

Summer 6-1-1984

The Entrepreneur (vol. 8, no. 4)

Don P. Diffine Ph.D.

Harding University, ddiffine@harding.edu

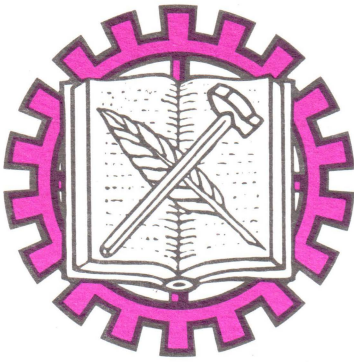
Follow this and additional works at: <https://scholarworks.harding.edu/belden-entrepreneur>

Recommended Citation

Diffine, D. P. (1984). The Entrepreneur (vol. 8, no. 4). Retrieved from <https://scholarworks.harding.edu/belden-entrepreneur/34>

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





The Entrepreneur

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

This issue courtesy of Steve Phillips, Phillips Lumber Co., Inc., Cedar Hill, Texas

Derail The Federal Gravy Train ?

A Portion of
A Guest Article for the FORUM Section
of The Arkansas Gazette
by

**D. P. Diffine, Director
Belden Center for
Private Enterprise Education
Professor of Economics
HARDING UNIVERSITY**

We Mean Business

The Harding University Chapter of Phi Beta Lambda, a National Collegiate Business Organization, participated in the 22nd Annual Phi Beta Lambda Competition held at the Camelot Hotel and Convention Center in Little Rock on March 28 and 29.

The Harding chapter, headed by President Charles Dupre, came away with an impressive list of awards and honors for this, their second year of existence. Forty-nine institutions of higher education entered the competition, and the average individual event had 35 entrants. Harding business students entered 15 events and placed 1st, 2nd or 3rd in 12 of the events, winning first place in six of the events and an impressive overall Sweepstakes Third in cumulative award points.

Although the Harding University Phi Beta Lambda Chapter is barely a year and a half old, it is the sixth largest in the state now. Last year's chapter president is the current national president, Ellen Reid, presiding over 561 PBL chapters with a national membership of 17,600. Faculty advisor is Dr. Don Diffine, director of the Belden Center for Private Enterprise Education, and Professor of Economics.

FREEDOM AWARD PRESENTED

The Trustees and Officers of the Freedoms Foundation of Valley Forge have announced the selection of Ellen Reid, by the Distinguished National Awards Jury to receive the Valley Forge Honor Certificate for excellence in the category of public address for her speech entitled "Free Enterprise — The Great American Asset." Miss Reid has donated her spring break from the University the last two years, in order to travel to New Orleans to conduct presentations before area high school student bodies.

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." We need to realize the legacy of fiscal irresponsibility. Runaway, big-spending government is completely out of control. Even a strong President with a clear set of principles finds it politically impossible to do the tough things that must be done to turn our economy around.

We seemingly no longer have the necessary national self-discipline to resist voting ourselves more and more benefits from the public trough. Our Founding Fathers, as delegates to the Constitutional Convention, felt strongly that the Chief Executive must have the power to veto legislation, if checks and balances were to operate. Presidential veto power, however, was to be qualified, and it could be overridden by a two-thirds majority of both houses of Congress. The question of granting an American President the power to veto each item in appropriations bills was not dealt with at that time.

However, nothing is so powerful as an idea whose time has come. The basic economic truth today is that, in the long run, far from "creating new jobs," deficit spending actually throws men out of work. By hogging the supply of credit, the government elbows private firms out of the market. Strapped for funds, businesses languish. And unemployment soars. With the federal budget of nine hundred billion dollars, and triple digit deficits, it is imperative that stronger fiscal controls be exercised. The President of the United States should be granted an item veto authority.

THE LEGACY OF FEDERAL DEFICITS

Every American must be made aware that government excesses — especially growing government regulation, political manipulation of the money supply, and the government borrowing that is taking six out of every ten

dollars from the long-term capital markets, thus leaving only 40 percent of available capital for investment in industry.

Stimulating demand through Federal spending has spawned evergrowing 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? We need better control of government spending. Increasing deficits require borrowing by the government; and government borrowing takes away from the amount available for corporate borrowing. There's just so much available.

Politicians are politicians. They respond to pressure from special interest groups in every Congressional district. As long as the rules allow it, they will spend money as if there were no tomorrow. When tomorrow does come, they'll raise taxes or borrow the money to cover their spending. It doesn't seem to matter who's in the White House or which party controls Congress. Our only real hope is to change the rules — change the system so that politicians can be politicians without dragging the insolvent economy into bankruptcy.

A LINE ITEM VETO

The president should, therefore, send a proposed constitutional amendment to Congress, requesting presidential power to veto individual items in the U.S. budget. If Congress can't be convinced to sanction an amendment for a presidential item veto, there are other options. Two-thirds or more of the state legislatures can ask Congress to call a constitutional convention for the singular purpose of drafting and submitting an item-veto amendment. Congress would be obligated to comply.

