

THE CONSTITUTION: 200 YEARS LATER

Three Lectures by

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Presented at The Heritage Foundation
Annual Board Meeting and Public Policy Seminar
Hershey, Pennsylvania
June 21-23, 1987

KEYNOTE ADDRESS

WHY THE CONSTITUTION FOSTERS FREE ENTERPRISE AND ECONOMIC EFFICIENCY

by The Honorable William E. Simon

I appreciate the opportunity to participate with you and your distinguished guests in this most important anniversary for America by speaking on the Constitution and our free enterprise system.

In truth, I come before you with no particular pretense to scholarship or expertise in constitutional law. But I do bring one or two noteworthy qualifications.

The business of my life has been the production of wealth, wealth not just for Bill and Carol Simon's family, although I have been modestly successful at that, but wealth for the benefit of society as a whole. And I have stored up a wealth of experience, helping to shape the economic policy of our government and, through it, to influence economic conditions of the world.

During those years on Wall Street and at the Treasury, I gained a deep appreciation for the genius of the Constitution of the United States and for the men who crafted it in a time of turmoil, uncertainty, and national peril.

Think back two hundred years or so. How did the world look? The English philosopher Hobbes put it briskly and sharply: human beings could look forward to a life that was "solitary, poor, nasty, brutish and short."

Now that may sound like the title of a Washington, D.C., law firm, but it really describes the future as seen by one of the great intellects of that day.

Revolutionary Entrepreneurs. Then something extraordinary happened--something called America: enlightened entrepreneurs declaring revolution against the crown; a revolution giving birth to a nation founded on faith in God; a nation setting forth a philosophy limiting government and empowering people; a people uniting for the principle that we are born to be free, with equal opportunity to build and live a good and worthy life, and to leave a better life for our children.

Bill Bennett once said that the American revolution is the only revolution that did not disappoint its sons and daughters. And there is a good reason why that is true.

Jefferson and his compatriots were men of great vision; they could see to the farthest frontiers of freedom. But perhaps their greatest gift was the ability to translate a radical vision into a practical plan for government.

Their revolutionary idea was that governments exist to protect liberty. Governments do not bestow rights on their citizens. Human beings have certain rights, because they are human beings, because they are children of God. And governments exist to protect those rights--inalienable rights to life and liberty and the pursuit of happiness.

Powerful Ideas. Those astonishing words penned by Thomas Jefferson, perhaps even more than the muskets at Lexington and Concord, fired "the shot heard 'round the world."

The power of Jefferson's pen was reinforced by another revolutionary idea that stirred the soul of this young nation. While Jefferson was declaring that men are not created for tyranny, Adam Smith, in his remarkable *Wealth of Nations*, declared that men are not created for poverty.

Smith challenged the old idea that the wealth of nations is destined to decline or, at best, remain fixed forever. Wealth could be created, the standard of living could be raised--raised beyond even our wildest dreams--but this would require two fundamental changes in the way that we lived.

First, it would require unleashing human creativity; and second, it would require getting the state out of the way of the marketplace.

Creative Capital. When we speak of creativity, it is important to remember that Adam Smith was not an economist--no mean-spirited, squinty-eyed numbers cruncher was he. Smith was a moral philosopher and his definition of capital was broader than just money and natural resources. Smith understood that the most important capital is the capital that resides in the creativity and imaginations of human beings.

Resources plus imagination and creativity create wealth, according to Adam Smith. And that strikes me as a profoundly moral, even spiritual conviction.

God's command to Adam and Eve, that we be stewards of creation, did not mean just tilling the existing garden; it meant venturing out and creating new gardens. Human creativity is a spark struck from the fiery creativity of God himself.

A Sacred Right. But creativity cannot flourish in conditions of captivity. Smith's second point, getting the state out of the way of the marketplace, was eagerly embraced by the planters, the merchants, the entrepreneurs of that day--men like Washington, Adams, Jefferson, Hancock, and Dickinson--men who hungered to break free from England's grip of taxation without representation, rigid restrictions on trade, and prohibition of western land settlements.

What is more, Smith openly sided with the colonists. "To prohibit a great people from making all they can," he said, "or from employing their stock and industry in the way that they judge most advantageous is a violation against the most sacred right of mankind.

No wonder that John Hancock, under 500 indictments for smuggling, would sign his name on the Declaration in letters so large, even King George could read it without his spectacles.

And so they affirmed and fought for the universal principle that freedom, including the freedom to own property, is not just a right--not just a sacred right--but the indispensable starting point for public progress.

