

Selected Paper
Number 70

Freedom and Leadership

Keynote Address at the 1990
Management Conference

William E. Simon

The University
of Chicago

Graduate School
of Business

Former secretary of the U.S. Department of the Treasury, William E. Simon currently serves as the chairman of William E. Simon and Sons, Inc., and of WSGP International, Inc., firms specializing in investment and merchant banking. His career has been marked by achievements in government, business, and community service. Under Presidents Nixon, Ford, and Reagan, he held high level government positions, including both secretary and deputy secretary of the treasury, chairman of the Economic Policy Board, US. governor of the International Monetary Fund, and chairman of the Federal Financing Bank.

Currently chairman of the board for both World Trade Bancorp and Geostar Corporation, Simon is also a director for Xerox Corporation, Wellsford Group, Inc., Weintraub Entertainment Group, Inc., and Castleton, Inc. Having recently completed a term as president of the U.S. Olympic Committee, he is now chairman of the board of trustees for the U.S. Olympic Foundation. In addition, he serves on the boards of New York Hospital, the Citizens Network for Foreign Affairs, the International Foundation for Education and Self-Help, the Heritage Foundation, and the National Dropout Prevention Fund.

Born in Paterson, New Jersey, in 1927, Simon served in the U.S. Army from 1946 to 1948. Following his military service, he earned a B.A. in government and law from Lafayette College in Pennsylvania.

This speech was presented as the keynote address at the thirty-eighth annual Management Conference. sponsored by the University of Chicago Graduate School of Business on March 1, 1990, at the Westin Hotel in Chicago.

Freedom and Leadership

For me, the University of Chicago will always stand for free markets. I look upon men like Milton Friedman, George Stigler, and George Shultz as the real heroes of the economics profession. Shultz was not only dean of the Graduate School of Business but also my first boss and mentor when I went to Washington to serve in government. Of course, today free enterprise and free markets are the rage. So I'm bemused that a lot of fair-weather friends—the trendies—are clamoring to take credit for the successes of free enterprise. I'd like to remind them that much of the credit for winning the war of ideas and for the progress that followed goes to you—the faculty, alumni, and other friends of this splendid school.

I value our association and your leadership in building, diversifying, and modernizing this great center for agriculture, manufacturing, trade, high technology, and finance for the Midwest and America.

This Golden Moment

It is especially timely to salute your leadership in this golden moment of history, as we continue to celebrate the glories of freedom that our first Americans came here to begin and that are now being won by country after country across the world. In another context, those victories present the American business community with a historic opportunity to create a new relationship

the world, can suppress forever our God-given rights to be free.”

This is the true revolution—the only real revolution. What exciting opportunities it brings in a world where millions are finally breaking free, after being trapped for decades under the boot of repression. So, I’ve come to Chicago in a spirit of challenge. But I’ve also come armed with words of caution. Let’s not forget why this country came so close to failure and how we still managed to pull ourselves up, so America will never repeat those terrible mistakes.

I also want to emphasize the critical importance of business leadership in the 1990s. We must have a business community that’s far more engaged in the leadership of this country if America is to stand strong in the storms to come and to meet the challenge of building an enduring prosperity in a world of peace.

What was the central lesson of our past difficulties? It seems to me that we lost faith in our own greatest strength—our free enterprise system. Because we lost that faith and business did not lead, we abandoned any limits on the growth, cost, and role of government. Yes, we thought we were doing good. But we ended up hurting the very people who most needed help. We forgot that government was never meant to be parent and provider for all, but a partner helping us achieve on our own. Government’s responsibility is not to control us but to create conditions for our economy to grow in a noninflationary environment—for jobs to be created, businesses to expand, and people to be encouraged to save and invest for the future. This is freedom’s way.

I lived through the Vietnam era in the 1960s. I listened to our leaders tell America that we could afford guns and butter, even as they were planting the seeds for an inflationary nightmare. I served in Washington in the 1970s and saw firsthand the frightful consequences of those economic mistakes saddling us with massive indebtedness and misery for millions. I watched us lurch from inflation to recession and back to inflation, from currency devaluations to closing the gold window, from price controls to the energy crisis, and all of this culminating in Watergate, which nearly tore our country apart.

