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TEXAS STATE

Pathfinder

CENTER FOR EDUCATION AND RESEARCH IN FREE ENTERPRISE
TEXAS A&M UNIVERSITY COLLEGE STATION, TEXAS 77843

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TEXAS SELECT COMMITTEE ON TAX EQUITY

The mandate of the Texas Select Committee on Tax Equity is to search for a new tax system that would more accurately reflect the changing base of Texas' economy and raise enough revenues to finance public expenditures. In our judgment, the Select Committee will inadvertently, but predictably, end up being a vehicle for tax increases.

The government of Texas is barking up the wrong tree. Instead of looking for new tax instruments, the Select Committee should have been asked to develop a set of constitutional rules that would define the size of the public sector in Texas. The real issue is the level of public spending. Even if the Select Committee could come up with an optimal set of instruments (whatever "optimal" means), this would only enhance the right of politicians to continuously negotiate and determine the level of public spending. Every day, they remind us about an entire range of public "needs." We need more highways, more schools, more hospitals, more welfare, more subsidies for stagnating industries, less unemployment and less poverty. The point is that we could satisfy some of those needs **only** by giving up other things that also are important. To say we need something begs the question: what things do we have less need for? It is deceptive to speak of fulfilling any specific need without recognizing that some people will have to make do with less of something else.

One might ask why elected politicians consistently want to increase government spending. Arent they elected to carry out the wishes of the people? The answer is, obviously, yes; but every expenditure is desired by some people. These

politicians are, therefore, constantly under pressure by one group or another to increase spending on some project or another. Just like the rest of us, politicians are motivated by their own self-interest.

A number of reputable scholars, including Nobel Laureates Stigler and Buchanan, have developed a theory of the various ways politicians can turn government powers into private ends. The theory demonstrates how private groups bargain with politicians to seek the gains and to avoid the losses from a range of government actions, and how politicians gain from exchange by forbearing—for a price—from using their power to impose costs.

Craig Stubblebine from Claremont Men's College wrote: "Early in my association with the California legislature, I came across the concept of 'milker bills.'"

Writing in *The Wall Street Journal*, B. Jackson said, "House Republican leaders are sending a vaguely threatening message to business political action committees: give us more or we may do something rash" and "members of the tax-writing committees nearly tripled their take from PACs during the first six months of [1985]."

Fred McChesney wrote that "their ability to impose costs enables politicians to credibly demand payments not to do so."

And, finally, George Stigler said, "With its power to prohibit or compel, to take or give money, the state can and does selectively help or hurt a vast number of industries."

The outcome is, as we know so well, that public spending is biased upward. Tax reform is then a political decision about who will pay how much

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ECONOMIC IMPACT OF VOCATIONAL EDUCATION IN TEXAS

The Texas Council on Vocational Education, composed of 13 governor-appointed lay citizens from business, industry, labor, agriculture and education, asked the Center for Education and Research in Free Enterprise at Texas A&M University to conduct a study on the economic impact of vocational education. The Center asked Dr. M. L. Greenhut, Abell Professor of Liberal Arts and Distinguished Professor of Economics, to prepare a study on the "Economic Impact of Vocational Education in Texas." The study was completed in August, 1988. A summary of the study follows. For complete copies of the study, write to the Center for Free Enterprise.—Editors.

Texas high school vocational education programs are having a positive and significant impact on higher worker wages, lower unemployment, increased sales tax receipts and reduced welfare costs.

Greenhut states, "There is strong evidence that certain vocational education programs offered significantly higher wage prospects for their graduates and that only a few programs did not."

He isolated males and females for wage comparisons. Both male and female students who completed vocational education programs (vocational completers) fared significantly better in the vast majority of programs than their equivalent counterparts.

Greenhut had sufficient data to conduct an unemployment analysis for 22 of the 25 programs involved in the study. In 18 of the programs, vocational completers had statistically significant lower unemployment rates than those projected for the

equivalent groups.

