

THE FUTURE AGENDA

by William E. Simon

William E. Simon has served as Secretary of the Treasury in President Ford's administration, and as chairman of the President's Economic Policy Board. Secretary Simon addressed the kickoff dinner of the Hillsdale College Freedom Fund's "Weekend for Freedom."

As the nation turns its attention away from the recent elections it will again confront the persistent problems that have plagued policy makers for more than a decade. The claims and promises made during the election will now be tested against the harsh realities of the real world and the expectations of the people will be matched against the basic capacity of the system to deliver even more goods and services.

During the last fifteen years the real output of goods and services has increased 60 percent and the real income of the average American has risen by 50 percent. But despite these remarkable gains the American people are increasingly dissatisfied with the national state of affairs and their personal status. Part of this frustration is a healthy refusal to tolerate many real problems that exist. The American drive to improve, to help those less fortunate, to seek ever higher personal standards of living is commendable when it leads to a more creative and productive system and increased concern for the needs of others. But there is also an unhealthy aspect in much of the cynicism and negativism that we find in America today. I believe this more ugly mood is the result of the demonstrated failure of collectivist big-government approaches to national problems that promised so much but delivered so little. In the process, a mood of dependence on government has increased which feeds upon itself creating still more demands for benefits without recognizing that the bills must be paid — either directly in current taxes or indirectly through accelerating inflation and economic disruption.

The accumulation of economic distortions must now be faced. The longer we delay the hard adjustment decisions the more difficult and costly the needed solutions will become. And if we delay too

long the opportunities to restore stable economic progress may be lost.

The future agenda for America then is basically a consideration of the multitude of conflicting claims to arrive at the greatest long-term benefit for all of our people. In that process the most important factor to be considered is the freedom and dignity of the individual. No matter what material progress occurs, the loss of personal freedom and dignity is too great of a price to be paid. In short, we must decide what kind of economic and political systems will best serve the real long-term interests of the American people.

It is particularly appropriate that this important discussion be held here at Hillsdale College, for you have attracted national attention by your valiant effort to maintain your academic independence in an era of increasing external encroachment on our traditional education values and procedures. I want to express my strong support for your program to make your college financially independent of external pressures. Such financial independence has become the foundation of academic freedom and even the survival of private academic institutions. For many years, too many Americans have passively watched the corruption of the well-known "Golden Rule" for treating others fairly and charitably until it has deteriorated into the cynical guideline: "He who has the gold makes the rules."

The erosion of academic independence during the last twenty years has been directly related to increasing federal financing and controls which have made higher education one of our most regulated industries. Like any other institution experiencing severe financial strains, colleges and universities are

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

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losing their independence as policy-making authority is increasingly shifted to absentee government creditors. An American Council on Education study of a cross-section of colleges and universities showed that institutional costs of implementing federally mandated social programs had, depending on the specific school analyzed, increased ten to twenty times in the last decade, and now equal "the equivalent of 5 percent to 18 percent of tuition revenues...." That report concluded that "federally mandated social programs contributed substantially to the instability of costs at colleges and universities from year to year and thus increased their difficulties of financial management and budget balance."

Even more serious is the impact of federal control over the curriculum and faculties of colleges and universities which have historically held the trust of the general public because they believed that the promulgation of learning and the search for truth were their primary objectives. When government regulators force schools to adopt other goals with even higher priorities, in return for financial assistance, then educators will inevitably surrender institutional responsibilities. No matter how desirable these other priorities are if the government regulation disrupts the primary goal of education — the promulgation of learning and the search for truth — then it is clearly time to reject such controls. In his last annual report President Derek C. Bok of Harvard expressed alarm at government actions that strike directly "at the central academic functions of colleges and universities." After reciting a long list of examples he argues that government rules "diminish initiative and experimentation," "threaten to impinge upon diversity of the system" and transfer authority from experienced educational leaders to inexperienced public officials, thus increasing the likelihood and magnifying the impact and cost of mistakes.

Another interesting example involved a quartet of presidents of universities in the nation's capital — American, Catholic, George Washington and Georgetown — who recently issued what they styled "A 1976 Declaration of Independence," protesting "recent government policies and behavior toward education," which, in their opinion, "have threatened [the] valued independence and... shaken the foundations of our system of higher education in this country." These presidents saw "an intensification of these interventionist trends." Referring particularly to what they called "the myriad, pedantic, and sometimes contradictory requirements imposed by government regulation," their statement reaffirmed their "intention to maintain institutional independence from any external intervention which threatens the integrity of their institutions."

