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April 13-16, 1998

## Academy of Free Enterprise Education

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# **Proceedings of the Academy of Free Enterprise Education**

**April 13-16, 1998  
Myrtle Beach, South Carolina**

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Co-Editors  
Western Carolina University**

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# Proceedings of the Academy of Free Enterprise Education

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# IMPROVED FREE ENTERPRISE LITERACY USING COLLEGE STUDENTS AS TEACHERS AND WRITERS

Larry R. Dale, Arkansas State University

## ABSTRACT

*The Arkansas Council on Economic Education, and the four affiliated Centers, provide Arkansas schools with credit workshops, seminars, media libraries and consulting services designed to promote economic literacy between teachers and their students. This study provides an overall assessment of that program with particular interest in the involvement of Students in Free Enterprise [SIFE]. SIFE uses college students to increase outreach. The ASU chapter was formed in 1992.*

*The program was evaluated based on SIFE involvement with the four major goals: 1) increasing teacher knowledge/appreciation for economics and entrepreneurship; 2) increasing the quantity/quality of economics and entrepreneurship instruction through creative teaching techniques and materials; 3) encouraging creative teaching across the curriculum and 4) informing teachers about the Economics America and SIFE network of services available in Arkansas.*

*These goals were assessed using raw data, the chi square and regression analysis techniques and found to be successful, providing valuable insights that could help other states establish their economic education program. The researcher isolated segments of the program related to SIFE. The SIFE team has conducted 627 projects in the past six years. The bulk of those projects have involved teacher training and students.*

*Since the involvement of SIFE in 1992, direct teacher contacts have risen over 2,000%. The total number of contacts made through the Internet and the media is now estimated at slightly over one million in 18 states. SIFE has not only increased the number of teachers and students reached, but the quality of programs. SIFE has proven more effective in working with school age children and as effective as professionals working with teachers. However, the best combination is using SIFE in conjunction with professional economists.*

*The program evaluation has established that our statewide network has met all of its major goals successfully. The SIFE Team at ASU has been an important part of that successful formula and will continue to promote a better understanding of and appreciation for the American Free Enterprise system.*

## INTRODUCTION

The Arkansas Council on Economic Education, and the four affiliated Centers, provide Arkansas schools with credit workshops, seminars, media libraries and consulting services designed to promote economic literacy between teachers and their students. This study provides an overall assessment of that program with particular interest in the involvement of Students in Free Enterprise [SIFE], a program that uses college students to increase the outreach of the centers. All four centers now have a SIFE chapter, the oldest being the one at Arkansas State University [CEE-ASU]. The

ASU chapter was formed in 1992 and has become very active in supporting the program efforts of the CEE-ASU. The program was evaluated based on SIFE involvement with the four major goals:

- 1) increasing teacher knowledge/appreciation for economics and entrepreneurship;
- 2) increasing the quantity/quality of economics and entrepreneurship instruction through creative teaching techniques and materials; 3) encouraging creative teaching across the curriculum and 4) informing teachers about the Economics America and SIFE network of services available in Arkansas.

These goals were assessed using raw data, chi square and regression analysis techniques and found to be successful. These valuable insights could help other states establish their economic education program. The researcher isolated segments of the program related to SIFE. The SIFE team has conducted 627 projects in the past six years. The bulk of those projects has involved teacher training (108 projects), working with students (403 projects) and materials development (19 projects). These projects are directed toward improving free enterprise literacy through the schools in Arkansas, with some outreach in 18 other states. ASU SIFE helped with 64% of the programs of the EEC-ASU providing a valuable service to the community and increasing the centers outreach by a comparable amount. Overall the SIFE programs were more successful and more highly rated by participants, than other programs. In particular the K-12 oriented programs received an average 9.23 rating, on a 10-point scale, representing excellent. Students of all ages responded better to SIFE led activities, than those conducted by professionals alone. Even those SIFE activities for professional teachers were rated favorably, 8.73, when compared with those run by economists and other experts, about 9.11.

Economic educators have long recognized that the ultimate success of the movement depends upon the institutionalization of economics into the school curriculum (Bach 1965). In Arkansas the Economics America program (EA) is the key to the success of that effort. EA School Districts have agreed to integrate economics into the curriculum from grades kindergarten through twelve in a systematic and effective manner. The National Council on Economic Education (NCEE), the Arkansas Council on Economic Education (ACEE), the four regional university-based centers, and the institutions they represent, have agreed to provide support services to the EA Districts within their own network. SIFE, at Arkansas State University, has made that effort easier and more effective. This mutual commitment results in the infusion of economics into the curriculum and provides necessary training to the professional educators who in turn make economic literacy a reality. In a recent national study of high school students' test scores on a standardized test of economic knowledge the authors concluded:

The EA variable is a significant predictor of economics achievement and contributes to gains in economic knowledge... Teachers need to be encouraged to take more course work in the ever changing world of economics if they are to stay current. One way to do this would be for a school district to make a stronger commitment to economic education through EA (Walstad 1985).

Arkansas has become very active in the recruitment of EA schools since the first ten systems were signed on in 1978. Currently 107 EA districts educate 68% of the school children in the state. The Arkansas Council on Economic Education (ACEE) has provided programs to educators in 90% of the state's 329 public school districts and private schools. Since SIFE was organized at ASU, about 79% of the educator contacts have involved SIFE members as host, publisher/writer, proofreader, organizer and even workshop conductor under the supervision of the CEE-ASU Director and SIFE advisor. The Director, working alone, was able to make a significant contribution to economic literacy from 1987-1992. Prior to 1987 the total outreach in the area was limited to attendance at a summer workshop and a few seminars conducted by ASU professors on a part time basis. After SIFE was added to the program in 1992, the total outreach exploded. Outreach in 1998 grew by more than 2000% from the 1992 levels. The figures for direct educator contacts are provided in table I. The center more than tripled its outreach in 1995 with the introduction of SIFE developed mass media outreach, which is not reflected in these figures, but totaled more than one million in 18 states by 1998.

Table 1: Direct Educator Contacts  
ASU Center for Economic Education  
1983-1998

1983-1984	112	1991-1992	2,099
1984-1985	75	1992-1993	3,613
1985-1986	55	1993-1994	7,959
1986-1987	1,560	1994-1995	12,099
1987-1988	2,614	1995-1996	19,619*
1988-1989	1,573	1996-1997	31,959*
1989-1990	1,806	1997-1998	42,097*
1990-1991	1,959		

\* Mass media is not included in these totals.