The difference in annual wages between vocational completers employed in fields related to training and the equivalent group, one year after high school, averaged \$1,724 for the programs in which a wage analysis was conducted. These same vocational completers averaged overall sales tax payments of \$212, which was \$46 more per completer than the equivalent group.

The additional individuals working as a result of lower unemployment rates among vocational completers vs. the equivalent group paid an average of \$22 more in sales tax than they would have had they not been employed, and saved the taxpayers an average of nearly \$2,100 each in unemployment payments.

Greenhut's analysis of 20 vocational programs in the sample of school districts revealed a cost of \$4.1 million above what it costs to provide regular academic instruction. The benefits in sales tax gains and unemployment savings for vocational completers in this program totaled \$1.3 million per year out of high school.

Greenhut points out that "if the results obtained in the study hold for only four years, the programs more than pay for themselves."

Greenhut was able to approximate the costs vs. benefits for 12 of the 20 post-secondary occupational programs.

"For 10 of the programs analyzed, the benefits per completer were significantly greater than the costs," he said. Benefits exceeded costs within one year after graduation.

From page one

to the treasury.

Given the mandate of the Select Committee, tax reform is a search for the most efficient tax system capable of generating sufficient revenues to meet expected expenditures in the future. The term "sufficient" revenues skirts the necessary critical examination of the level of public spending itself. Instead of searching for the optimal tax instruments, the Select Committee should have been asked to evaluate and recommend a set of constitutional rules on how much the state should spend, and on what kind of programs,

and what percentage of the state total income our legislators should be allowed to control. The Select Committee should have been asked, or should ask to be asked, to search for methods to constrain government spending. Such a change in the Select Committee's mandate would (1) eliminate the politicians' discretionary power to confer the gains on some taxpayers and impose the costs on others, and (2) limit them to monitoring and enforcing the rules.

—Charles Maurice
Steve Pejovich

BIG CORPORATIONS HELP THE ENEMY

During a recent telephone call between this writer and a super-bright scholar at one of the nation's major conservative think tanks, I made the following observation, "All too often when conservatives hear the term firing squad—they form a circle." This was followed by uproarious, if nervous, laughter partly because it was so devastatingly true and partly for the remark's clarity and candor.

This conversation was inspired by a most remarkable book recently published by the Capital Research Center and currently enjoying a series of rave reviews all across the country. *Patterns of Corporate Philanthropy* tells us that seven out of every 10 dollars given to public groups by U.S. corporations goes to left-of-center organizations. That's sad but correct. Our corporations are giving money to groups who virtually hate their guts or whose policies at least are often diametrically at odds with what corporate America is all about.

The book's author, Dr. Marvin Olasky, teaches journalism, history and media law and ethics at the University of Texas at Austin. His newspaper columns have appeared in such newspapers as the *Wall Street Journal*, *Philadelphia Inquirer*, *Houston Post*, *Detroit News* and *Oakland Tribune*. His UPI radio commentaries are carried on more than 50 radio stations, so his skill at telling it like it is comes as no accident.

An editorial in the *Arizona Republic* gives us an example: "Honeywell (Corporation) is not alone in spreading hush money around. Out of every \$10 given by the top 25 U.S. corporations to public affairs organizations, \$7 goes to left-of-center groups—some outright radical—that, in many cases, promote causes clearly at odds with the political and economic interests of American business.

"Olasky suggests that corporations ought to subject their philanthropy to an ideological test. It is self-delusion, he reasons, for them to pretend that corporate grants to public affairs groups—as opposed to arts and cultural organizations, hospitals and the like—are politically neutral. Corporate balancing acts, doling out grant money willy-nilly across the political spectrum in the expectation of fostering moderation or good

will is vain, self-defeating and irresponsible.

"American business should support organizations that favor private property, free markets, limited government and broad personal freedom."

Paul Harvey quotes Olasky, "Corporations in the name of philanthropy are contributing to their own destruction; that most of the money they donate to 'public affairs groups' is used against them.