With the item veto, the Chief Executive can disapprove a provision of an appropriations bill without having to disapprove the entire bill. He can designate the provisions which are unacceptable to him and return it to the Congress with his annotated comments. Congress can subsequently practice the same procedure for the item veto as it does for any other veto by putting together a two-thirds majority to override the veto. The discipline of the line item veto should help to reduce extravagance in public expenditures, curb logrolling and cutback on pork barrel appropriations.

The line item veto could help to restore to the office of the president the balance of power that was intended to work. By mandating that bonafide political horse-trading to take place on Capitol Hill, it would boost the sagging image of Congress. It would send a signal that Washington is also serious about dealing with the record deficits. A president, armed with a line item veto, could focus the attention of Congress and the country on particular items of spending that he deems wasteful or inappropriate. The present veto is too general a weapon. Presently, the Chief Executive may face the choice of having to veto major legislation to get at the one or two items in a bill that are genuinely contentions.

RECAPTURE THE MANDATE

Presidents and members of Congress often complain that the Federal budget can't be cut much because the bulk of spending on social welfare programs is mandated

by acts of law, hence "uncontrollable." Whatever laws previous Congresses and Presidents have enacted, this Congress and President can repeal. Nothing is really uncontrollable, except perhaps the never-failing instinct for political survival among our public servants.

The governor of every major state in the Union has line-item veto power, which permits the Executive to veto individual items in the legislature's budget. Nearly every president since Ulysses S. Grant — Democrat and Republican — has requested it. President Roosevelt, in his annual budget message of Jan. 3, 1939 put it this way: "A respectable difference of opinion exists as to whether a similar item veto power could be given to the President by legislation or whether a constitutional amendment would be necessary. I strongly recommend that the present Congress adopt whichever course it may deem to be the correct one."

In forty-three of the fifty states, the governor has been granted such a line item veto. It should also be a necessary part of presidential power. A recent Gallup survey reported that seventy percent of Americans favored granting line item veto power to our presidents. There are those who believe that the only response to the present budgetary crisis is election of "responsible" representatives. They fail to appreciate that the Congress is currently made up of such well-intentioned individuals. Justification for the amendment lies directly in the congressional fiscal irresponsibility that has plagued our economy for at least the last two decades.

NO FREE LUNCH

The question before the house is this: "Do we want to risk a speedup of inflation and the destruction of our currency by boosting government deficit spending and hampering savings and production, or are we really determined to cut Federal expenditures, curb the growth of the money supply and thus preserve our currency and our economy?" Office seekers know that many voters realize that increased Federal spending, without corresponding increases in taxation will increase inflation. 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. Alas, there is no free lunch. Everything has a cost that must be paid by someone. The Federal government has been shoveling out money for many programs that, until the last two decades, have never been part of its responsibility.

Now that such money, heretofore thought of as "free," could potentially be reduced through a line item veto amendment, the "victims" are screaming about economic and social injustice. If those programs are in fact important, then the would-be casualties should petition their state legislatures for similar programs. Some of the programs would no longer be so important, if the citizens were asked to pay for them directly.

Two years ago, Illinois's governor said he'd 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.

CHANGING THE RULES

As with the first ten amendments, a line item budget amendment limits the power of Congress to bind the people with excessive taxation and deficit-caused inflation which acts as a tax. The amendment would force members of Congress to identify themselves, by their votes, as deliberate budget busters, if they desire to commit funds that will have to be borrowed.

Critics contend that fiscal theory should not be in the Constitution. However, the 16th Amendment authorized the income tax; that was not in the Constitution originally. Currently the Constitution contemplates spending and revenue raising, but it doesn't deal with how much can be spent. Congress could simply pass a statute embodying the same provisions as are in recent balanced budget and line item veto amendments. However, time and again, Congress has shown its unwillingness to balance the books.

It is probable that if a president held the power to veto individual spending items, Congress would then be constrained to decide what is justifiable spending and what is not. If Congress refused to be a good steward in managing the people's tax payments, those taxpayer-voters who elect presidents should also grant them the sanctions to use the item veto authority to restore budget control. Certainly it is logical that once politics-as-usual has operated in the budgetary process, that overall responsibility should rest with the president. This has proved true in the forty-three states in which their chief executive retains the line item veto power.

SUMMARY AND POLICY IMPLICATIONS

Our redistributive 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 overconsumption caused by producing less and demanding more, we stole from our children by providing insufficient capital for economic growth. This has undoubtedly been a sure way to discourage ancestor worship.

The notion that we could continually prod the economy into prosperity, through force feeding it with annual budget deficits, has created a noxious mixture of stagnation and inflation that we call "stagflation." We cannot spend ourselves rich. Attempting to do so has drained away the private sector's vitality and has caused scary combinations of budget deficits, chronic inflation, and volatile interest rates.