In Arkansas the local center serves as an important resource in teacher training, materials development/distribution and consulting. For example, The Arkansas State University Center staff conducted 35 noncredit workshops attended by teachers from 44 of the 46 districts in the Northeast region during the 1996-1997 school year. All these workshops had some SIFE involvement.

The cornerstone of the Arkansas EA Model has always been the summer workshop program. Since 1967 the ACEE has sponsored a total of 89 workshops through each center since the early 1970's.

Research into the effectiveness of the workshops will focus on the 32 graduate credit workshops conducted by the staff of the CEE-ASU for in-service classroom teachers. At least one workshop was conducted through ASU each summer from 1967 through 1997, except 1970, 1978 and 1996. These subjects provided the data for this study. The 10 workshops involving SIFE were separated from the 22 involving center staff only. A total of 6,369 educators from districts all over

Arkansas have attended these workshops since 1971 at a cost to the Arkansas Council on Economic Education of just over \$450,000, about \$335 per teacher. While comprehensive data on the cognitive performance from the centers at Henderson and the University of Arkansas are not available, the teacher survey results from all three institutions appear on table 3. Information is not available on the fourth center, which was formed in 1996 and has no track record in the statewide effort. The survey results suggest that teacher attitudes toward all of the workshops, which follow a similar organization plan, is universally high with no program receiving a mean score less than seven, on a ten-point scale. The same results discovered at ASU regarding teacher performance should hold for the entire program statewide. While the ratings have always remained high for the program, workshops conducted by ASU did note a 21% higher rating when SIFE was involved. This was statistically significant using a chi square test of significance.

Teachers were exposed to a varied economic education workshop format that included: instruction in basic economics; curriculum sessions led by expert classroom teachers; field trips; speakers; the development of teacher made classroom materials and lesson plans; the use of grade level appropriate film series and other special programs.

#### INCREASING THE KNOWLEDGE OF AND APPRECIATION FOR BASIC ECONOMICS AMONG PRECOLLEGE TEACHERS AND ADMINISTRATORS

The first phase of this study is to determine if the workshops are successful in improving precollege educators' basic understanding of, as well as, appreciation for basic economic concepts. Several studies have shown the importance of teacher education in improving economic literacy among the general population (Highsmith 1974 and Baumol 1988). The Walstad-Soper study (Walstad 1988) concludes that each college level economics course completed by a teacher adds .64 of a point to the predicted score of his or her students on the nationally normed Test of Economic Literacy. Teacher education is the most effective tool available to the economic education movement in its goal of improving economic literacy. This paper will evaluate the effectiveness of the teacher education program at Arkansas State University using raw data, Chi-Square statistical analysis and regression analysis techniques.

It has been the policy of the workshop administrators to utilize a modified form of the standardized Test of Economic Literacy (TEL), published by the National Council on Economic Education (NCEE), as a pretest (form a) and post test (form b) to every participant. This is designed to determine progress in understanding basic economics and provide input in determining the final grade in the course. The results of these tests have been kept for every workshop since 1971 and can be found on table II. An examination of the raw data, difference between the preinstruction test mean score (PETMS) and the post-instruction test mean score (POTMS), clearly proves that teachers did learn some economics during the workshop. The difference between these mean scores ranged from a low of +3.72 in 1975 to a high of +17.91 in 1993. The PETMS ranged from 10.58 (1981) to 30.41 (1980). The POTMS ranged from 20.42 (1981) to 36.56 (1980).

A series of Chi-square tests ( $\chi^2$ ) of independence were used to determine if the difference between the PETMS and the POTMS, which showed positive improvement every year. Statistical significance was established at the critical value of  $\chi^2$  established at the .01 level (see table II). The results were statistically significant, the null hypothesis was rejected, for every year except 1973, 1975

and 1977. Teachers did learn economics since the difference in scores cannot be explained by random chance. The evidence also demonstrates a steady growth in the ability of the workshop staff to promote the learning of economics over the years since the gap between the PETMS and POTEMS has been widening in recent years. There has been some speculation concerning the fact that there was no statistical difference in the mean scores in the years 1973, 1975 and 1977. It was discovered that those years contained an abnormally large population of undergraduate education majors (pre-service teachers). When their scores were removed from the study, those years also proved to be statistically significant. This course is designed for inservice teachers and pre-service education majors may lack the same degree of interest or sufficient experience to use the ideas presented in the sessions.

This conclusion supports other research conducted in the past including a study at Southeast Missouri State University (Dale 1984). This study concluded that teachers not only learned economics under the workshop approach, but the difference was greater than for students in a regular economics class setting. This was the result of interest in the subject matter and the practical nature of the workshop. A comparison of data from SIFE involved workshops, relative to regular workshops, showed a 21% gain in knowledge that also proved statistically significant using a chi square test of means. SIFE students helped improve both the amount of economic learning that occurred and general interest in the workshop among teacher participants.

Examining the data for the SIFE workshops, as compared to nonSIFE workshops, there was an average 2.09 increase in the test scores during the SIFE years. However, this did not appear to be statistically significant at the .01 level.

#### INCREASING BOTH THE QUANTITY AND QUALITY OF ECONOMICS INSTRUCTION IN ARKANSAS CLASSROOMS BY PROVIDING TEACHERS WITH A VARIETY OF USEFUL TEACHING TECHNIQUES AND MATERIALS

Teachers who have attended the workshop clearly have a better understanding of basic economic concepts, but do they appreciate economics and its importance in the overall school curriculum, particularly as it relates to that teacher's specific curriculum and lesson planning. A recent national study concludes that:

Teachers of economics believe that all teachers, themselves included, should be required to take considerably more courses in economics than they have taken (Baumol 1988).