"Olasky's book," says Harvey, "deserves more attention than it will get."

But Ralph de Toledano, one of the country's truly great conservative columnists, writes to give the Olasky book great credit citing several examples. One reason, however, which suggests the book may get somewhat more of the "great credit" it really deserves comes from one paragraph where de Toledano dissents:

"I find myself in partial disagreement with the Olasky thesis that the great corporations finance their enemies to appease or quiet them. This is true to a degree. But anyone who has had any dealings with those corporate officers who control 'philanthropic' funds knows the sardonic antipathy with which they hold conservatives and supporters of a free enterprise America. What they may say at board meetings is one thing, but it does not reflect their secret sympathies—and therein lies the problem."

There's more to Olasky's *Patterns in Corporate Philanthropy*, much more.

But de Toledano does indeed have a point. Considering that Idaho's largely left-wing governor, Cecil Andrus, was virtually put in office through the enthusiastic support and credibility bestowed upon him by Idaho Power Co., Albertsons and a few other big business interests in Idaho, perhaps my first observation above was wrong. Why?

Well, instead of "forming a circle" for the conservative firing squad, this time they seem to have formed a square—and elected him to office.

—Ralph Smeed

Ralph Smeed is a Caldwell, Idaho, businessman. This article was written for the Idaho Press-Tribune.

INVEST IN GENERAL KNOWLEDGE

Three years ago, the Center published a short monograph entitled, *Texas: Yesterday, Today, and Tomorrow*. This monograph described some of the economic problems in Texas at that time; the state was mired in a depression. The summary proposed a possible resolution:

The State of Texas is in a period of transition. Some of the most important industries are in a period of decline, and the future there does not look bright.

New jobs must be created in the state if it is to continue to prosper as it has in the past. And, the economy can no longer rely so heavily on the oil industry and agriculture.

What Must Be Done?

The solution is to invest in general knowledge rather than industry-specific knowledge. Then, no matter what happens, the state will be ready to adapt. No one can predict which sectors of the economy will become more important as other sectors decline. The only thing we can predict is that there will be change. Texas must be ready for that change and development.

The way to prepare is the accumulation of human capital. Knowledge is the growth sector of the future. This task can be accomplished only through the development and support of a great university system.

On November 10, the Department of Energy selected Texas as the site of the multibillion dollar superconducting super collider, which is expected to generate 4,500 new jobs and an additional 5,500 jobs in support companies. Most people believe that scientists at Texas A&M and other state universities played an important role in securing the project. Texas A&M President Dr. William H. Mobley said he was "... gratified that nearly a decade of hard work by researchers in Texas has paid off."

This reinforces the conclusion of the Center's monograph: investment in knowledge pays off.

SOVIET NEWSPAPER PUBLISHES HOUSING STATISTICS FOR 30 CITIES

A Goskomstat table published in a recent issue of *Argumenty i fakty* shows the number of people who were on a waiting list for housing in the capitals of the Union republics and other big cities at the beginning of this year ("Goskomstat SSSR soobshchaet," *Argumenty i fakty*, No. 32, 1988 p. 5).

(We know that "everyone knows" that severe shortages of consumer goods have existed in the Soviet Union for many years. Only recently, however, has the Soviet government acknowledged these shortages or permitted Soviet publications to write about their existence. It appears that the housing shortage is even greater than people have thought. — Editors)

The city with the longest housing queue in absolute terms is Moscow, with 344,800 families or single people on the waiting list; in proportional terms, the leader is Ufa, an industrial city of 1,092,000 in the Ural mountains, where 36 percent of all families are waiting for better housing. The table also gives "the list norm" (*uchetnaya norma*) for each city, i.e., the maximum amount of living space a person can have and still be eligible for rehousing.

Although the "sanitary norm" or public health standard for living space in the Soviet Union was set at nine square meters (100 square feet) per capita in the 1920s, this does not mean that everybody with less than that amount is automatically entitled to better housing.

