
Explaining the American Dream: Telling Chinese Academics What 'Liberty and Justice for All' Means Taxes Even an Eager Audience

Author(s): Karl L. Falk

Source: *The American Journal of Economics and Sociology*, Oct., 1989, Vol. 48, No. 4 (Oct., 1989), pp. 385-392

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3487549>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



is collaborating with JSTOR to digitize, preserve and extend access to *The American Journal of Economics and Sociology*

JSTOR

The AMERICAN JOURNAL of ECONOMICS *and* SOCIOLOGY

Published QUARTERLY in the interest of constructive
synthesis in the social sciences, under grants from the FRANCIS
NEILSON FUND and the ROBERT SCHALKENBACH FOUNDATION.

VOLUME 48

OCTOBER, 1989

NUMBER 4

Explaining the American Dream:

Telling Chinese Academics What 'Liberty and Justice For All' Means Taxes Even an Eager Audience

By KARL L. FALK*

ABSTRACT. For more than a generation, contemporary mainland *Chinese* have lived under first a military *dictatorship* and now a political party dictatorship. How to explain to an eager Chinese academic audience what the *American dream* of 'liberty and justice for all'—realized only in part in some areas but approached progressively nearer in others—really means? The U.S. has predominantly a *capitalist system* but its people are committed to *equality of opportunity*. It tempers 'rugged individualism' by concern for the *poor*, the *handicapped* and the *unfortunate*. It has many serious *economic, social and cultural problems* but its citizens, drawn from most of the peoples of the world—not the *special interest* groups trying to benefit at the expense of others—are determined to solve them equitably and rationally. The *trade and budget deficits* are related to government instrumentalities.

I

EACH COUNTRY IN THE WORLD has the economy it deserves, wants, and can afford. It depends upon a number of things: where the country is located, how many

* [Karl L. Falk, Ph.D., was former president of California State University, Fresno, at Fresno, CA 93740, and professor of economics there. He and his wife, Doris made several visits to mainland China spanning the period of more than a generation when China was governed by a military dictatorship that gave way to a political party dictatorship. This paper reports a talk given at the University of Hangzhou in April, 1986. Dr. Falk died on Sept. 16, 1988.]

American Journal of Economics and Sociology, Vol. 48, No. 4 (October, 1989).
© 1989 American Journal of Economics and Sociology, Inc.

people are in the work force, how skilled they are, how many good natural resources there are, and its history and past and present political system. I will try to describe the economy of my country in a way that may have some interest for my Chinese friends. I will try to describe its development, its present structure, its strengths and weaknesses, and some problems it faces, in a way as objective as possible, but still understandable to those not fully familiar with the detailed workings of the U.S. economy or the attitudes of my people. This in no way suggests that the same things would apply to China where conditions and the economic system are quite different.

The American people and the economy in which they function as producers and organizers of production and as consumers have a young and energetic spirit, which has advantages and disadvantages. For instance, excesses and speculation may result in economic growth, adjustments, and a relatively high standard of living but it may not be shared equally by all the people. For the moment we are not considering cultural desires and happiness or spiritual vs. material values.

In two short centuries America has developed a sparsely settled land approximately the same size as that of China. People from all parts of the world have come to start life anew in our country, which is rich in natural resources, with a generally favorable climate, and a strategically isolated continental location. Through hard work and the use of technology and capital—some borrowed and invested from other parts of the world—they have put factors of production such as land, labor, and capital together which has resulted in an output of goods and services benefitting its people generously. The Gross National Product—a measure of the annual value of goods and services produced—is shared by only 240 million people, which is equivalent to only a fourth or fifth of the population of China.

Favorable natural resources alone do not automatically assure economic growth of a nation or a high standard of living for its people. They have to be used intelligently in productive facilities. There must also be an infra-structure of roads, transportation, and communication systems, a plentiful supply of non-human energy, and a political and tax system favorable for economic growth. People also have to be willing and able to work, which is not always the case in all countries.