This interest in economic literacy is not shared by the profession as a whole, since only 25% of the nations teachers have ever taken a single course in economics in either high school or college (Volker 1988)

Earlier research conducted at West Texas State University (Dale 1987) indicates that the economic education workshop experience does create more favorable attitudes toward economics in the curriculum as expressed on a pre- and post-course survey. Such interest should result in more economics being taught. The same survey was used with teachers in the Arkansas workshop in 1989, 1991 and 1997. Since these teachers had committed themselves to a two-week course in economic



education, it was assumed that they believed it to be an important part of the curriculum. This assumption was valid with teachers giving a mean rating of 9.61 on the Teacher Attitude Survey (TAS), with a maximum of 10.0. The ratings at the secondary level were even higher with 93% respondents strongly agreeing on the importance of economics, with none disagreeing. A slight but interesting difference came when teachers were asked if it were important that they; 1) understand basic economic principles and, 2) teach those principles in their own class setting. A majority of 61% of the elementary teachers and 89% of the secondary teachers stated that they would include some economics instruction in their curriculum because of the workshop experience.

This attitude change came with an overwhelmingly favorable response to the workshop experience. On the Economic Education Workshop Evaluation (EWE) 84% of the three workshop groups combined rated the workshop outstanding in some or all respects. Table III demonstrates that this favorable response to the economic education workshop approach has remained consistently high over the 24-year history of the program. However, it is important to note that at ASU the ratings have improved since SIFE has been involved. The best ratings come from workshops conducted by the Director and involve SIFE, as opposed to workshops conducted exclusively by SIFE alone or by the Director alone. The Director's participation, according to surveys of SIFE Team members, helps by putting the students at ease resulting in a smoother flowing operation. They are organized to divide the duties and students feel "less alone" and "more able to function with confidence that someone can answer questions raised or take over when problems arise." This organization has become the major plan for our workshops since 1995.

Teacher attitude toward economics is critical if teachers are to include economics in their curriculum plans. The Baumol-Highsmith study suggests that:

Students share with their teachers many of the same goals for studying economics, but students believe that these goals are less important than teachers believe them to be (Baumol 1988).

If students are to be motivated to learn economics, their teachers must first be interested in the subject matter and capable of teaching it effectively. Students enrolled in economics courses seem to be very favorable to the subject according to the Baumol-Highsmith study with 67% of the students indicating a favorable attitude toward economics subjects and only 13% disliking the subject. Excited enthusiastic teachers will improve the level of economic literacy.

Teachers leave the workshop experience with a better understanding of economic concepts believing that economics should be an important part of their curriculum. This does not mean that this new attitude will be reflected in long-term changes in classroom behavior. An Economic Education Survey (EES), was mailed to all 281 graduates of the 1989, 1991, 1997 workshops to decide; 1) if they were teaching more economics or less than before the workshop and 2) what factors were influencing their behavior.

Of the surveys mailed, representing 100% of the population to be surveyed, 5.5% were returned with a notice that the addressee had moved or was no longer teaching, 11.53% were mailed to a district with a substantial number of graduates and cannot be accounted for, 60.13% were returned completed or partially completed and 22.74% have not been returned. This is a phenomenally high rate of return for a mailout survey. This rate of return indicates that the teachers,

after a three month to four year period, still have strong interests in the economic education workshop experience and the subject matter.

The survey questioned teachers to determine the amount of classroom time spent teaching economics(see table 4). An overwhelming 83% stated that they did spend some time teaching economics with 13% indicating that they spent 50% of their time or more teaching economics. On average secondary teachers spent 35% of their time teaching economics, twenty-two (8% of the total) of the respondents were economics teachers. Elementary teachers spent an average of 17% of their time teaching economics. These statistics suggest that teachers, who are graduates of the workshop, are spending a significant amount of time with economic subjects and content materials. Most surveys indicate that economics has not been given a high priority in the nation's schools. That is not true of this group of teachers (Volker 1988). Sixty-one percent of the workshop graduates said that they spent more time teaching economics than they did before the workshop experience, with only 4% spending less time teaching economics. A modified form of the survey was distributed to six area principals, randomly selected, and they were each asked to give the survey to five classroom teachers on a random basis. This served as a control group. Forty-six percent of the control group surveys were returned. This group indicated that only 41% of the respondents included economics instruction in their classroom. On average 11% of the control group's curriculum was devoted to economics at the secondary level and 3% at the elementary level. A Chi-square test ( $\chi^2$ ) of independence between the responses of the control group and the survey group at the .01 level relevant to time spent teaching economics was conducted. The null hypothesis was rejected at the .01 level, demonstrating that workshop graduates were more likely to teach economics.

It is important to note that workshop graduates who frequently utilize economic concepts in their classroom have a better understanding and retention of economic subject matters than those who use economics on a limited basis (France 1987). Since a large portion of the ASU workshop graduates are spending significantly more time teaching economics they are also enhancing their own economic knowledge in the process. The workshop experience serves as a foundation and catalyst for long-run improvements in teacher quality. Many graduates attend regional and statewide workshops to improve their ability as teachers who include economics in their curriculum.

There was no statistically significant difference in the use of economics in class between SIFE involved workshops and regular workshops.

#### PROVIDING ADDITIONAL INCENTIVES TO ENCOURAGE CREATIVE TEACHING IN GENERAL, AS WELL AS, WITH RESPECT TO ECONOMICS INSTRUCTION

Teachers have given high ratings to the creative materials used in the workshop and the staff is certain that these are not only being used but that the creativity does rub off in other areas of the curriculum. The Director has used the SIFE team in creating, proofing, publishing and distributing 15 publications for K-12 educators used in workshops. The publications have always been edited by the Director. He has also been involved in the planning of the materials to insure their factual accuracy and teaching value. The ASU SIFE teams have consisted of 57% Education majors; 29% Business majors; 3% graduate students and the remainder from one of the other four colleges that make up the University. The large portion of future teachers involved has made it easier to produce

quality materials with fewer restraints by the advisor. Business students have concentrated on the factual material.

All 15 publications have been rated by 8,992 professional educators, at workshops and in our credit courses. The ratings have ranged from a high of 9.98 for the Children's Literature Guides to a low of 7.22 for the Drug Free Student booklet. Complete ratings are found in table V. The average of all publications is 9.52. SIFE publications include nine teacher guides and six student publication sets:

I. The Arkansas Adventures of Oliver the Owl. Oliver introduces young children to the free market economy through the farming, manufacturing and service sectors using games, puzzles and drawings. A one page Teacher's Guide is also included to help the teacher introduce the materials.

II. Farmer Dan Works for You picks up on the same five themes found in Oliver and reintroduces them to older students. A thirty-page guide helps introduce students to the free enterprise economy through five basic concepts; production, consumption, interdependence, specialization and scarcity.

