

FOUR BLIND MICE

By Robert F. Dee

Robert F. Dee is currently Chairman and Chief Executive Officer of SmithKline Corporation. Prior to being elected Chairman in 1976, Mr. Dee had served as President and Chief Executive Officer since 1972. He joined the company in 1948. After holding positions in a number of business areas, including pharmaceutical research and development, sales and personnel, he was elected Vice President in 1967 and Group Vice President and member of the Board of Directors in 1969.

Mr. Dee is a member of the Board of Directors of the National Association of Manufacturers, Pennsylvanians for Effective Government (PEG), Fidelcor, Inc., and the Institute for Educational Affairs. He is Chairman of the Foundation for Economic Freedom, and serves on the Board of Trustees for the United Way of Southeastern Pennsylvania. He is a member of the Policy Committee of the Business Roundtable, the Industry-Labor Council of The White House Conference on Handicapped Individuals, and the Finance Committee of the Joint Council on Economic Education.

Born in 1924, Mr. Dee was graduated from Harvard University in 1946 with a Bachelor of Arts degree. He received an Honorary Doctor of Laws degree in 1978 from the Philadelphia College of Pharmacy and Science, and an Honorary Doctor of Humane Letters degree from The Medical College of Pennsylvania in 1979. He served for four years in the Army where he held the rank of Lieutenant.

Mr. Dee delivered this presentation at Hillsdale during the Center for Constructive Alternatives seminar, "Leading Corporate Heads Assess America's Future."

Before I get to my remarks, I would like to salute Hillsdale—its students, its faculty and its leadership. You have shown great moral courage in fighting for academic liberty. You have chosen—and properly so—to stand up to big government, to defend your principles. I congratulate you. Hillsdale is a living monument to the standards of integrity and excellence that will preserve academic freedom. You should all be very proud.



I think many of you have seen George Roche's fine statement in SmithKline's Forum for A Healthier American Society. It appeared during July—in *The Wall Street Journal* and *Newsweek* magazine. It was read by an estimated 22 million Americans. This advertisement was SmithKline's way of backing Hillsdale's position. I want you to know that I was greatly pleased to be associated with the College on this vital issue.

I have only three points to make. Although it may seem at first that I am starting at the wrong end of the telescope, I hope you will bear with me. I will bring the picture into focus as I go along.

My first point deals with the fundamental cause of America's current problems.

Second, I would like to offer for your consideration a new scenario for America's future. I think it is a possible scenario. I think it may be a probable scenario.

im•pri•mis (im-pri-mis) adv. In the first place. Middle English, from Latin *in primis*, among the first (things).

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And third, I would like to explain why, taking into account the first and second points, I am optimistic about the outlook for America.

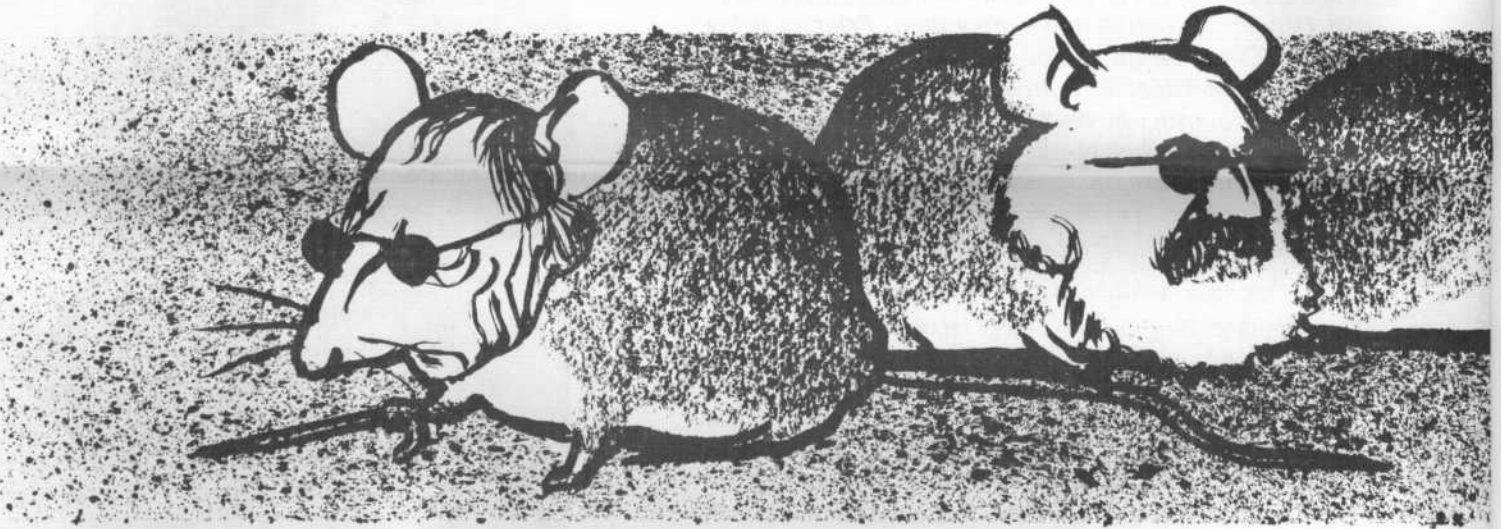
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Unfortunately, I have to begin with the negative to get to the positive. I want to talk about the Four Blind Mice. And the first one is the philosopher Hegel. Hegel was the man who launched the Western world on a career of theorizing from which it has not yet recovered.