There must also be agreement about the goals of a nation, not only economic but also political and social, and wise policies by government, and cooperation by people to achieve these goals. History has taught us that these goals should not be achieved at the expense of other nations or even at the expense of some of one's own people. It is not easy to reach the ideal goals or to adopt the wisest policies. Unfortunately, facts, theories, and policies are not always consistent.

In development, meaning economic growth, there is room for different approaches depending on the needs and desires of the people of each nation.

II

U.S. Economy Predominantly a Capitalist System

THE AMERICAN ECONOMY operates mainly as a capitalist system featuring free enterprise, free markets, and unregulated prices. There is no rationing of goods except for activities such as public utilities and the building of roads and streets, water and sewage systems, dams, etc., which are government-owned or government-regulated, and cannot be left completely in private hands. Also, the old, the sick, and those unable to provide for themselves are given public assistance.

Roughly a third of our economy and employment is in the *public sector* and the remaining two-thirds in the *private sector*. The latter features private ownership of producer and consumer goods and operation of producer goods, that is, factories and other facilities, for private profit. In the so-called "market" economy, decisions as to the use of consumer goods and the distribution of output to consumers are made by private individuals except where the health, safety, and interest of society as a whole have to be protected against abuses and possible exploitation. Usually, what is produced is determined by the demand for the product or services. What is bought by the consumer is determined by the price and the ability of people to pay that price. One person's necessities may be another's luxuries.

In recent years in the United States there has been much debate as to what should be done privately by individuals or groups, or publicly by government. It is generally agreed in our country that private initiative and a profit motive result in more efficient and greater production than government planning and production. People's individual motivation, it is believed, results in a higher standard of living for people as a whole, although the gains are not equally divided. The inequality is explained as being necessary to encourage people to work harder and to save to invest in large and small businesses or to accumulate wealth for family or heirs. However, there is much complaint that our lowest income people, who are guaranteed certain minimum health care, food, clothing, and shelter assistance from public funds, do not receive their fair share of the benefits of a capitalistic system. However, those receiving public assistance, still usually can afford to own their own automobiles for transportation and their own television sets for entertainment and information.

Those below the "poverty" level (estimated at about \$10,000 a year cash income for a family of four) tend to be minorities (black and hispanic), and/or recent immigrants, elderly or disabled, single mothers with children, and

uneducated, and unskilled workers. The weakening of the family structure and high divorce rates are problems which, though more cultural and social than economic, are cause for serious concern in our country.

III

Changes in the U.S. Economy

ONE ADVANTAGE that America had in the last century was that those immigrants coming from Europe were often trained and schooled in Europe during their unproductive young years with the costs being borne not by America, but by the European countries they came from. Even their unskilled workers were welcome since there was a shortage of workers. In addition, unskilled labor forces coming from Asia were still needed up to the end of the last century to develop vast uninhabited areas and untapped resources.

Today the need for unskilled workers, however, has declined percentagewise and in numbers, and they are usually our unemployed. It is currently estimated that about 7% of our 110 million member work force are unemployed, some in basic industries, some about to change jobs, some unemployable, and some simply unwilling to work. Even though vast sums are spent for free public education, many do not take advantage of the opportunity and therefore lack skills which would make them employable. The requirements, especially for high technology industries (electronic, aerospace, etc.) are for educated, skilled, and semi-skilled workers.

In the country's economic development historically we have gone from a predominantly agricultural country, to one in which manufacturing, and more recently, service industries, became more important. Manufacturing is becoming less important now and the so-called "*service*" industries such as, teaching, communications, banking, selling, government employment are becoming a more important part of our economy in terms of employment and output. The training and education requirements for this sector are relatively high and there are sometimes shortages of qualified workers to fill these positions.

Increasing "productivity," that is, output per worker hour, in both manufacturing and service industries is a problem since this is the only way the favorable position of the U.S. economy can be retained in today's highly competitive global economy. Productivity does not just depend on hard work or the number of hours worked by the individual, but also on the better arrangement of up-to-date machinery, equipment, and management and higher expenditure on scientific research and development.