III. Life on the Farm is designed for the grade five and 8-arkansas history course. The major emphasis is on the role of agriculture and the American Free enterprise system.

IV. Stay in School I and II were developed to encourage kids to stay in school and get a good education to become full participants in society.

V. Goldie Locks and the Three Bears Part II updates the story of Goldie Locks to explore 25 basic economic concepts. The theme is the importance of staying in school and getting a good education. A second theme relates to hard work and the free enterprise system.

VII. Five VI. Drug Free lesson plans include copies of the SIFE Drug Free Booklet and teacher guide.

#### TEACHER GUIDES

I. Oliver, Dan and Life on the Farm consists of one guide per student publication.

II. Children's Literature Across the Curriculum consists of two publications, one for grades kindergarten through three and the other grades four through six. Elementary teachers are provided with lesson plans that include; games; posters, worksheets and creative activities that integrate free enterprise economics and agriculture concepts into language arts, social studies and math lessons centered around award winning children's literature.

III. Economics in the Newspaper integrates economics into the general curriculum using the newspaper with three guides. These were developed for grades four through high school teachers laying the stock market game. The costs and printing were underwritten through a grant from the Arkansas Democrat Gazette Newspaper.

The only other direct evidence of the quality of the materials is in the number of IPCFAP winning teachers that have been past graduates of Arkansas' Summer Workshops. These teachers are obviously using the creative materials in their classroom. Arkansas has had a total of 368 award winning teachers from 37 districts, which is greater than any other state. The majority, 89%, of these award winners are past workshop participants. Arkansas award winners have come in every category from 1962-1995 including; Primary level winners, 123; Intermediate level winners, 138; Jr. High level winners, 45; High School level winners, 22, Open level winners, 26 and College level winners, 7. Since 1962 Arkansas has had 42 first place winners, taking that honor every year since 1962 except 1976, 1986 and 1987. The IPCFAP is highly visible during the workshops and teachers are encouraged to enter. The number of Arkansas winners has remained high and fairly consistent. The number of winners from the ASU region has increased 26% since 1995, and now makeup over one-fourth of the state total. This is due in part to the involvement of SIFE and to the introduction of a statewide program in 1995.

Evidence confirms that teachers are using the materials and services of the state network as reflected in the growth of demand for center services. Further evidence that the program generates interest in creative teaching can be found in the participation of teachers in non-credit seminars sponsored by the ACEE during the year. A recent poll of seminar participants showed that 63% were former workshop graduates. These people are obviously interested in discovering new and creative materials that teach economics. SIFE team members have done an excellent job of motivating teachers to enter the awards program.

#### INFORMING TEACHERS OF THE SERVICES PROVIDED BY THE EA NETWORK IN THE STATE

All of the programs of the economics network are used to advertise the services available through the network and encourage district and individual participation. This form of advertising has been critical in generating interest in program services resulting in dramatic growth in participation. The number of EA Districts in Northeast Arkansas alone has grown from 10 in 1986 to 49 in 1998. The other center workshop programs were not included in this research; however, an examination of the raw data from the surveys and test indicate similar experiences. The Arkansas Summer Workshops have always followed a similar formula for success that includes:

1. Using economists to explain basic economic principles.
2. Using award winning teachers from around the state.
3. Including panel discussions and presentations from business, agriculture, labor and government.
4. Incorporating field trips and special educational presentations.
5. Exposing teachers to media and print material for classroom use.
6. Organizing teachers into grade level groups for curriculum class.

7. Placing a strong emphasis on the EA network.
8. Utilizing SIFE for instruction and materials development.

This formula is highly successful and the thrust of the ACEE efforts in preparing teachers for instruction in economics at all grade levels. The data in table III indicates that the teacher participants gave universally high ratings to each of the center-based summer workshops. The lowest mean rating (7.84) was for the 1991 U of A workshop and the highest rating (9.73) for the ASU workshop in 1997. All Arkansas workshops fall within the good to excellent range. The noncredit workshops and seminars have been designed as enrichment supplements to encourage teachers to attend the summer workshop program. The business community has provided consistent support to the program, both financial and physical, that has not been equaled by many states with larger populations and more substantial financial resources. The SIFE advisory board has made both financial support available and helped in providing materials and sources for outreach. This has been particularly important, since one third of our program efforts have involved the Arkansas Farm Bureau. The head of their educational division, Dale Adcock serves as the current chairperson of our board. Another major supporter is board member Terry Cody, who serves as the Stock market Game coordinator and educational Resources Supervisor for the Arkansas Democrat Gazette. The rest of the board includes two banker (Jerry Broadway, Vice President of Simmonds Bank and John Freeman, President of First National in Jonesboro), the owner of a chain of Arbys Restaurants, along with a supervisor from the city owned power company and the President of the Greater Jonesboro Chamber of Commerce, Mr. Henry Jones. All are very active participants in the program.

The state government also has made some important contributions, primarily through the efforts of the Arkansas Department of Education. Besides some financial and administrative support, the Department of Education has mandated the teaching of economics at the elementary and secondary levels although those mandates are new and have yet to be effectively established and monitored. In 1974 the state of Arkansas passed legislation requiring a course in Economic Education, economics courses do not count toward this requirement, for all elementary education majors to be certified. This important legislation has been diminished by the lack of standards in the teaching of the class between the many diversified public and private institutions within the state.

These other factors play some role in the success of the Arkansas Program but the single most significant element is the EA Model used in the state, which incorporates the SIFE program. The research indicates that the money spent on economic education has been effective in raising the level of economic literacy among teachers and meeting all of the four major goals of the program. Further research, performed at the national level using students from Arkansas and other states, indicates that much of this has affected students, particularly in the EA school systems (Walstad 1988). The next step is to insure that all students in the state receive some effective instruction in the important area of economics.

## CONCLUSIONS

The Arkansas EA Model is designed to take maximum advantage of the unique conditions operating in our state. Every aspect of the program may not be effective in other regions, but some lessons learned can be applied to other areas. This model was not set in place from the very beginning, but evolved with the maturity of the program over a 26 year period. The greatest

innovation to have taken place in the program in the last six years is the utilization of SIFE. Evidence exists that the experiences at ASU are being replicated at the other three centers.