Although I am not opposed to theory when it is based

that government should—and must—intervene in the free economy to keep it in proper balance.

Virtually alone, this man theorized the British economy down the drain. We can only hope that Margaret Thatcher has arrived in time to save it. And, as if that were not enough, he and his disciples infected with vain theory the minds of American statesmen and economists. His theory of government intervention was the bedrock of the New Deal and has continued to influence American government policy ever since.



on facts, I am opposed to it when it is spun out of thin air—as in the case of Hegel and his successors.

Yet Hegel's theorizing had tremendous practical effects. It set off a chain reaction. From his time to ours, the Western world departed from facts in favor of theory in a hundred different departments of life.

Theory invaded education with John Dewey—you know what a disaster that has been. Theory invaded art—with often questionable results. Theory invaded the monetary system—and good minds like Milton Friedman have been trying ever since to drag it back to home base. But worst of all, theory invaded politics and economics.

Karl Marx, the Second Mouse, was overwhelmed by Hegel's thought—so overwhelmed, in fact, that he rejected the good in it and kept only the worst. His theory has confused the minds of about two thirds of the human race. Yet Marxism is hopelessly unreal. And, for that reason, it cannot survive the test of time. But Marx was not the only theorizer of politics and economics.

Moving into the spotlight came John Maynard Keynes in the Twenties and Thirties of this century—the Third Blind Mouse. Keynes was neither a Hegelian nor a Marxist. But, exactly like Hegel and Marx, he was a spinner of theory. His theory was based on the premise

This policy is responsible for excessive government spending, excessive government welfare at the cost of working people, excessive government taxation, excessive government tampering with the private sector, and excessive government scorn for the practical men and women of business.

We have had nearly 50 years of government intervention in the market; nearly fifty years during which Keynesian theory has debauched the American economy; nearly 50 years during which business people—who work on fact, not theory—have ground their teeth in frustration.

And now, after a half century of that, I must watch my children sit before the television set as John Kenneth Galbraith informs a nationwide audience about his views of what is wrong with the American economy. This much publicized Keynesian is the Fourth Blind Mouse—and I hope the irony of that TV show does not escape you.

But there were straight thinkers also during those 50 years. Again and again voices were raised in protest. And again and again they were ignored by our government leaders.