According to Article 29 of the Housing Code of the RSFSR (1983) and analogous articles in the housing codes of the other Union republics, the executive committees (*ispolkomy*) of the local Councils of People's Deputies have the right to decide what amount of living space entitles people to be placed on the housing list. In other words, they have the right to set list norms at whatever level they think is proper, given the amount of housing stock at their disposal. In Ufa and Novosibirsk, for example, people with less than eight square meters of living space are considered to be in need of better housing; in Odessa, the cut-off point is four square meters (43 square feet). The list norm in Moscow is five square meters (53 square feet).

Based on a Radio Liberty Bulletin

Housing Conditions in Capitals of the Union Republics And Other Large Cities

	Avg. Per Capita Living Space (m ²)	No. of Families & Single People On Waiting List, Early 1988	Percent Of Families On Waiting List	"List Norm" (m ²)
Alma-Ata	8.9	49,700	15	6
Ashkhabad	6.8	23,600	26	6
Baku	7.9	68,700	26	5
Vilnius	9.7	36,300	21	5
Gorky	9.6	123,100	27	6.5
Dnepropetrovsk	9.6	74,200	20	6
Donetsk	9.9	75,300	22	6
Dushanbe	7.5	31,300	22	6
Erevan	7.5	42,000	16	5
Kazan	9.2	112,900	34	7
Kiev	9.6	208,400	26	5
Kishinev	7.9	69,500	32	6
Kuibyshev	9.2	114,300	29	7
Leningrad	10.6	282,900	20	5.5
Minsk	8.9	134,600	28	6
Moscow	10.7	344,800	12	5
Novosibirsk	9.0	111,600	25	8
Odessa	8.5	80,400	23	4
Omsk	9.4	108,400	31	7
Perm	8.6	106,800	32	6
Riga	10.8	75,700	26	5
Rostov-on-Don	10.0	74,100	23	6
Sverdlovsk	9.2	130,600	31	6.5
Tallinn	11.8	25,400	16	6
Tashkent	8.2	60,100	12	7
Tbilisi	9.5	59,000	19	5
Ufa	8.0	118,800	36	8
Frunze	7.9	31,800	17	7
Kharkov	9.7	113,400	23	5.5
Chelyabinsk	9.5	109,500	31	6

Source: *Argumenty i fakty*, No. 32, 1988, p. 5.

One square meter = 10.7 square feet



TWO NEW PROFESSORSHIPS

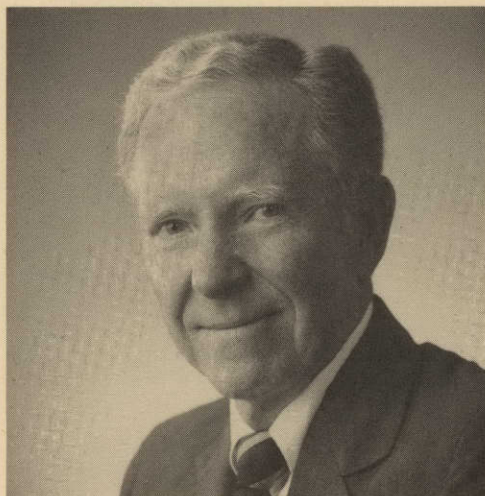
Kirby Exploration Co., Inc. has provided funds to establish two professorships in the Center for Education and Research in Free Enterprise.

Dr. Steve Pejovich, professor of economics and director of the Center for Free Enterprise, is the first holder of the Jeff Montgomery Professorship.

The Montgomery Professorship, to be held by the director of the Center, honors a 1941 Texas A&M graduate who was the first president of Kirby Exploration. Through his leadership efforts and imagination, the company grew and prospered. Montgomery continued to provide guidance and wisdom to the company until his death in 1982.

The second award—the Kirby Distinguished Professorship—was established by the company with a matching grant from Texas A&M. Dr. Allan Meltzer, John M. Olin Professor of Political Economy and Public Policy at Carnegie Mellon University, is the first recipient. He currently is on leave from Carnegie Mellon and serves on the Council of Economic Advisers to the President of the United States.