The program evaluation has established that our statewide network has successfully met all of its major goals. The SIFE Team at ASU has been an important part of that successful formula and will continue to promote a better understanding of and appreciation for the American Free Enterprise system.

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TABLE 2: COMPARISON OF PREWORKSHOP TEST PERFORMANCE (PETMS)  
WITH POST-WORKSHOP TEST PERFORMANCE (POTMS)  
ARKANSAS STATE UNIVERSITY WORKSHOPS 1971 - 1988

YEAR	RANGE PETMS	PETMS	RANGE POTMS	POTMS	DIFFER PETMS AND POTMS	N	$\bar{X}_2$
Center Staff Only							
1971	10-25	16.90	11-28	21.55	+4.65	106	.0089*
1972	9-29	17.15	12-39	22.00	+4.85	106	.0073*
1973	8-40	17.16	11-29	21.65	+4.50	93	.0181
1974	7-32	17.30	15-32	22.40	+5.10	88	.0032*
1975	11-33	18.77	8-35	22.49	+3.72	68	.0919
1976	11-31	19.11	9-42	25.17	+7.06	NA	NA
1977	12-31	17.82	8-39	21.23	+3.41	72	.1114
1978	-----	-----	-----	-----	-----	----	-----
1979	11-32	21.50	15-44	27.97	+6.47	58	.0031*
1980	14-46	30.42	17-46	36.56	+6.14	74	.0047*
1981	6-20	10.58	13-26	20.42	+9.84	43	.0009*
1982	11-20	17.77	12-28	22.46	+4.69	51	.0093*
1983	12-26	19.52	21-38	30.41	+10.89	59	.0001*
1984	11-27	18.69	12-36	29.94	+11.25	54	.0001*
1985	7-30	17.65	11-39	24.96	+7.31	95	.0033*
1986	8-26	19.19	15-38	30.25	+11.06	59	.0001*
1987	10-35	20.01	15-38	29.50	+8.50	60	.0008*
1988	9-32	22.70	17-46	35.11	+12.41	64	.0000*
1989	9-39	30.41	18-46	36.13	+5.72	64	.0028*
1990	8-31	19.91	16-46	32.02	+12.11	63	.0000*
SIFE and Center Staff							
1991	7-33	14.31	19-45	26.70	+12.39	99/64	.0000*
1992	6-36	19.95	12-39	26.96	+7.01	65	.0033*
1993	8-22	17.29	15-38	35.25	+17.91	27	.0001*
1994	10-35	20.05	19-38	32.15	+12.10	35/26	.0008*
1995	9-32	22.33	17-46	35.01	+12.68	35/25/15	.0000*
1996	NONE						
1997	18-31	22.14	17-46	32.12	+9.98	56	.0000*

\*Significant at the .01 level

<sup>1</sup>Two workshops 100 and 65 respectively.

TABLE 3: MEAN RATING OVERALL WORKSHOP EXPERIENCE  
SELECTED YEARS

Henderson, Arkansas State University, Fayetteville

		<u>MEAN</u>	<u>% of Rating</u>	<u>No Opinion</u> (5 or 4)
1987	ASU	9.45	73%	4%
	Henderson	8.09	83%	4%
	U of A	8.46	91%	6%
1991	ASU	8.56	98%	5%
	Henderson	8.60	97%	5%
	U of A	7.84	100%	9%
1996	ASU	9.36	88%	10%
	Henderson	NA		
	U of A	NA		
1997	ASU	9.73	95%	0%
	Henderson	NA		
	U of A	NA		

(a scale from 1 - 10)

TABLE 4: PERCENTAGE OF TIME SPENT TEACHING ECONOMICS BY WORKSHOP  
GRADUATES AND CONTROL GROUP

<u>GROUP</u>	<u>NONE</u>	<u>1-10%</u>	<u>11-25%</u>	<u>26-50%</u>	<u>50-100%</u>
WORKSHOP GRADUATES					
ELEMENTARY TEACHERS	17%	39%	31%	11%	2%
SECONDARY TEACHERS	20%	2%	20%	43%	15%
CONTROL GROUP					
ELEMENTARY TEACHERS	63%	27%	7%	3%	--
SECONDARY TEACHERS	44%	41%	2%	3%	10%



TABLE 5: TEACHER RATING OF SIFE DEVELOPED MATERIALS

(N= 2,667)

PUBLICATION	ACCURACY	EFFECTIVENESS	REPEAT USAGE
<b><u>STUDENT PUBLICATION</u></b>			
Oliver (K-2)	9.65	9.89	91%
Farmer Dan	9.71	9.95	96%
Life on Farm	9.49	9.94	97%
Goldie Locks	9.01	9.33	84%
Drug Free	9.88	7.22	86%
Stay School I & II	9.87	7.39	59%
<b><u>TEACHER GUIDE</u></b>			
Oliver (K-2)	9.39	9.88	87%
Farmer Dan	9.96	9.45	92%
Life on Farm	9.76	9.86	95%
2 volume			
Literature	9.97	9.98	99%
2 volume			
Newspaper	9.91	9.88	97%
3 volume			

# REDEFINING ECONOMICS

**John J. Bethune, University of Tennessee**

## INTRODUCTION

Current definitions used in introductory economics focus on scarcity, limits, and constraints. While these are valid grounds of economic inquiry the breadth of the subject could easily lend itself to alternative definitions. Conversely, Classical economists concentrated their definitions on wise management, wealth, and wealth creation. Following the lead of the classical writers, this paper offers an alternative suggestion for defining economics.

Any valid understanding of business and entrepreneurship must begin with an understanding of economic principles. Typically, introductory classes have been less than successful in appealing to student interest or for promoting inquisitiveness. Perhaps, if we begin by making the definition more interesting, and more accurate, more students will be attracted to the study of economics, and seek additional knowledge regarding the workings of our free enterprise system.