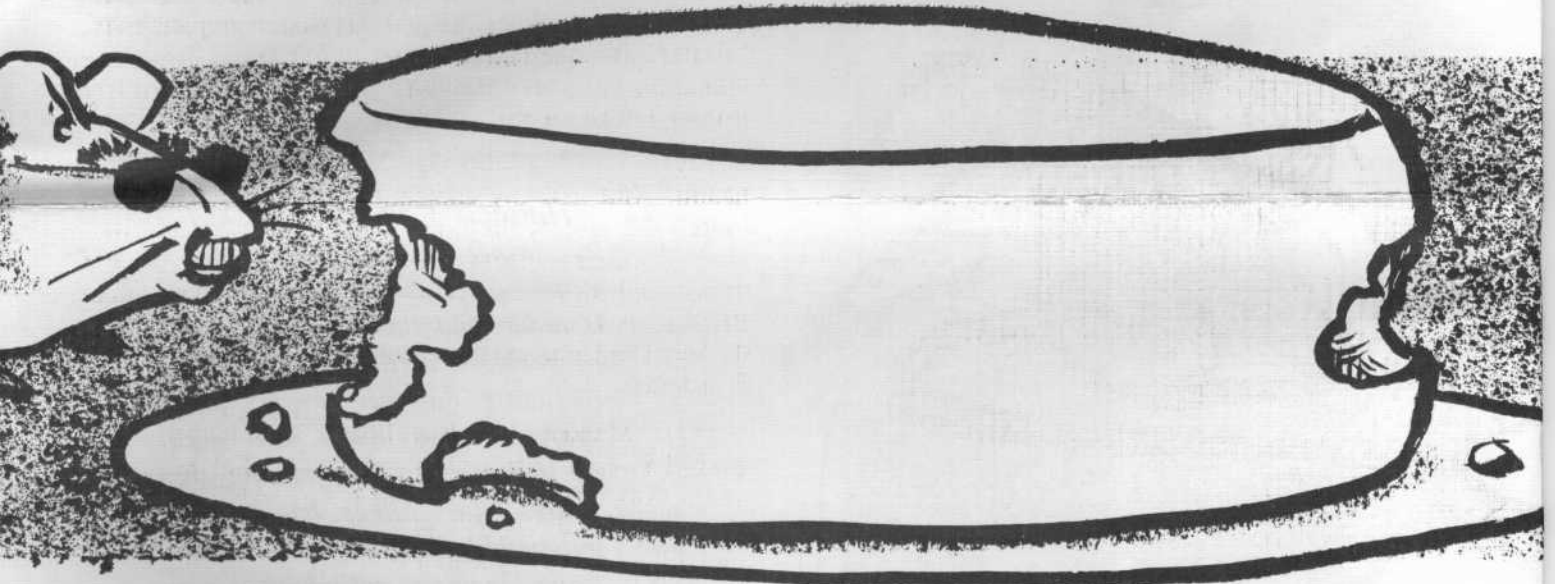
Keynes had studied the unemployment figures in Great Britain from 1921 to 1938, when unemployment

averaged about 14 percent. This was an impressively high percentage. Keynes by then had abandoned traditional economics and he was convinced that insufficient demand was the cause of Britain's high unemployment. He believed that government should intervene by manipulating the economy to stimulate demand.

Intervention on a temporary basis to alleviate the severe unemployment of the Depression was not an ignoble thought. But Keynes went much further. He developed a whole theory of government interference

In the period before 1900, only a handful of federal agencies existed. Between 1930 and 1939, a dozen new ones were put in place in a great spurt of New Deal intervention. And the process has continued since then. During 1970 to 1979 the largest increase took place, with 20 new agencies added to the government superstructure.

Today there are 55 regulatory agencies employing some 80,000 people on a budget more than double what it was in 1974. It's worth noting that Congress has only



with the free market.

Winston Churchill very cannily saw that the unemployment figures could be interpreted to justify a continual pattern of government interference with the economy. And he warned against just such an interpretation.

This past June two scholars at the University of Washington published an article analyzing the effects of unemployment benefits in Britain for the period in question. They found that when benefits increased, so did unemployment; and when benefits were reduced, unemployment fell—exactly what you would expect on the basis of common sense.

They concluded that Keynes had misjudged the meaning of the unemployment figures. But the theories he based on that misjudgment have had a profound impact on much of the Western world ever since.

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I don't want to belabor you with a long recital of the effects of Keynesian theory on the American economy. But to complete the argument, I must mention a few.

One significant effect was the rise of a government bureaucracy in this country through the creation of ever more regulatory agencies.

seen fit to terminate 5 agencies in nearly a quarter of a century.

Industrial groups are now measuring the economic impact of the regulations of these agencies on their businesses—and on consumer prices. The President's Council of Economic Advisors estimated in 1975 that the cost to citizens of federal regulation was then over \$100 billion a year.