The real argument about the budget deficits and the quantum leap in the Federal debt stems from the fact that it accommodates and facilitates big government. The liberal favors it, because he likes big government. The conservative opposes it, because he opposes big government. Many of the contentions regarding budget

deficits have been contrived out of a desire either to facilitate or restrict the growth of the Federal government.

If there were any one prescription that would do the American economy an enormous amount of good, it would be a healthy dose of the 6-Ds: De-tax, de-spend, de-regulate, de-control, disinflate and downsize government. A constitutional line item veto budget amendment appears to be one means of bringing Congress' excessive spending under control. Thomas Jefferson said it best: "... let no more be heard of confidence in man, but bind him down from mischief by the claims of the constitution."

Free Trade Or Fair Trade

by Bruce Alan Picker
Harding University
Searcy, Arkansas

Editor's Note — Bruce Picker of Searcy, Arkansas and a member of our Economics Team, has won a \$3,500.00 prize in a National Essay Contest on the theme, "Free Trade OR Fair Trade." Bruce and his instructor, Mr. David Tucker, flew to Los Angeles on April 30, 1984, where Dr. Milton Friedman, representing the Americanism Educational League's blue-ribbon panel of judges, personally presented their awards at a dinner ceremony at the Sheraton Hotel.

On June 7, 1776, Richard Henry Lee, of Virginia, offered a resolution in Congress "that these United Colonies are, and of right ought to be free and independent states." From this was penned the Declaration of Independence and one of the most powerful concepts ever to rise concerning man and freedom. The document promotes freedom of religion, freedom of speech, freedom of will, and freedom of choice. It allows the freedom for us to be enterprising individuals, to buy and sell with anyone we choose for the most and best products at the lowest prices, without the intervention of government. But today that freedom of trade is being distorted. Short sighted protectionists are pushing for "fair" trade rather than the long run benefits that true free trade would bring to participating countries. Fair trade is not the cure but a curse.

Originally, the idea of free trade was designed with consumers, not businesses, in mind. Its principles were based around people, individuals, and the private sector. However, through time we have managed to turn this idea around. Whenever an individual decides to start a business, then he is making a choice to take a chance: a chance to produce or serve consumers for the lowest price. He must and should do so profitably. He knows that he may lose his investment or even more if he cannot succeed, but it is his choice, no one makes him do it.

Once in business for himself, the entrepreneur may forget the choice he made and believe the consumer should help him. If the entrepreneur is being challenged

by a foreign competitor, he may become upset and fearful that he may lose. He presses his government for help, whether it be for quotas or tariffs just so that **he** won't get hurt. This way of thinking is harmful to a trade which is based on free competitive forces. After all, isn't it common sense that the consumer would pay the lowest price for the best quality product? Isn't it normal self-interest to want the most for one's dollar? Adam Smith said, "In every country it is always and must be in the interest of the great body of people to buy whatever they want of those who sell it cheapest." Notice that he said it was in the interest of the people, not the businesses, to buy what we want, from whom we want, for the cheapest price. Until we revert to that way of thinking again, any free trade arrangement is in jeopardy.

Who decides what is fair? Does a government, a committee, or a textbook do it? There is no way to decide what is fair for everyone, except for impersonal market forces. That which is good and profitable for one person may not necessarily be good and profitable for another. In the Bill of Rights the idea of fairness is never mentioned, only the concept of freedom. The freedom of religion and speech as mentioned earlier, for example, would take on a whole new meaning if the word "fair" was to be inserted where the word "free" now is used. The way the game is to be played should be fair, but the outcome is not necessarily fair.

A system based on free trade is vital to sustain a free economy. To be more free calls for fewer quotas, tariffs, subsidies, and government intervention. Today protectionists are screaming for an artificially created favorable balance of trade, because of the large deficits we have with Japan. However, protectionists don't say anything about the trade surplus we have with Western Europe.

We must realize that more government intervention is not the answer to our problems. Murray Weidenbaum stated that the more we run to the government for assistance or "fairness," the more control and power government has over us. Our entrepreneurial spirit is being evaded by our pressing government to protect us. Being protected from failure, we prohibit ourselves from succeeding.

Where do we draw the line? Is the government willing to save an industry such as Chrysler or Lockheed because of the impact it would have on the economy, because of its large number of employees that would be out of jobs? As small businesses rise and fall each year, the total number of unemployed workers exceeds those who would have been temporarily disemployed at Chrysler. Where will all the protectionist rationalizing end? It is the incentive, the drive, the enterprising spirit of our people that makes the American economy the richest, greatest, and most powerful on this earth. And in the process, we have benefited countless others in different lands. We need to therefore be true to our free market heritage if we shall be economically as free as we were when Richard Henry Lee made that resolution to Congress over 200 years ago. We must gird up our loins and allow free voluntary trade, regulated by competition, to deliver the goods. The future is now. In the words of Ronald Reagan's campaign slogan in 1980, "If not us, who? . . . if not now, when?"



The
entrepreneur

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

Summer, 1984

Non-profit
Organization
U.S. Postage

PAID

PERMIT NO. 804
Dallas, Texas 75211