## CONTEMPORARY DEFINITIONS

As noted in the introduction, most textbook definitions of economics focus on scarcity and limits. Here are some examples:

1. “The study of how people choose to use their scarce resources in an attempt to satisfy their unlimited wants.” [McEachern, p. 2]
2. “The study of how people allocate their limited resources to satisfy their unlimited wants.” [Miller, p. 5]
3. “The science of scarcity . . .” [Arnold, p. 6]

Several other contemporary texts do not provide a definition of economics, per se, but the introductory remarks clearly demonstrate that the focus is on scarcity. McConnell and Brue, in their section, “The Economic Perspective,” note that “outputs of goods and services must be scarce or limited, and scarcity limits our options and necessitates choices.” [p. 9] Similarly, Gwartney and Stroup begin their discussion of “What Economics is About” with a subsection called “Scarcity and Choice.”

While the actual focus of economic inquiry, in many respects, has changed very little since the time of Adam Smith, the way we have defined our science seems to have been altered significantly. Where human action was once portrayed in a manner that highlighted the wealth creating aspects of these actions, it is now described as limited and constrained.

Some introductory textbooks do offer alternative definitions to those that focus on limits and scarcity. Tregarthen defines economics as “the study of how people choose among the alternatives available to them,” while Gottheil offers:

Economics: The study of how people work together to transform resources into goods and services to satisfy their most pressing wants, and how they distribute these goods and services among themselves. [p. 6]

Similarly, Colander gives us: “The study of how human beings coordinate their wants.” [p. 7] From these three definitions we are given differing foci on either choice, cooperation and distribution, or coordination. But none of these return the definitional focus to wealth or productive management (the earlier meanings). Further, contemporary definitions, especially those that involve scarcity, seem at odds with much of what is observable today. Consider these points:

3. The nominal price of various goods and resources do not seem to be rising appreciably, and often appear to be falling. When was the last time McDonald’s raised the price of a hamburger, or soft drink prices went up in vending machines. Prices for these, and similar goods, have remained fairly stable over recent years, while other prices, such as those for computers, continue to trend downward. In fact, the resource most people seem to worry about running out of, oil, does not demonstrate this scarcity, as reflected in relatively stable gasoline prices.
4. The real price of key raw materials has generally declined. Readers may be familiar with the bet between Paul Ehrlich and Julian Simon that demonstrated falling real prices in the market for natural resources. In fact, from 1980 to 1990 real prices fell for all strategic minerals except manganese and zinc. If these resources are scarce, and our use of them is making them scarcer, simple models would predict rising, not falling prices. While economists can relax their *ceteris paribus* assumption and explain the price decline, it is not easily explainable at the introductory level.
5. Through time, the relative value of goods continues to decline. How many hours does the average worker have to labor before she can purchase a new car? How many households now own at least one car, television, or telephone? These answers are explainable through considerations of wealth and productivity changes, but how well do they comport to the simple assumption of scarcity and limited resources?
6. One popular principles textbook states what we, as economists, view as obvious: “A person might not be able to have a new car and a bigger house. . . . A society might not be able to have more schools and more interstate highway systems.” While these options “might not” be available, they more often than not are. The existence of consumer credit often means a person can have both a new car and a bigger house now, after arrangements have been made for future payments. Similarly, the use of deficit financing has often released the public sector from difficult choices. In the 1960s, when posed with the choice between guns and butter, our federal government chose both.

We can state the fact that resources are scarce, but enough money often appears to negate this fact in an untrained mind. If the college budget can only support a library or a student activities center, we understand this involves choice, but nothing a wealthy benefactor could not change. With enough wealthy benefactors we could throw in a new football stadium, humanities center, and dormitory. While economists can point out that the bricks and mortar used to make all these

buildings are scarce, this will tend to hold little sway with students as all the structures are erected simultaneously.

The principles of scarcity and constrained choice are obviously valid and important concepts in an introduction to, and a study of, economics. What is not obvious is the need to include these limiting aspects of economics in the definition of this, potentially optimistic social science. An understanding of the power of incentives and the virtues of prudence and productivity has led to the creation of an economic system that generates vast amounts of wealth. As was the case historically, the definition of economics should demonstrate this.

### CLASSICAL DEFINITIONS OF ECONOMICS

The word “economy” comes into written English in the late 14<sup>th</sup> century, as a word to describe household management. The applicability of the word to its current meaning does not arise until much later. With the word “political” appended to the front of economy, the meaning changed from household management to a meaning that encompassed a much broader scope, i. e. to manage the economy. This is how Adam Smith used the term in 1776:

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign. [Book IV, p. 138]

For Smith, the goal of political economy was to direct the economic system towards achieving national wealth. It meant more than simply managing the economy, it implied managing the economy well. Given Smith’s interests and reasons for writing Wealth of Nations, his definition would seem to fit the task he undertakes.

Writing several decades later, David Ricardo alters the goal of political economy in a manner that focuses its purpose on the allocation of wealth. He writes: “To determine the laws which regulate the distribution [of the produce of the Earth to rent profits and wages] is the principal problem of political economy.” [p. 1] For Ricardo then, the purpose of engaging in political economy was to study distributional issues.

In his principles book, which was published three years after Ricardo’s, Thomas Malthus does not provide an explicit definition of political economy, but he has much to say regarding the nature of the discipline. While acknowledging that “the conclusions of Political Economy partake more of the certainty of the stricter sciences than those of most of the other branches of human knowledge,” he concludes that “the science of political economy bears a nearer resemblance to the science of morals and politics than to that of mathematics.” [p. 1] Malthus further notes:

The science of political economy is essentially practical, and applicable to the common business of human life. There are few branches of human knowledge where false views may do more harm, or just views more good. [p. 9]

Of course, most know that Malthus' work led Carlyle to refer to economists as "the dreary professors of a dismal science," but this was due to his conclusions regarding the plight of the poor and its implications, such as "we should make the streets narrower, crowd more people into the houses, and court the return of the plague." When it came to the scientific study of political economy, Malthus was a bit more optimistic.

While Malthus avoided any explicit definition of political economy, John Stuart Mill took the opposite approach. In addressing the subject of inquiry for political economy he states:

That subject is Wealth. Writers on Political Economy profess to teach, or to investigate, the nature of Wealth and the laws of its production and distribution: including, directly or remotely, the operation of all the causes by which the condition of mankind, or of any society of human beings, in respect to this universal object of human desire, is made prosperous or the reverse. [p. 1]

A popular treatise on economics, that went through five editions during the mid-1800s, was by John R. McCulloch. In it he offers this definition:

Political Economy may be defined to be the science of the laws which regulate the production, accumulation, distribution, and consumption of those articles or products that are necessary, useful or agreeable to man, and which at the same time possess exchangeable value. [p. 1]

This statement appears in the section on "Production and Accumulation of Wealth," and it seems to parallel the meaning of economics, as offered by Alfred Marshall, in his popular textbook. Marshall writes:

Political Economy or Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being. Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. [p. 1]

The above definitions, offered by the seminal writers of their time, demonstrate that the subject of political economy, or economics, was considered to be, on the one hand, the study of wealth, and the laws that produced it, and, on the other, the study of human actions.