Now, along with you, I've seen America begin to regain and export its age-old optimism, confidence, and success. Ronald Reagan told America and the world that no government can do for people what people can do for themselves when they are free to follow their hopes and dreams. This is the core of the policies that lowered tax rates, put brakes on bureaucracy, reduced regulations, opened markets, and unleashed the longest economic expansion in our history. Finally, the decade of the 1980s ended with socialist Sweden cutting its top personal tax rate to 50 percent.

Three Great Challenges

So the question now is, what next? What banners shall we fly in the nineties? What great deeds must we strive to achieve?

I believe that America has been blessed with a historic new window of opportunity—an opportunity to raise the torch of freedom across our country and across the whole world. I see America facing three great challenges in this new decade.

Globalization

Challenge number one is to stay abreast of the tidal wave of change across the globe by learning to think, plan, and compete with a more global view. The liberation of Eastern Europe has added over 150 million potential new customers and producers to the Western economy. The emergence of Eastern Europe in a new economic and trade zone represents the greatest new business marketing opportunity since the rebuilding of Western Europe after World War II.

In the Far East, industrious and inventive freedom-loving people are building a giant, new economic superpower among the nations of the Pacific rim. We are looking at the prospect of a radically new political and economic order well before the dawn of the twenty-first century. Let me emphasize that America's place is not to sit back and let others pioneer this fabulous future. We must lead the way. We must help create a golden age of capitalism, with peace, prosperity, and freedom. Adapting to new realities begins with broadening our own horizons.

We also need only look at the revolutionary changes in technology to realize how essential a global perspective has become. Human beings are building machines that can overcome all of our old concepts of time and space. A person in Chicago can monitor the latest market developments in Cologne or Hong Kong with the touch of a keyboard. What's more, the advent of the microchip is making possible the launching of a global economic enterprise by any entrepreneur working from a single workstation.

Viewed from a wider perspective, this new revolution of capitalist technology is undermining every form of state-sponsored suppression.

The Berlin Wall couldn't block out the truth about life in the West. Last summer, we saw protesting students in China hold up a sign that said, "Give me democracy or give me death!" They wanted the whole world to know their heroes aren't Marx and Lenin but Thomas Jefferson and Patrick Henry. The world let them know it heard their cry when their friends in America sent back coverage of those events over fax machines.

This is the revolution of modern technology. In the realm of both politics and economics, we see information, decisions, products, and power being dispersed ever more rapidly to an expanding universe of dissidents, students, workers, corporate managers, and home-based entrepreneurs.

Freedom

As we all begin to plan and compete with a more global view, we need to look to our second great challenge for the 1990s: we must make freedom the dynamic core of our policies to build a better life for the citizens of the United States and the world. . . .

What does this mean in practical terms? It means making property rights and free markets a reality in Eastern Europe. We can't do that by transferring billions in U.S. aid to those governments and their state-owned resources. Instead, we in the business community should be on the front lines, calling for the transfer of public lands to the direct ownership of farmers and their families-and the transfer of major Eastern bloc industries to the direct ownership of their employees. The American business community

should be in the vanguard of a drive to create fundamentally new economies centered on private companies, private payrolls, and private enterprise. This is the real meaning of power to the people.

Of course, government's role is to promote these efforts, but not to dictate them. Government in this context must help to promote these efforts by removing impediments to free markets; it must remove disincentives for the freest possible flow of products, people, and services between nations. Our government must lead the drive to open these new European markets, as well as the dynamic markets of the Pacific, to higher levels of world commerce and trade. I see U.S. leadership in the nineties resisting destructive demands for higher tariffs and pushing, instead, for free trade agreements in Europe, Asia, and Latin America to the benefit of all, just as we recently did with our neighbors in Canada.

Ultimately, our ability to spread the blessings of freedom will hinge on the underlying strength and stability of our own economy at home. Here, too, there is plenty of work to do. Can we speak of secure prosperity when government continues to pile deficit upon deficit? For the past twenty-five years, we've had only one year with a surplus in our budget, 1969; indeed, during the 1980s, we witnessed a doubling of the national debt. Moreover, interest payments on that debt have become government's fastest rising expense. Even worse, now that defense burdens may finally decline, Congress is already preparing to spend our "peace dividend."

