yes." Here are the  
rest of the lyrics of the last three verses of our National  
Anthem, courtesy of Francis Scott Key:

On the shore, dimly seen through the mists of  
the deep,

Where the foe's haughty host in dread silence  
reposes.

What is that which the breeze, o'er the towering  
steep,

As it fitfully blows, now conceals, now  
discloses?

Now it catches the gleam of the morning's first  
beam,

In full glory reflected now shines on the stream:

"Tis the star-spangled banner! O long may it  
wave

O'er the land of the free and the home of the  
brave!

And where is that band who so vauntingly  
swore

That the havoc of war and the battle's confusion

A home and a country should leave us no  
more?

## Where Are We Headed?

Their blood has washed out their foul footsteps'  
pollution.

No refuge could save the hireling and slave  
From the terror of flight, or the gloom of the  
grave:

And the star-spangled banner in triumph doth  
wave

O'er the land of the free and the home of the  
brave!

Oh! thus be it ever, when freemen shall stand  
Between their loved homes and the war's  
desolation!

Blest with victory and peace, may the heaven-  
rescued land

Praise the Power that hath made and preserved  
us a nation.

Then conquer we must, for our cause it is just,  
And this be our motto: "In God is our trust."

And the star-spangled banner in triumph shall  
wave

O'er the land of the free and the home of the  
brave!

Yes, we are the oldest living republic. However, let's remember that our Constitution doesn't guarantee a good life, prosperous life, a happy life, or even a long life. It only offers the protection of life. We make of our lives what we will. We should bet on the long run future success of American capitalism. If we don't have a future, nobody does.

## Where Are We Headed?

The past is prologue. Just what is at stake for the future of our land? Josiah Bailey said it best long ago:

The American Republic and American Business are Siamese Twins; they came out of the same womb at the same time; they are born in the same principles and when American business dies, the American Republic will die, and when the American Republic dies, American business will die.



## EPILOGUE

What would a day in your life be like -- WITHOUT the American Incentive System that we call Free, Private Enterprise?

7 a.m.

Time to start the day with a cup of coffee. There's only one brand. Quality's not too good, but you probably won't know that, since you've never had an opportunity to select from different brands competing for your taste preferences.

8 a.m.

Off to work. Many of the kinds of jobs you work at today won't exist, for there would be no incentive to risk money creating jobs if there were no opportunity to make a profit.

9 a.m.

Perhaps there's a meeting at work this morning to discuss productivity. No reward particularly for doing a better job, but remember there may not be lots of places where you can look for work, so you work harder, longer, without any real hope for significant improvement.

## Epilogue

10 a.m.

You have a doctor's appointment. Although you may not need to bring any money -- you probably won't have much choice in who treats you -- or even in the quality of treatment.

12 noon

Lunch time. There's a restaurant not far away. Food's not particularly good and the menu has been the same for six months -- but since there are very few choices, it really doesn't make a lot of difference.

3 p.m.

Time to pick up the kids. You're the only one on the block with a car. Oh, the Smiths ordered one eighteen months ago and they'll be able to help out when it comes in, but meanwhile...

7 p.m.

TV time. No advertising to interrupt your favorite program. In fact, there won't be too many favorite programs. Tonight there is a report on the benefits of the classless society.

## Epilogue

11 p.m.

Bedtime, and you can't understand why you're always bored; no zest for life, never anything challenging to look forward to.

Is this an over-simplified version of life without the American Incentive System we call free, private enterprise? Too dramatic? Too pessimistic?

Perhaps, but before you answer, think about it a little while. Is the competitive system, free-choice, your right to decide for yourself what quality of life you wish for your family, how you will live, what you will buy, and what you will pay -- is freedom itself important to you?

Ask anyone who has lived under another system.





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SAME PLANET--NEW WORLD? A Chronicle of the American Century addresses contemporary economic issues from a moral perspective. One may not agree with every word printed in the book, nor should 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.

This book draws on recent statistical reports and econometric abstracts from numerous commissions and development agencies. Many other sources have been consulted in the preparation of this material, and credit has been given to various sources as they were available. The Reference section also gives due credit and enables those who desire to do further study to consult those sources. If any such acknowledgments have been inadvertently omitted, the author would appreciate receiving information so that proper credit may be given in any future printings.

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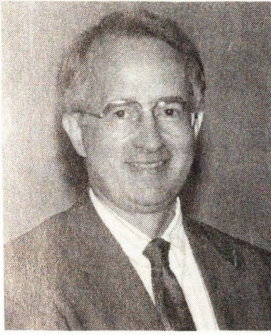








## ABOUT THE AUTHOR



Dr. Don Diffine is currently Professor of Economics at Harding University in Searcy, Arkansas, and Director of the Belden Center for Private Enterprise Education. Senior Research Associate of Harding's American Studies Institute, Dr. Diffine is the newest member of the Governor's Council of Economic Advisors and is also a member of the Board of Directors of the Arkansas Council on Economic Education. He has written ten books and 20 monographs. A member of the International Platform Association and also an economic humorist, he is a frequent speaker for conventions, stockholders' meetings, and chambers of commerce.

The recipient of the \$7,500 Freedoms Foundation Principle Award for Excellence in Private Enterprise Education, Dr. Diffine has received 16 additional Freedoms Foundation awards in the categories of Non-profit Publications, Economic Education, Public Affairs-Advertising, Public Address, and Published Works. He is the faculty winner of a \$1,000 First Place prize in a national essay contest judged by Nobel Economist Milton Friedman.

In May 2000, at an international exposition in Kansas City, he was inducted into the Samuel Moore Walton Free Enterprise Fellow Hall of Fame. He received the "Champion of Enterprise" award in 1995 and became the first inductee into the National Students In Free Enterprise Hall of Fame in Kansas City. The First Annual Distinguished Scholar Award was also presented in 1988 to Dr. Diffine in Cleveland, Ohio, by the Association of Private Enterprise Education.

Dr. Diffine has provided Congressional testimony on business problems, economic impact statements, and inflation-recession dilemmas. He is married to the former Dion Hillman of Kailua, Hawaii, a math teacher in the Searcy public schools. The Diffines have two children: David, 30, a medical doctor; and Danielle, 28, an accountant.



SAME PLANET--NEW WORLD? A Chronicle of the American Century is a normative audit of the past hundred years in the U.S. economy. As we tiptoe into the new millennium, we are the oldest living republic. However, let's remember that our Constitution doesn't guarantee us a good life, prosperous life, a happy life, or even a long life. It only offers the protection of life. We make of our lives what we will. We should bet on the long run future success of American capitalism. If we don't have a future, nobody does.

Fact is, the American economy is foursquare in the middle of a rebuilding binge that could run for several more decades. During this era of restructuring and implementing of new ideas, we will, in both goods and services, continue to be able to compete with any other nation in the world at a profit.

What is the record as things stand today? With about four percent of the world's population we create more than 20 percent of the world's GDP. Two percent of us grow enough food to feed 200 percent of our population, exporting as much as we consume at home. Our poverty level income exceeds the average Russian income many times over. Our work week is 40 percent shorter than it was in 1900. Eighty percent of today's millionaires are first generation folks. How so? They got it the old-fashioned way; they earned it.

One hundred years from now -- 50, 25, 10, 5 years from now -- America will be the place to be. People all over the world will look to us for growth, stability, and the good life. Our life expectancy is up 40 percent in this century alone. We can expect to live fairly long lives, relatively free of pain, and die in good health.