Later writers of the early 20<sup>th</sup> century continued to tie the definition of economics to wealth. Typical of textbook definitions were: "Economics is the science which deals with wealth in its most general aspect; namely its value aspect," [Johnson, p. 9] and

Political Economy (economics is the same thing) is the science of wealth. It is the study of how men produce the things they need, divide them, exchange them and use them. [Mitchell, p. 3]

Not surprisingly, modern writers of the Austrian School have directed the definition of economics toward individual action. Mises writes:

Economics is . . . the theory of all human action, the general science of the immutable categories of action and of their operation under all thinkable special conditions under which man acts. . . . Economics is not about goods and services; it is about human choice and action. [Mises p. 266, and p. 494]

And Rothbard adds:

Economics, therefore, is not a science that deals particularly with “material goods” or “material welfare.” It deals in general with the actions of men to satisfy their desires, and, specifically, with the process of exchange of goods as a means for each individual to “produce” satisfaction for his desires. [Rothbard, p. 141]

### REDEFINING ECONOMICS

In keeping with the classical tradition, I would like to propose the following definition:

“Economics - - the science that studies wealth, hope, and prosperity.”

Wealth ties the definition to its historical roots and the traditional subject of inquiry. Hope is what economics represents for all those who seek a better life. Prosperity is what results when the subject is properly understood.

This definition fits narrowly within the Austrian definition if we expand it to “the science that studies human actions directed toward the acquisition of wealth and the achievement of prosperity” (with hope being implicit in the statement). But while the Austrian focus is on individual action, the first definition encompasses the general achievement of wealth and prosperity by a community or a nation as a whole.

If we can give students a definition of economics that stimulates curiosity, then we might be able to sustain this inquisitiveness throughout the semester. The above definition is being offered as a step in this direction.

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# **PRIVATIZATION ISSUES IN THE GREEK ECONOMY: WHAT ARE THE REQUIREMENTS FOR SUCCESS?**

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## **ABSTRACT**

*This paper analyzes the privatization issues in the Greek Public Enterprises as Greece seeks to establish the policy that will meet the Maastricht criteria and thus qualify for membership in the unified European currency.*

## **INTRODUCTION**

The drastic changes that have taken place in the global community within the last two decades, especially in the telecommunications and information management areas, have to some extent refocused competitiveness away from the strict price - cost relationship toward R & D, investment, and quick response to opportunities.

Economic systems, which have embraced the principles and the ideologies of free enterprise, have prospered in comparison to economic systems that are based on collective ownership and on socialistic principles.

In the early 80's, under the initiative of both Ronald Reagan and Margaret Thatcher, there was a major effort to reduce both the size and the scope of the public sector. Both leaders sought to reintroduce free enterprise and the benefits of capitalism by reducing the size of the government and by curtailing social programs introduced under the philosophy of Keynesian economics and the welfare society. The collapse of the Soviet Bloc and the failure of socialism offered a final surge toward privatization of large sectors of the economy. The debt and deficit targets: 60% Public Debt to GDP ratio, 3.0% Public Deficit, and 2.7% inflation stipulated in Maastricht as prerequisites for a unified European currency, have further intensified the privatization efforts and have introduced various austerity programs which have led to serious protests and crippling strikes. The Greek experience toward achieving the Maastricht targets has been extremely poor. In fact Greece has the highest debt service ratio ranging from 12.9% to 14.2% and it is among the top three countries with respect to national debt/GDT ratio of around 112%. Only Belgium and Italy had higher debt to GDP ratio.

Greece has been a follower of the so-called "European social model," especially under the PASOK regime, which offers a mixture of generous welfare spending, protective labor legislation and a strong public sector as a provider of both public services and employment. Furthermore, closed regulated markets and inefficient, wasteful public enterprises have placed extreme pressure on public funding. There is a clear need to privatize and revitalize as many of these entities as quickly as possible. Unfortunately though, public enterprise issues in Greece are not only technical and economic, but political and social as well. The main policy orientation of the Greek government has been defined by the desire to participate in the currency unification, though fiscal restraint and consolidation of inefficient and revenue taxing public enterprises and public organizations.



The very essence of public sector is rooted at the heart of the political system. It is in fact, the tool of a peculiar social contract between society and the established political system, which the elected officials are seeking to fulfill. In this system vote getting and payment for this vote, means public sector employment. Getting a public sector position exceeds the economic rewards because it provides stability, reduced/or no risk of dismissal, it is socially prestigious, and it strategically positions the individual for the hiring of family members. Furthermore, it very often serves as a stepping stone for a career in politics.

Public choice theory predicts that the existence of such rents can be expected as a result of vote maximizing behavior (see Tullock 1967). Furthermore, once hired, public employees have a higher participation rate than their private counterparts in political activities that seek to maximize these rents (Bennett and Orzechowski 1982 and Bennett and Dilorenzo 1983).

A movement towards changing the public sector will have political implications as the political party, will no longer rely on politics, but will be forced to establish an agenda and a set of programs to appeal to the voters (Manuel Tanoira in "Privatization as Politics" presents a good analytical reference regarding the experience of Argentina). In addition, it will impact on the earnings of the private sector since the unemployed or new entrants will not secure public sector jobs, but will have to compete for private sector ones. The intensified competition will offer much needed improvement in the quality of services in all sectors (health, education, transportation, police, etc.). Furthermore, these sectors could become creative and innovative in offering their services to the public.

There are, however, other serious issues that need to be addressed in addition to the economic and political ones. There is a lack of intellectual heritage towards liberal market based economies. In fact, it could be argued that the general public mistrusts private enterprises. There is a clear need for an economic re-education of the country as to the benefits of competition, the value of profit as a driving force for new business formation, the expectation of excellent service and the negative impact of subsidization on job creation. Perhaps if more individuals were to participate in the industrial and commercial wealth of the nation through share ownership, there would be a substantial body of public opinion in favor of privatization. Steven H. Hanke in his article "Towards a People's Capitalism" presents an excellent analysis of the intellectual arguments in favor of privatization by concentrating on the ideological change introduced in Great Britain under Margaret Thatcher. A similar ideology could propel the privatization effort in Greece, if the political agenda ceases to dominate the economic agenda.