Political and Economic Freedom Linked. They understood that there is an inextricable link between political and economic freedom, that, in fact, they are indivisible, for if we permit our economic freedoms to disappear, our personal and political freedoms will also disappear.

But the triumph of independence ushered in a new crisis that threatened to overwhelm our young nation. The founding fathers soon learned that there is another, even faster way to eliminate freedom--and that is by debasing the currency, because inflation is such an insidious process, not one man in a million sees it while it is going on, but the consequences are devastating to all.

The idea that any country could fragment itself into 13 sovereign states, that it would hand over to each the power to mint its own currency, and to erect its own trade barriers, yet still remain one, united and free nation was a fantasy.

Looking out over the stormy sea of corrupted currencies and deepening debt, James Madison would write, "The loss which America has sustained since the peace from the pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence on the public councils, on the industry and morals of the people, and on the character of republican government, constitutes an enormous debt against the states."

Jefferson would say simply, "I place debt as the greatest of dangers to be feared."

Blueprint for Freedom. Madison, in his brilliance, grasped that the only hope for saving liberty, for saving America, was to create a republic that would be anchored in commerce--a republic that could, at once, unleash human creativity, while providing sufficient central authority to ensure the nation's economic and political security.

And so a Constitution was drafted and approved by the people--not some cockamamie scheme hatched by theorists and philosophers, but a blueprint for a future of freedom holding out the hope of happiness and real prosperity for all.

John Chamberlain, in his seminal book *The Roots of Capitalism*, noted three specific ways in which the Constitution and Bill of Rights support a free enterprise economy:

The states were forbidden to place obstacles in the way of interstate commerce. The national government was given responsibility for creating a uniform national currency. And, in the Fifth Amendment, the framers affirmed the vital importance of private property ownership when they declared that "no person shall be deprived of life, liberty or property without due process of law; nor shall private property be taken for public use without just compensation."

To those major provisions we may add the uniformity of duties throughout the nation; the uniformity of bankruptcy laws; the protection of patents and copyrights; the prohibition of state interference with the obligation of contracts; and the guarantee to each state of a republican form of government.

Vivid Contrast. What a magnificent creation; magnificent in 1787, and just as magnificent in 1987, when our Constitution is compared to those Soviet bloc and Third World documents, whose declarations of high-sounding ideals contrast so vividly with the privation and hopelessness of their people.

What is the proof? Jack Paar put it flippantly, but accurately, "Immigration is the sincerest form of flattery."

Yet, today, so many intellectuals who thrive on envy, who resent that others have influence and can make choices about their lives, and who go to great lengths to undermine freedom, cannot answer themselves the most basic, core questions which define America:

What was it in the Constitution that, from our earliest days, persuaded people in distant lands--soon, by the millions--to uproot their families and to risk their lives to reach these shores?

What was it that enabled this system to clothe, to house and to feed our people more effectively, and more abundantly, than any other system in the world?

What was it that made America a glorious success story?

Some say it was our land or resources, but the Soviet Union has more land and greater resources than we do, yet that system depends upon us to provide the food and products it needs.

Others say it was the quality of our people, but blessed as we are with one of the largest, most talented populations on earth, the Chinese are five times more numerous, their civilization was developed far in advance of ours, but their standard of living lags light years behind.

No, ladies and gentlemen, it was freedom--our national commitment to liberty and individual dignity.

Formula for Success. "Without the Constitution and the Union," Abraham Lincoln said, "we could not have attained the result; but even these are not the primary cause of our great prosperity. There is something back of these, entwining itself more closely about the human heart. That something is the principle of 'Liberty to All'--the principle that clears the path for all--and by consequence, enterprise and industry to all."

The formula for success has not changed nor will it: it is freedom and incentives for people to work hard, save and create.

To the individual family, this means new opportunity and a higher standard of living. To the business firm it means larger markets and higher profits. To our government, it means increased effectiveness and public support.

But permit me to make a point here that perhaps could be stressed more often by men and women such as myself, who have lived by--and profited from--the free enterprise system.

Freedom Means Responsibility. True freedom is not mere absence of restraint; true freedom is not a license to do as we please. The success of the Constitution, the success of America and of the American dream, hinge directly on our willingness to couple freedom with a sense of moral responsibility--responsibility to our family; responsibility to our community; responsibility to our country; and ultimately and inescapably, responsibility to our God who rules us all.