Finally, President Dallin H. Oaks of Brigham Young University comments that:

A plea for institutional freedom from Federal regulation is not an easy position for the academic community to accept. Poll after poll has shown that college and university faculty

members generally approve increased government power, an opinion that of course places a degree of reliance on government's ability to solve social problems that is wholly inconsistent with its dismal record of accomplishment. Faculty members invariably defend the teacher's individual academic freedom of inquiry and expression, which is properly regarded as one of the essential preconditions of a free society. In time, I hope our Nation's teachers — especially in higher education — will just as stoutly defend the academic freedom of their colleges and universities from government regulation of the educational process.

From these comments by leading educators it is clear that other schools are beginning to develop the same concerns that Hillsdale College has felt for some time. I commend you both for your vision and your courage in taking specific action to protect your financial and academic independence.



I. Agenda for the Future

Turning to your seminar topic, "The Current Condition of American Society and the Prospects for the Future," I will limit myself to a brief review of the basic economic issues that will ultimately shape the future course of the United States. The American people must now decide what kind of economy they want for the foreseeable future. They must realize that their government's fiscal and monetary policies and the maze of government programs that increasingly intervene in their daily lives are the real issues that will determine their personal welfare:

— whether or not inflation will be effectively controlled or once again allowed to return to double-digit levels;

— whether or not capital investment will be adequate to create meaningful jobs for the growing labor force;

— whether or not government regulation and administrative controls will be changed to meet current economic realities to restore productivity and efficiency;

— whether or not the United States will provide effective leadership on international monetary, trade and investment issues.

In looking to the future the American people should ask this basic question each time the government comes up with a new economic policy initiative: Will this action contribute to sustained and orderly economic growth or will it merely perpetuate the familiar stop-and-go patterns of the past involving increased government spending without regard for the chronic deficits and economic and financial disruption created, excessive expansion of the money supply, even more government controls over the private economy and increased intervention in private wage and price decisions?

The proper role of government is to create an environment for sustained and orderly economic growth through its fiscal, monetary, and regulatory policies. The disappointing performance of the U.S. economy during much of the last decade emphasizes the basic need for more stable policies. In the mid-1960s the United States began an unfortunate series of exaggerated booms and recessions. Serious overheating of the economy created severe price pressures; accelerating inflation caused recessions by restricting housing construction, personal spending and business investment; the recessions created unwanted unemployment which wasted resources and caused personal suffering; rising unemployment too often triggered poorly planned and ill-timed government fiscal and monetary policies setting off another round of excessive stimulus leading again to overheating — inflation — recession — unemployment — and more government intervention.

From these experiences there is one basic conclusion: our basic desire for economic progress, through improved living standards and employment opportunities, will be frustrated unless we better control the insidious inflation which has destroyed economic stability and today threatens not only our goal of sustained growth but the ultimate survival of all of our basic institutions. When inflation distorts the economic system and destroys the incentives for real improvement, the people will no longer support that system, and society disintegrates. I am convinced that our uniquely creative and productive society will also collapse if we permit inflation to dominate economic affairs. There is no tradeoff between the goals of price stability and low unemployment as some critics have erroneously claimed. To the contrary, the achievement of both goals is interdependent. If we are to increase the output of goods and services and reduce unemployment, we must make further progress in reducing inflation.

The intensity of my feelings about inflation has resulted in some critics labeling me as obsessed.

However, I am not so much obsessed as I am downright antagonistic toward those who consistently vote for bigger deficits. We must always remember that it is inflation that causes the recessions that so cruelly waste our human and material resources and the tragic unemployment that leaves serious economic and psychological scars long after economic recovery occurs. It is inflation which destroys the purchasing power of our people as they strive — too often in a losing struggle — to provide the necessities of food, housing, clothing, transportation, and medical attention and those desirable things such as education, recreation and cultural opportunities. Inflation is not now, nor has it ever been, the grease that enables the economic machine to progress. Instead, it is the monkey wrench which disrupts the efficient functioning of the system. Inflation should be identified for what it is: the most vicious hoax ever perpetrated for the expedient purposes of a few at the cost of many. And there should be no uncertainty about its devastating impact, particularly for low income families, the elderly dependent upon accumulated financial resources, and the majority of working people who do not have the political or economic leverage to beat the system by keeping their incomes rising even more rapidly than inflation. When inflation takes over an economy the people suffer and it is time that this basic point is emphasized by every responsible citizen and the full brunt is brought to bear on his elected officials.