Our two chief competitors in world markets, Japan and Germany, are overtaking us in the rate of increase of productivity and modernization. They can

finance this since they *save* higher percentages of income than we do. We spend a larger part of our income for consumption. Their savings become available for investment in new plants and equipment. In turn this means more employment and output and a higher standard of living. They also devote a higher percentage of investment to research and the development of new products. We admire the greater willingness to work of Asians, including the Chinese. As a matter of fact, the United States is in danger of losing its position as the number one economic power for the reasons described above.

So far the United States has the advantage of having a large internal domestic market and thus is not so dependent on foreign trade as are some other countries. With only one-twentieth of world population, the U.S. still accounts for one-fourth to one-third the world's output of goods and services, but it is rapidly being challenged by other powers. Some day it may be challenged by China which now has a Gross National Product not much greater than my home state of California which has a population of only 25 million people and comprises roughly one-tenth of U.S. production. If China's new policies of "four modernizations" are successful, the potential growth of the Chinese economy will be impressive.

One area of the U.S. economy that enjoys the highest productivity is *agriculture*. In fact, our problem in agriculture is not one of scarcity but of overproduction. Only four percent of our population is employed in agriculture due to a variety of favorable conditions: much fertile arable cultivatable land, 40% of U.S. is arable in contrast to 10% of China; extensive forests which cover 36% of U.S. land in contrast to 12% of China; much machinery, agricultural chemicals, agricultural research, good market distribution system, etc. As a result, food products are relatively inexpensive and require only 15 to 20% of a person's income. American style mechanization and methods would not be appropriate for China for obvious reasons, including employment of workers, different terrain, and distribution of population. You have 80% rural population. We have 80% urban population.

IV

Some Problems of the American Economy

FARM EXPORTS which have dropped in the past few years largely because of a recession-induced decline in world trade and overvaluation of the dollar are considerably less than manufactured exports (machinery, high technology products, aviation equipment, etc.) These are all *capital-intensive* industries where we still have an advantage which makes us the largest exporter in world trade.

Labor-intensive items such as textiles and clothing and hand-assembled appliances made in America can no longer compete and are often imported into the U.S. Also, because of lower labor costs and excellent engineering, making the product cheaper in price, many Japanese automobiles are imported into the United States. In recent years trade with Asia and the so-called Pacific Basin has become more important than trade with Europe. Asian markets and economies are enjoying faster growth rates than those of Europe.

The huge excess of imports over exports and the current balance of international payments for services and financial transactions has resulted in a deficit to the United States of about \$125 billion in 1985. In recent years, the interest rates in the United States have been higher than are paid abroad, and the U.S. provides a more stable climate for investments than many other countries. As a result, investments from abroad, for instance Japan, in the U.S. have outpaced our investments abroad so that America has become a net debtor instead of a creditor nation. This, like the trade deficit and balance of payments deficit, is not all bad—an excess of imports is a sign of prosperity in a developed country. The recent decline in world oil prices which should benefit oil-consuming countries so that they can import more of all goods and the readjustment in the value of the dollar in relation to leading currencies should increase U.S. exports again and reduce the foreign trade imbalance.

V

Too Much Debt

A MORE SERIOUS INTERNAL ECONOMIC PROBLEM is the *federal budget deficit*. Simply stated, federal expenditures have exceeded revenues in recent years and resulted in increased annual deficits around \$200 billion and a cumulative national public debt increase. One does not have to be an economist to know that a nation as well as an individual cannot spend more than it earns without having problems. In fact, our individual debt level for purchasing consumer goods is too high as is our government debt. In either case it means living beyond one's means. Nor can a government indefinitely spend more than it takes in in the form of taxes without problems. Government makes up the difference by borrowing or by printing more money which becomes worth less and less. You have inflation which means higher prices for everyone. Our current dollar has less than one-third the purchasing power it had in 1967. Fortunately, our inflation rate has been brought under control for the time being—the annual rate of increase is now down to less than 4% a year—but if tax revenues and expenditures do not balance in a few years there will be more inflation.