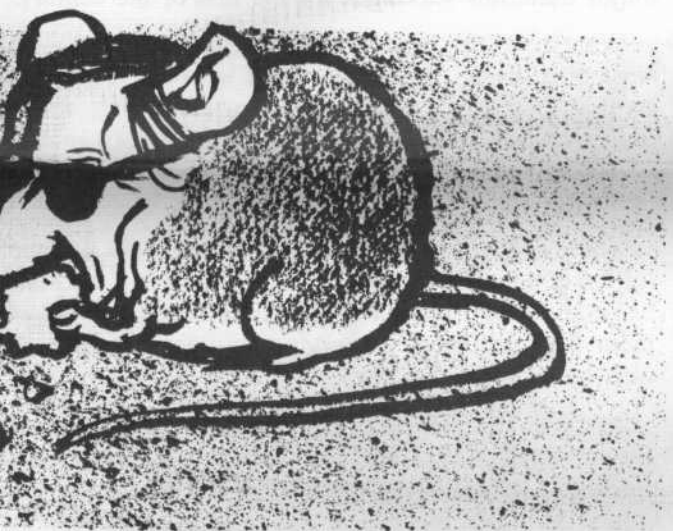
The most serious economic impact of government intervention in the private sector is the slowdown in productivity growth. The productivity engine, which had been pushing ahead at a rate between 2.3 percent and 3 percent per year, did not begin to stall until the early 1970s. This says much for the resilience of American industry and its capacity for resisting intervention.

The 1979 report of the Council of Economic Advisors pointed out that our poor productivity performance has been caused largely by the weakness of business investment.

From 1948 to 1973 the amount of capital stock per unit of labor grew at an annual rate of almost 3 percent. Since 1973, however, lower rates of private investment, discouraged by government action, have led to a decline in that growth rate to 1.75 percent.

Moreover, the long-term trend in productivity growth shows consistently smaller gains in America than in other industrialized countries. In 1978, for example, manufacturing productivity rose 2.5 percent in this country, but went up by 8 percent in Japan, 5 percent in France, 4 percent in Germany and Canada, and 3 percent in Italy.

In addition to slackening productivity, we are confronted by an inflation rate that is truly threatening—and again, directly attributable to government policy.



Assuming a 10 percent annual inflation rate—our present rate is close to 14—a typical four-door sedan costing \$6,000 in 1978 will cost \$15,000 in 1988. Annual college costs of \$3,800 in 1978 will be \$9,800 by 1988.

Inflation is a tax that everyone pays. It erodes the dollar's buying power. It works its most severe hardship on Americans with fixed incomes and upon the poor. It undermines the country's social and economic growth. It stands in the way of a favorable U.S. balance of trade.

But government is chiefly responsible for inflation. Through excessive spending, heavy federal debt, manipulation of the money supply, overregulation and lack of sound fiscal policy, government has let loose the tiger of inflation and is now struggling hard to hold it by the tail.

Meanwhile, the tax burden has been growing even faster than inflation. In 1964 the median income for a family of four with one wage earner was a little over \$8,000. Twenty years later, in 1983, that same family will need to earn \$25,000 just to keep pace with rising consumer prices. And during that same 20-year period, federal income taxes will have grown by 463 percent. Social Security taxes will have grown by 990 percent.

In an interview last year, Bill Simon, former Secretary

of the Treasury, pointed out that in the past 50 years the federal budget has grown more than 15,000 percent and that the interest on federal debt costs about \$935 million every week. He also noted that the Social Security system may be as much as \$4 trillion short.

To spend \$4 trillion, by the way, you would have to spend \$2 billion a year between the birth of Christ and the year 2000.

To foot the bill for this, the average citizen now works until June just to pay taxes.

At the same time, the balance of trade is far from working in our favor. The dollar is weak internationally. Capital investment has been off for years. American technology is not keeping pace with our need for productivity growth.

Taken together, this is a picture of economic ill health. And it is my contention that this sickness can largely be laid at the door of those economic ideologists—stemming from Keynes—who simply do not understand how a capitalist economy works. Great Britain has been virtually wrecked by bogus economic theory. The United States stands on the brink of a similar disaster.

H. L. Mencken said that there is a solution to every problem—neat, plausible—and wrong. For nearly 50 years, Americans have suffered at the hands of economic theorists who obviously had the wrong key for unlocking our full economic potential.

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Now, is there a way out? I believe there is. At the core of our republican form of government are two concepts. The first is that individual freedom is a good and desirable thing. The second is that American citizens have the real power to direct their government.

If those concepts are false, then I say there is no alternative to the ultimate socialization of America. But if they are true, as I believe they are, only one thing is required: That Americans become fully aware of how and by whom their economy has been wrecked. They will then take matters into their own hands.

There are signs that American citizens are rapidly becoming aware of what is wrong—and they are responding. Nearly half the states have considered, or are considering, ballot issues to limit local taxation in some way or ways. Billions of dollars are involved in these tax challenges.