Indeed, all these goings on prove that Will Rogers was right: Congress is the only native born

criminal class in America. What we now have in America is a Congress that locks in high levels of government spending and, with it, levers of influence, power, and largesse that all but guarantee their reelection. Indeed, America has all but become an election-proof democracy. As a matter of fact, it is easier today to be reelected to the U.S. Congress than it is to be reelected to the Politburo of the Soviet Union!

Can the system be reformed? Yes, it can, but not without fundamental change and courageous leadership. My experience in Washington convinced me that we should limit our presidents to a single six-year term and members of Congress to eight to ten years. This is what our founding fathers had in mind; elected officials would go to Washington, give of their experience and knowledge, and then return home, rather than become members of a permanent elite, an American ruling class.

Next, I believe that we should impose any and all means—a budget freeze, line-item veto, Gramm-Rudman, and enhanced rescission authority—to force government to live within its revenues, and not permit spending to exceed the rate of growth in the economy. We can relieve the pressure for ever-higher levels of spending through a new commitment to privatization. Margaret Thatcher has demonstrated in Great Britain that billions can be saved by shifting contracts out of the bureaucracy. With these savings will come better service, more choices, and lower costs. Privatization would be a historic reform that would invigorate democracy. It would compel leaders in business, communities, and education to form partnerships in areas such as transportation, job training, and research and development for our economy.

As government puts its own house in order, it must remove the remaining barriers hindering our ability to grow and compete. To begin with, let's stop the demagoguery. Let's lower capital-gains tax rates, and let's put an end to Japan's and West Germany's unilateral advantage of raising capital more cheaply than we can. Since the 1986 increase in the capital-gains tax, our equity markets have placed a penalty on our high-tech stocks. Price-earnings ratios have dropped some 50 percent, and the Japanese have gained competitive advantages that the open market never would have permitted.

The issue is not who might earn what, but whether or not the United States of America has the vision and determination to compete in world markets of the future-and to win, but only on a level playing field. We need to answer this challenge, and new challenges like Europe 1992, with a commensurate American response to remain competitive. For example, the hobgoblin of regulations in forty-three states that dictate rates, entry, service, and safety for interstate trucking puts us at a severe disadvantage. Did you know that it is now cheaper to ship blue jeans from Taiwan to El Paso than from Texarkana to El Paso?

Finally, freedom has an exciting role to play in helping those who have lagged behind-in lifting up millions from no hope, no homes, no jobs, and no future. We have spent hundreds of billions on the poor over three decades, yet wounds still fester, with no healing in sight. I believe it's rime for change-the kind of enlightened change that can . give the urban and rural poor the ability to find jobs and

become self-supporting citizens through creation of free enterprise zones in their neighborhoods.

Change through legislation to give the working poor, living in public housing, the opportunity to buy that housing and become homeowners.

Standing up to the spenders, cutting the cords of dependency, turning from the false security of protectionism to the hard progress that must be won by the discipline of fierce competition—none of these reforms will be easily achieved.

Leadership

I believe that these reforms can only be reached by meeting a third great challenge in the 1990s, the challenge of new leadership from men and women of stature, not partisan politicians. I am speaking about leaders who understand that there is a moral foundation of freedom, a foundation that rests not just upon rights but upon responsibilities. Leaders who understand that the responsibilities of preserving our freedoms must sometimes be met at the price of political popularity. Real leadership is always lonely. No president was lonelier, or greater, than Abraham Lincoln.

One thing is certain: we cannot succeed without your committed leadership in the nineties. If we are going to leave a strong America and a strong free enterprise system for our children, we must have a business community that is 100 percent committed to fighting for our principles and political objectives in the political arena.

Alistair Cooke once said that there is a great race going on in this country between vitality and decadence. I still believe in the incredible vitality of the United States. Decadence is not our future. I still believe that vitality will win. This country,