Our chief federal expenditures are: 1. for personal support payments (welfare assistance, pensions, unemployment insurance, etc.) 2. defense expenditures, and, 3. payment of interest on the national debt. In spite of considerable differences of opinion in our legislative Congress as to which expenditures should be cut, there is a plan to reduce the deficits over the next five years until the federal budget is in balance. President Ronald Reagan favors cuts in expenditures rather than increases in taxes because he does not want more government activities. He feels that leaving more money in the pockets of private individuals and not taking it in taxes for the public sector allows the consumer to buy more goods for himself. It also encourages investment in more modern plants and equipment he believes. Both of these reasons are assumed to stimulate more economic growth which is the best way to improve the individual's standard of living. Incidentally, it is estimated that in the last century the American standard of living has doubled every 25 years. But this rate is now slowing down. The U.S. *tax burden* on individuals is about one-third of personal income compared to as much as one-half in some industrialized western democratic countries. The latter, it might be added, offer greater services and economic security to individuals, but they pay a price for it.

VI

Maintaining Stability

STABILITY OF AN ECONOMY in our situation depends on the sum total of individual consumer decisions—two-thirds of the Gross National Product is consumer expenditures—and producer decisions as influenced by government policies, fiscal and *monetary*. I have already touched on fiscal policies, those involving government expenditures and taxation. In the short run, trying to maintain economic and price stability with relatively full employment in a growing economy is the responsibility of our Federal Reserve System, a central bank which controls our monetary policy and oversees our banking and financial institutions. In a democracy there is a great deal of public debate by economists, government officials, private businesses, and individual citizens as to the appropriate policies that should be applied to control the size and growth of the money supply and credit.

Fluctuations in our economic activity, is another cause for serious concern. What happens in the U.S. economy also affects the rest of the world's markets and producers and vice versa since there is growing global inter-dependence. In an economic system in which there is essentially no central planning, mistaken judgments by private entrepreneurs can result in overproduction or underpro-

duction in relation to consumer demand. The same mistakes can, of course, be made by governments in central planning. Consumer demand is affected by confidence or lack of confidence in the short-run future of the economy. Relative overproduction and speculation can result in overbuilding of inventories—stocks of goods—in the hands of wholesalers and retailers. As sales drop off, orders decline, factory production slows down, and workers become unemployed. Then we have a period called “*recession*.” However, unemployment insurance and “transfer” payments are used to keep up unemployed workers’ incomes so they can have nearly the purchasing power they had before until they can be employed again. As inventories are eventually reduced and confidence returns the cycle begins a period of *recovery*. People are again employed, productivity has improved, and a period of *prosperity* returns until a *crisis* from within or without the country starts the cycle all over again. The adjustments that had been made during the bottom of the cycle may eliminate weak businesses and improve the efficiency of the economy.

Although we do not have central planning, when needed we do have various government measures to help stimulate the economy and to slow it down if overenthusiasm, speculation, borrowing by businesses and individuals, becomes excessive or out of balance. These measures are not always applied perfectly or at the right time and are sometimes slow to take effect. The moderate upswings and downswings in the economy, however, are reasonably controlled, not, of course, to everyone’s satisfaction. An extremely large drop in economic activity would cause more government intervention in the economy.

With a democratic political system, which goes along with a free enterprise or market economy, there is always a danger of dissatisfaction or abuse by special interest groups which may try to benefit at the expense of others or of the nation as a whole. This is where restraint and good judgment are called for.

Fortunately for the United States, with all the imperfections and complexities of dealing with an economy that tries to provide a good standard of living for the majority of its people made up of immigrants and their descendants who came from all parts of the world, things have gone very well over the years. The country and people have enjoyed personal freedom and a good life because of plentiful resources and hard work. We have a generally willing work force and favorable geographical and historical conditions. There is every reason to believe that the favorable trend will continue, providing we have relative peace in the world. In closing, I would repeat that our prevailing philosophy is to strive not for equality of incomes and wealth but for equality of opportunity for everyone willing and able to work for it.