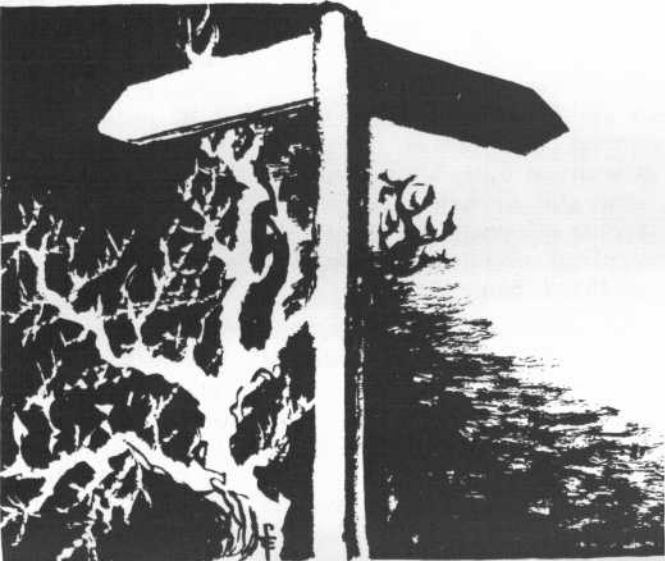
In general there must be more widespread recognition of the fundamental importance of stable economic growth in the future as the only true foundation for maximum employment opportunities and lower unemployment rates, for more moderate rates of inflation which will protect the purchasing power of all Americans and encourage more capital investment that will provide the permanent and productive jobs that people desire, for more efficient use of human and material resources and protection of our environment, and for fulfillment of our international responsibilities in monetary, trade and investment policies. Naturally, there are disagreements about how best to achieve these basic goals but I am convinced that a longer-term time horizon must be used.

— First, the diversity of problems must be recognized to avoid concentrating on a single issue. Inflation, unemployment, declining output, the availability of productive resources, international trade and investment all must be considered simultaneously to create a balanced program for stable economic growth. The beginning point for sustaining economic growth without the boom and recession distortions of the past is to avoid a return of destructive inflation pressures. From 1890 to 1970 prices in the United States increased at an annual rate of 1.8 percent. From December 1973 to December 1974 they jumped 12.2 percent. It seems so obvious that any long-term solution to our economic problems requires better control of inflation which has distorted the spending and savings decisions of all Americans. Inflation must be clearly recognized

for what it is: the greatest threat to the sustained progress of our economy and the personal standard of living of most Americans.

— Second, government policies must solve more problems than they create. During a period of difficulty it is expedient to respond to strident calls “to do something — anything to demonstrate political leadership.”

But this naively activist approach is too often the basic source of problems, not the solution. Courage and wisdom are always required to avoid actions offering the illusion of short-term benefits in exchange for further erosion of the free enterprise system that has served this nation so well in creating the premier economy of the world and providing the greatest degree of personal opportunities. The conventional wisdom that a few billion dollars of additional government spending somehow makes the difference between success or failure of the entire U.S. economy — which is rapidly approaching an annual level of output of two trillion dollars — has always amazed me. There is an important role for governments in protecting certain basic public interests but the claim that governments can or should



control the economy is totally false. We would all be better off if government officials would recognize that the real creativity and productivity of America depends upon the private sector.

— Third, and most important of all, there must be a proper balance in the shared responsibilities of the private and public sectors. This is a difficult assignment because of the confusion and pessimistic appraisals of the future caused by the political and economic shocks that have occurred. Maintaining and improving the creativity and productivity of the U.S. economic system against the attacks of critics who favor a big-government solution for the problems of society has become our greatest challenge. The simplistic cure of having government spend ever-increasing amounts of borrowed money has not solved many of our problems, but it has

created serious economic distortions that will continue long into the future. We now have a federal government that is trying to do more than its resources will permit, to do many things that it cannot do very well, to do some things that it should never do at all, and to do all of these things at the same time. As a result, we now have more government than we want, more than we need, and more than we can afford. Nevertheless, much of the current political rhetoric continues to claim that we aren't spending enough, aren't creating enough new government programs, and aren't pushing enough panic buttons. Despite the unmatched accomplishments of the U.S. economy these critics attack the free enterprise system and demand comprehensive governmental control over economic planning for the allocation of our national resources, the rationing of capital to selected industries, guaranteed government jobs for all who want them, increased control over private economic activities, even a return to the counter-productive wage and price controls that have always failed. Although the American free enterprise system feeds, clothes and houses our people more effectively than any other system in the world, provides the real basis for all of our public services and most importantly is fundamental to our individual freedoms, it is increasingly subject to criticism from those who seem to favor turning to less efficient approaches which would waste our human and material resources and eventually erode our economic progress and political freedoms.