Nourish freedom with personal responsibility and we will strengthen the virtues of our citizens. We will build the character of our country. We will expand and replenish the moral capital of our society. We will succeed in our endeavors.

Living Up to a Splendid Vision. But if we fail the test of moral responsibility, we will begin a long slide toward oblivion. We will consume our moral capital until that day comes--just as surely as it came to the great civilizations of Greece and Rome--when, unable to distinguish the principled from the degenerate, the fit from the unfit, the leader from the loser, our society will collapse.

We can avoid that judgment, we can live up to that splendid vision of Washington, Jefferson, Madison, and Lincoln, if we replenish our moral capital both in our daily lives, and where it is needed most desperately--in the highest councils of leadership in Washington, D.C.

For, ladies and gentlemen, if our goal is to build a new generation of computers to compete with Japan, then should we not resolve that we are not going to lose a new generation of Americans to alcohol, abortion, AIDS, and cocaine?

If our goal is state-of-the-art technology in every classroom, then shouldn't we make sure that America's students can read the instruction manuals, and, yes, appreciate the principles of the free, democratic country that produces it, because they have studied the Constitution, the Declaration of Independence, and the Ten Commandments?

If our goal is more Americans becoming risk-takers and entrepreneurs, then shouldn't we decide that we're not going to permit crime to stalk city streets, or white collar corruption to trample the ethics of competition on Wall Street?

And finally, if we expect America to remain strong, united, and free, then isn't it time that we heed Thomas Jefferson's warning that "to preserve our independence, we must not let our rulers load us with perpetual debt: we must make our selection between economy and liberty, or profusion and servitude"?

Growth of Government Control. I cannot conceive of any time, in my lifetime at least, when this nation had more need of principled leadership. We are, in our public affairs, accepting with ever less reluctance and embarrassment, actions and practices which are plainly inconsistent with the principles of responsible freedom and public virtue which we inherited from generations of Americans that preceded us.

Unfortunately, there is no convenient scapegoat. As modern governments have, year-by-year, usurped the power to control our daily lives, they have done so believing that they are reflecting popular will, that they are the proper authority to determine and implement the ideals of society.

It is we, through our institutions--and business is a prime offender--who have gradually surrendered to the narcotic of government spending, subsidy, and supervision; it is we, ourselves, who have created the false environment where equality of status is mistaken for equality of opportunity, and where security, albeit a false sense of well being, is exchanged for personal freedom.

Let me repeat--the framers of our constitution believed in property rights and these are spelled out. Yet, while many today speak of a whole litany of phony rights--the right to free welfare, the right to free health care, the right to protection from free competition--they would ignore the real economic rights that the Constitution clearly provides.

Cassandra's Warning. It has been just over ten years since I left Washington. I warned in 1976 that the accelerating trend toward big government, fueled by the simplistic notion that Washington could spend ever-increasing amounts of borrowed money, would inevitably lead to tragic problems for America.

I was called a Cassandra. But even I would not have believed in 1977 what has been done to this economy. I feel only sadness in having to say that Ronald Reagan has missed an historic opportunity.

If the President deserves credit--as he surely does--for cutting tax rates and reducing some of the burden of regulation, he must also acknowledge his share of responsibility for the other side of the equation--the United States fiscal picture has dramatically worsened during his administration.

Where is the Statesmanship? The President, at least, has tried to uphold principle for the greater good of the American people. The same cannot be said of Congress. Forgive my words, ladies and gentlemen, but with a few notable exceptions, the entire Congress is nothing but a bunch of despicable whores who long ago sold out to special interests in return for their re-election.

Where is the statesmanship in a record that has seen 29 unbalanced budgets in the last 30 years?

Where is the statesmanship in a record that has seen federal spending more than double in the last decade?

Where is the statesmanship in a record that has seen the national debt more than double in the last six years?

In my last year as Secretary of the Treasury, the federal government ran a deficit of \$66 billion. This was a shocking figure, and it is still a source of pain to me that an administration of which I was a part had to accept responsibility for such a dubious achievement.

Today, the achievement of "only" a \$66 billion deficit would be the subject of testimonial dinners and a national celebration. Today, the single most shocking and shameful statistic is that the fastest growing expenditure in the federal budget is the payment of interest on our national debt.

A Riotous Binge. We are taking what we inherited from our forefathers and, instead of earning it over again for ourselves, we are indulging in an unparalleled act of moral squalor. There is no denying that this riotous binge is more than an economically irresponsible act, it is a morally irresponsible act. It would be difficult to imagine any other act that threatens to consume our inherited stock of moral capital.