Two internationally recognized scholars will be invited each year to become Kirby Distinguished Professors. Candidates for the professorship must be recommended by two or more separate academic departments at Texas A&M. The Kirby Distinguished Professor will conduct a public lecture and a series of graduate seminars in his or her area of expertise. The appointment will be for one business week during an academic semester.



Jeff Montgomery



Steve Pejovich, the first Jeff Montgomery Professor, with his administrative assistant, Judy Roessner, and senior secretary Janette Hopper.

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THE LANGUAGE ISSUE IN THE U.S.S.R.

The language issue is a live one for virtually all the non-Russian nationalists of the Soviet Union. Although their individual languages differ widely, non-Russians, and non-Russian intellectuals in particular, have been disturbed by the energetic steps taken by Moscow in recent decades to promote universal knowledge of Russian and by the threat that these pose or could pose to the future of their languages, and ultimately, their nations. Their fears have grown as the hours devoted to Russian in the school curriculum have been steadily increased, the age at which the teaching of Russian starts has been lowered to the kindergarten level, and students receiving higher education in their native language have been required to do certain course work in Russian. The situation has not been helped by over-zealous local officials ("home-grown russifiers") in some republics who have reduced the availability of schooling in the native language, ostensibly in accordance with the wishes of parents.

In an open letter to Ukrainian Minister of Education M.V. Fomenko, three well-known writers asked that school and education officials stop pandering to the non-Ukrainian minority where language of instruction is concerned. The letter is couched in the strongest possible terms, reflecting their feelings over the latest outrage—the conversion of School No. 1 in Pereyaslav-Khmel'nyts'kyi from a Ukrainian-language to a Russian-language facility. This conversion ignored the pleas

made by many intellectuals to boost the status of the indigenous language.

Steps have been taken in some of the non-Russian republics to improve the teaching of the native language in the Russian schools and to encourage Russians and other immigrants to learn the native language. While Ukrainian and Belorussian writers have not succeeded in their attempts to get the native language more widely used as the language of instruction in the schools of their republics, in Moldavia it has been conceded that there is a need for more Moldavian-language schools.

At the beginning of March, a pair of resolutions of the Central Committee of the Communist Party of Kazakhstan called for an improvement in the teaching of both the Kazakh and Russian languages in the republic. According to the republican press, however, the good intentions embodied in the resolution on the teaching of Kazakh have encountered difficulties ranging from a lack of textbooks to unwillingness on the part of educators to try to implement the project.

The aspiration of young Georgians to higher education, together with errors in the official prognosis of the demand for specialists in a given field, has led to a surplus of cadres in some professions and a shortage in others. This trend has twice been criticized by Moscow, and Georgian officials have begun to suggest tentative solutions to these problems.

The recent speech by Belorussia's ideological secretary at a meeting with

Party members of the Belorussian Writers' Union included a detailed report on the steps that have been or will be taken to improve the position of the Belorussian language in the republic, particularly in the schools. At the same time, he made it clear that the predominant position of the Russian language will be retained. The language question, particularly the role and status of the native language in the schools, has been the central theme of the campaign conducted by the intelligentsia of the Belorussian SSR for the liberalization and democratization of cultural life in the republic.

The recent proposal to close down the Azerbaijan Institute of Economics because of its involvement in corruption and its low academic standards illustrates the difficulties encountered by the republic's authorities in eradicating deep-rooted shortcomings in higher education. The findings of the People's Control Committee include dishonesty and protectionism in the conduct of entrance examinations and an unacceptably low standard of teaching certain subjects. The protection racket operated by some members of the institute's staff was on such a scale that the Azerbaijan SSR Ministry of Higher and Secondary Specialized Education has requested that the USSR Procuracy initiate legal proceedings.

Based on articles published in Radio Liberty Bulletin.

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