This represents a revolt by Americans against the fundamental assumption that government knows best and that the personal income of citizens is automatically government property. The American body politic is beginning to withdraw its support for oppressive controls of the productive process by government.

A sociologist at Columbia University, Professor Amitai Etzioni, has made the important point that the

time has come for America to choose. He says the choice is between a productive America, or a nonproductive America; between a society dedicated to growth, or one dedicated to not growing; between an eroding economy, or one that is healthy and sound.

And to that I add: we must also choose between a free society with incentives for all, or a society shackled by big government; between a nation that is still a symbol of liberty for the world, or a nation that has lost its vision, and forgotten its destiny. When the chips are down, Professor Etzioni believes the United States will choose to rebuild. That is the American tradition. That is what we do best. And I think that is where we are heading.

The costs of improving our capital stock for the next ten years will run much higher than those needed to create a welfare state. But we must choose to invest if we want to prosper.

When we talk of rebuilding our industrial base, we aren't necessarily speaking of "industry" as we know it now: sprawling factories, heavy energy demands, environmental pollution, large amounts of low-skilled labor. We must think in terms of new methods of production for new types of products and services—a shift to new technologies and new ways of making, marketing and distributing those products.

I think America will want to continue having a production-oriented society—especially when it becomes even more clear that the alternative means a lower standard of living with a continual erosion of private initiative and individual liberty.

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Now, optimism, my third point. With the poor picture I have painted of our economy, how can I possibly be optimistic? Jonathan Swift had the last word on optimism when he remarked that it was a bold man who ate the first oyster. The oyster we have to eat at present is the admission that the economic policies of American government for nearly 50 years have been wrong-headed and completely opposed to the best interests of our country. And to the total amazement of a great many people, that admission now seems to be surfacing.

The most optimistic news we have had in recent memory is the bold report of the Joint Economic Committee of Congress on August 13, 1979. This Committee is charged with guiding Congressional committees that deal with economic matters. That report underscored the choice I have just been discussing. It said that the average American is likely to see his standard of living drastically reduced in the 1980s unless productivity growth is accelerated.

The report is an important breakthrough—so important, in fact, that *The Wall Street Journal* has so far run

three editorials hammering home the points contained in it. It is significant because most of the members of the Committee head or sit on other powerful committees—such as Banking, Finance or Ways and Means. The report called for a shift of attention to the supply side of the economy, away from the Keynesian emphasis on the demand side. It called for a rebuilding of our industrial base.

A report published recently by the National Planning Association picked up a similar theme. It said that if investment projects in basic industries in the United States continue to be deferred, the country will face major materials shortages for the rest of the century.

What all of this means, in my judgment, is that we are beginning to get that awareness I spoke of earlier—an awareness that we must choose to rebuild our eroding industrial base. And I think flowing from that awareness will come support by the American people *for precisely that solution.*

The elections of 1980 will give Americans an opportunity to choose—to choose between a big spending, overregulating, bureaucratic welfare state, or a government that will focus on productivity and the economic well-being of all our citizens.

As those elections approach, I hope Americans will not be misled by emotional appeals and extravagant rhetoric. I hope instead that they will look for the solid values on which our nation was founded; that they will choose leaders of insight and integrity, leaders who stand for the sound, practical and realistic economic principles that alone can ensure our survival as a world leader.

We must remember that the nation we are defending is a great nation, and that the economy we want to preserve is a great economy. Our economy has produced a standard of living that defines poverty at a level higher than the average income in the Soviet Union and 800 percent above the average world level. Our agricultural economy produces food surpluses that the world cannot live without. And we have an industrial technology that the communist countries are constantly attempting to steal. In 200 years, America has produced incredible bounty for all Americans and for a very large part of the world.

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The citizens of America have been ill-served by nearly a half century of poor governance. I believe that cycle of misjudgment must be replaced by a new wave of productive growth. I believe that America has learned from the painful lessons of our recent past. And I believe that America *will* choose—and will choose wisely—and that our choice will be, never to retreat, but to advance into a future that we will shape by our own initiative, our own self-reliance and our own common sense.



Hillsdale College is marked by its strong independence and its emphasis on academic excellence. It holds that the traditional values of Western civilization, especially including the free society of responsible individuals, are worthy of defense. In maintaining these values, the college has remained independent throughout its 135 years, neither soliciting nor accepting government funding for its operations.

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