Part of the problem is a matter of image. Those who support increased government spending and pervasive controls over our daily lives are often perceived as being more concerned and socially progressive. Those who allegedly “care more” are given considerable attention when they call for more spending to solve the unmet needs of society, even though the growth of big government has become a large part of the problem and not the solution it is alleged to be. At the same time, those who favor the free enterprise system too often converse in simplistic slogans that lack humane appeal. Worst of all, many businessmen who come to Washington seem to want to surrender their existing freedoms in exchange for protection from the competition that has made our system so dynamic.

It is now time — in fact the need is long overdue — for those who believe in the free enterprise system to more effectively promote its basic values. America has become the world's premier economy because it provides basic incentives to its people to work hard and to be creative. To the individual family this approach leads to a higher standard of living. To the business firm it means increased markets and larger profits. To our government it means increased effectiveness and public support.

In short, too many Americans — especially those who have known only the affluent society — are unaware of the real source of economic growth in our country. The material abundance, the freedoms of choice, the opportunities for meaningful work are all largely the result of the creativity and pro-

ductivity of our free and competitive economic system. This is the crucial theme that must be communicated to all Americans until they understand it. The American economy is the wellspring of our nation's basic strength in every sphere — political, social, military and economic. It is the source of our present abundance and the basis of our hopes for a better future. We can solve our recognized problems best by preserving and improving and strengthening rather than weakening our uniquely productive system. And in doing this we will preserve our other freedoms that have made America so great.

II. The Crucial Issue is Still Freedom

The United States now faces a basic choice. Yet we hear misleading political rhetoric that we can achieve our basic economic goals without making the necessary sacrifices required to produce and pay for the desired goods and services. Our magnificent country is capable of achieving any worthy goal it identifies but we must face up to many economic realities, particularly the obvious point that goods and services cannot be distributed to the consuming public unless they are first produced. We have the human and material resources necessary to operate our open and competitive economic system to achieve our goals if we will create the proper environment. How well we make these basic decisions will ultimately determine what future historians will write about America.

To find the answers we must begin with the correct questions. What has made this a great nation? What has made people throughout the world talk about the American Dream?

Has it been the land and our natural resources? We have certainly been blessed with an abundance of resources. But in the Soviet Union we see a land mass that is much larger than our own and one which is equally well-endowed. Yet, the Soviet system provides much less for the people. They must turn to the United States for the grain they need to feed their own people and for our technology and capital.

Does our strength depend only on the qualities of our people? We are clearly blessed with one of the largest and most talented populations that the world has ever known. But in China today we see a population that is four times as large as our own, whose civilization at one time was developed far in advance of the rest of the world. Yet their present material standard of living and personal freedoms are most disappointing.

So while our land, resources and people have been essential parts of the American story, there is a third factor that is too often missing in other countries that has contributed to America's progress. That crucial factor has been our national commitment to liberty and individual dignity.

For several hundred years people have streamed to our shores in search of various freedoms — freedom of religion, freedom of speech, freedom of the press, freedom of assembly, and freedom to seek their

fortunes without fear or favor of the government. All of these freedoms are planted firmly in our Constitution. But they have become such a familiar part of our lives that I wonder whether we now take them too much for granted.

There is nothing artificial about freedom, nor is there any guarantee of its permanency. As Dwight Eisenhower once said, "Freedom has its life in the hearts, the actions, and the spirits of men, and so it must be daily earned and refreshed — else like a flower cut from its life-giving roots, it will wither and die."

There are many ways this can happen, some of them very slow and subtle. For example, there has been an accelerating trend toward collectivist policies in the United States as people have been persuaded that the problems of our society have become so large that individuals can no longer cope with them. Many Americans now expect the government to assume responsibility for solving their problems and to do things for them that they once did for themselves. Government has been gradually cast into the role of trying to solve all the difficult challenges of modern life.

That trend began to accelerate in the 1960s as governments promised the rapid solution of complex political, economic and social problems and the end of economic cycles based on the clever manipulation of government policies. We failed to note that resources are always limited, even in a nation as affluent as ours. Unfortunately, the inflated expectations and broken promises of the past have left a residue of disillusionment. Many young people are skeptical about our basic institutions and I can't say that I blame them.