But ladies and gentlemen, even as we are putting our children in hock for a lifetime, we are putting America in hock to the rest of the world. As a nation, we consume more than we produce; to maintain spending in excess of production, we have been selling assets and borrowing abroad at an astonishing rate.

Since 1981, the United States has gone from owning net foreign assets of nearly \$140 billion, to owing net foreign debts of more than \$200 billion. By 1990, we could owe foreigners nearly \$1 trillion. Think of it: in just a few years, we have wiped out the net accumulation of several generations.

No Free Lunch. The accumulation of these economic distortions must be squarely faced. The longer we delay the hard adjustments, the more difficult and costly the needed solutions will become. There is no free lunch.

If Congress persists in its crude and reckless attempts to cut back on imports with a swagger stick of protectionism, then the risks of retaliation and an eventual trade war will sharply increase. Protectionism is not patriotism.

If the administration attempts again, as it has already, to deal with the dilemmas of trade and budget deficits by the depreciation of our monetary standard of value--by devaluing the dollar--then the outlook for inflation will continue to darken.

The recent decline in the bond market, the sharp increase in the price of gold, the run-up in inflation and interest rates are clear and vivid warnings. They are declarations of no confidence in this nation's policies, and we ignore them at our peril.

Blind Folly. Already, in less than a year, we have gone from a much heralded victory of zero inflation, to a renewed inflation rate of five percent and

rising. Of course, Washington would tell us to be thankful that inflation is still only five percent. This means every dollar we earn and save will only shrink to 95 cents in purchasing power by the end of the year.

Nowhere is it written in stone that the United States economy can withstand indefinitely the shocks and willful abuse which have been pummeling it for over two decades. History is littered with the wreckage of governments that refused to turn away from blind folly.

In his book, *In Search of History*, Theodore White described the collapse of the Chinese economy under the Kuomintang government after World War II. He attributed that collapse largely to the effects of runaway inflation on people's habits and morals.

"Inflation," he wrote, "is a haunting pestilence of the middle class. It is the hidden threat that disorganized governments always hold over those who try to plan, to save, to invest, to be prudent. To be honest in day-to-day dealings in runaway inflation does not make sense. To pay debts on time is foolish; to borrow and spend as fast as possible is prudence."

And when Mao Tse-tung seized power, the Chinese were no longer burdened by inflation--or by freedom.

Honesty and Courage Needed. What we need in Washington is the honesty to admit the mess we are in and the courage to work ourselves out. We need leadership: leadership by people who understand the vital link between freedom and responsibility; leadership by people who will put aside short-term personal gain for the long-term good of the republic, leadership by patriots of the kind who came together in those fateful days in Philadelphia, first to declare a revolution, then to create our Constitution.

Loath as I have been to tamper with a Constitution whose principles are sound, I am convinced that we no longer have the luxury of delay. The time has come to do what must be done. We must shackle this mad rush to national bankruptcy, by putting into the Constitution some rigorous prohibition against runaway deficit spending.

Time for an Amendment. As you know, Congress did pass, in 1982, a balanced budget Constitution amendment by a majority vote, but not by the two-thirds needed in each house to submit the amendment to the people. It is time for another try.

I confess I am skeptical about an amendment which postulates some kind of advance statement of revenues and expenditures, and which requires super-majorities in each house to adopt a prospective budget which is out of balance. This has all the earmarks of an elaborate budgetary charade.

Better that we attack the problem of mounting national debt at the point where the debt grows: the rolling over of existing debt and the issuance of new debt. I note that Senators Armstrong and Boren have introduced an amendment

which would constitutionally restrict the issuance of new debt and I think they have found the right place to launch the attack.

The fundamental choice comes down to the consideration: how much personal freedom, if any, are we 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 benefits are far superior to any other system.

If our Constitution is to continue underpinning a dynamic, free economy, if it is to protect liberty, thrift, enterprise and remain the standard for a nation powerful in purpose and moral worth--then let us resolve, in this bicentennial year, that we will renew our faith in its core principles at the heart of America's strength and prosperity.

Ignore those sound principles, reverse the meaning and intent of its framers, and we face not only economic decline, but the loss of our most precious freedoms. Revive and maintain its sound principles, honor their wisdom, give them new life and power, and we the people will go forward into our third century united in freedom, with liberty and justice--and prosperity--for all.