International problems, the energy crisis, disappointing harvests, excessive government regulations, wage and price controls and thousands of other specific problems have contributed significantly to the unsatisfactory levels of inflation and unemployment. But the underlying momentum has been basically caused by the excessive economic stimulus provided by the federal government for more than a decade. For example:

- A quadrupling of the federal budget in just 15 years;
- A string of 16 budget deficits in 17 years;
- And a doubling of the national debt in just 10 years time.

The greatest irony of these misguided policies is that they were based on the mistaken notion that they would specifically help the poor, the elderly, the sick and the disadvantaged. Yet when these stop-and-go government policies trigger inflation and unemployment, who gets hurt the most? The very same people the politicians claimed they were trying to help — the poor, the elderly, the sick and the disadvantaged.

Even more fundamentally, the last fifteen years have seen an acceleration of the trend toward big

government and the diminishing of economic and personal freedoms in the United States. The federal government has now become the dominant force in our society. It is the biggest single employer, the biggest consumer, and the biggest borrower. Fifty years ago, total government spending comprised approximately 10 percent of the gross national product; in 1976 that figure will exceed 35 percent. If the government spending trends of the last two decades continue, the total government share of economic activity in the United States will be approaching 60 percent by the year 2000. If the government exercises such a dominating influence in the economy, it will also control many of the personal decisions of its citizens. History shows that when economic freedom disappears personal and political freedoms also disappear. The inextricable relationship between economic freedom and personal freedom is sometimes overlooked by those who constantly seek to expand the powers of government, but it is plain to see in many countries around the world where these freedoms have been lost.

Unfortunately, there is no convenient scapegoat to blame our problems on. As modern governments have usurped the power to increasingly control our daily lives they have done so with good intent thinking that they are the proper authority to determine and then implement the ideals of society. In the process governments have sacrificed individual freedoms for a collective system of rules needed to impose their view of what is best for each of us. But this behavior is merely a reflection of what they believe the people want. It is not "the government"

that we should blame — that is a simplistic excuse — but the institutions of society, including the colleges and universities, that have created an environment in which equality of status is mistaken for equality of opportunity, and security—albeit a false sense of well being—is exchanged for personal freedom. As a result there is an increasing mood of frustration as public skepticism increases about our ability to handle the problems of the future. If this trend continues, most of the freedoms that we cherish will not survive for personal, political, and economic freedoms are all intertwined and cannot exist alone. The great historian Gibbon noted this tendency in writing an evaluation of ancient Greece:

In the end, more than they wanted freedom, they wanted security. They wanted a comfortable life and they lost it all — security, comfort, and freedom. When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free.

Our basic challenge then is to determine how much personal freedom, if any, that we are willing to give up in seeking collectivist security. It is certainly not easy to live with the uncertainties that exist in a free society but the real personal benefits created are far superior to any other system. It is this heritage of personal freedom that has made America a land blessed above all others. To protect this remarkable privilege is a goal worthy of our greatest personal and institutional commitment.

—LETTERS PRAISE COLLEGE STANCE—

I have always been impressed that businessmen follow altogether different principles in their business activities and their giving to colleges and universities. In business, it would never occur to them to choose their suppliers because they had worked for them many years before and regardless of the quality of their product. They assiduously seek the supplier who produces what they want to buy. In giving to colleges and universities, they tend to look primarily at the old school tie and hardly at all at what they are buying. The result is suicidal: support for institutions and activities that are undermining the foundations of a free enterprise system.

If businessmen are truly concerned about the threat to our free economy, they can do something about it by devoting the same care to their gifts as to their purchases.

In the market for the spread of ideas of freedom, Hillsdale College has been doing a yeoman's job and deserves every support.

Milton Friedman
Department of Economics
The University of Chicago

Our country is still rich with opportunity but it must be based on the freedoms that have brought America to its pre-eminence in the world today. One of the most important of these freedoms is the freedom of education.

Your dedication to the preservation of our private educational system in this country is exemplary. I hope it is as well known and appreciated throughout our great country and, in particular, throughout the academic community as it should be. Keep up your good work in providing the liberal arts education so essential in today's atmosphere for young people. All of them, and all of us, should be keenly aware that the foundation of America is a free society. You are most fortunate to have as your dinner speaker Secretary Simon who shares that conviction and articulates it so forcefully.

My very best wishes to you and all of your colleagues for a successful kickoff to the campaign to preserve Hillsdale's preeminent position in quality higher education.

Thomas A. Murphy
Chairman, General Motors Corp.