The purpose of this paper is to offer some general comments on the privatization issues as they pertain to the Greek experience and to establish the framework for future privatization efforts by identifying potential candidate public enterprises. Section I address privatization and property rights and introduces the political and social dimension underlying privatization schemes. Section II presents data on public sector employment and public enterprise operating and financial results and offers an interpretation of these results. Section III sets up the framework for a successful privatization attempt and offers a chronological overview of privatization in Greece since 1992. Section IV offers concluding remarks. The paper does not deal with micro-enterprise issues in any detail, but it offers valuable information for the successful completion of such an endeavor.

Greece, unlike other States that have pursued privatization, has embraced the concept of the entrepreneurial state (state is the engine of growth and development) that operates nationalized industries or intervenes heavily in the operation of private firms. The results have not been good.

Public administration has been negligent and wasteful and Collective ownership has failed consistently. The superiority of private enterprise was presented by Adam Smith, because as he indicated in *The Wealth of Nations*, 1776, there is great inconsistency between a trader and the sovereign; people are more prodigal with the wealth of others than with their own. The current literature of property rights shows that alternative forms of property ownership give rise to different economic incentives and, subsequently, different economic results. Private enterprises are the property of individuals who are free to use and exchange their property rights and are given residual claims in the forms of profits if they provide goods and services at costs below market prices thus increasing the income and the wealth of the owners. If costs exceed market prices, losses incur and the value, income, and wealth diminish. Owners are thus induced to seek gains through efficient management and to monitor the activities of the managers and workers or face dismissal and lower rewards. Private property rights create powerful incentives that promote efficient performance.

Public enterprises are not owned by individuals who have residual claims of their assets but by taxpayers, who cannot trade these assets and do not have strong incentives to monitor the performance of the public managers and the employees. Any benefits, in the form of lower taxes, could be derived at high costs including : information gathering monitoring public employees, and organizing an effective political group to seek improvements. Public ownership thus leads to unpredictable results since the decision-making neither punishes nor rewards the decision-makers. Furthermore, in the absence of an incentive system, public employees seek job-related activities, which promote their own interest at the expense of the consumer. Planning is not rewarded and it does not capture the benefits of good sound foresight, since it only precludes following the planning rules and procedures. The “bureaucratic rule of two” which states “that the cost to public enterprise of producing the quantity and quality of goods and services would be double that of private enterprise”, clearly has a wide application in Greece (See Bennett and Dilorenzo (1983) and Bennett and Johnson (1981)).

The most striking feature of nationalized enterprises is their politicization. Government appoints the boards and top managers, and provides subsidies since most are loss-bearing entities. Politicians are consulted and must approve most major decisions. Government therefore, determines prices, purchasing plant locations, shutdown, incentives, compensation, product development, and finance policies. Labor relations are regulated by politicians leading to stormy relationships including strikes. Comparisons in performance (sales per employee, profit margins, costs, etc.) are inferior to the privately owned entity. Upon privatization, liabilities transform to profits as owners seek to maximize their welfare.

In Greece the concentrated interest of the few have been able to generate the political constituency to diffuse and to outweigh the interest of taxpayers. Managers and employees of public firms and those who receive the subsidized or unsubsidized output from public enterprises have successfully presented a unified front, which opposes privatization.

Unlike the British experience which, under Margaret Thatcher was able to effectively neutralize the public enterprise beneficiaries by insuring their participation in the benefits of privatization through ownership rights, lower output prices, and enhanced quality services, the various Greek governments who have attempted privatization have failed to build a constituency of political support to facilitate privatization. Public sector beneficiaries are able to calculate the potential losses following privatization and they utilize intense lobbying for the continuation and the

extension of the benefits they are currently receiving. On the other hand, the taxpayer who is the bearer of the public sector cost can only anticipate limited gains and does not perceive the need to organize as an offsetting force. The reluctance of organizing and engaging in assertive action against programs and activities is enhanced by the various associations and interdependencies of these programs in which the beneficiary today is the loser of tomorrow and vice-versa.

The privatization schemes that have been attempted were geared towards “private placement” of shares among a limited group of individuals. This type of privatization effort did not generate the “following” and the political support, that a broad based constituency of individual shareholders including managers, employees, and users of the output of the nationalized enterprises would have created. Thus there is no dynamic group of shareholders who are personally interested in the sale, as well as, the success of the enterprise and who would vigorously oppose renationalization. This is especially important for Greece because of the political turmoil and the successive change in the governing body. There is in fact, little separation between the economic and political authority. The centralization of economic and political authority in small elites is common in both left and right governments. Is it possible that the Greek system, although in the mix of the Western societies, is in fact a system of mercantilism in which the social and the economic life are politicized and where the citizens divert their resources and attention away from productive economic activity in forecasting political development, bribing politicians and civil servants, and evading controls. They do so to protect themselves from the decision-makers’ rulings and/or to benefit from them. Changes in the status quo will lead to losers and gainers and thus it often leads to the formation of groups of both elites and non-elites who are negatively predisposed to privatization.

Perhaps privatization in Greece should be understood and be addressed as politics because of the heavy merger of the economic and political decision-making. Is it possible that privatization in Greece might mean no more than an expansion of not-so-private enterprise or an expansion of government by another name.

Numerous individuals have offered suggestions regarding privatization schemes and successes. The suggested points include: review of the tax system and the law regarding property rights, public information programs to generate a climate sympathetic to privatization, especially public education, training programs to develop privatization specialists, the selection of key targets with minimum difficulty or guaranteed success, the selection of the proper technique which will maximize the supporting political constituency, the preparation of the company to make it an attractive investment vehicle, and finally, the temptation to suspend the special privileges often found in public enterprises. These suggestions have yielded good results in many nations.

The Greek privatization effort has failed because the plan was ill conceived and was not effectively executed. More specifically, the general economic climate, because of the concentration of wealth and the political turmoil over the last 100 years, has not resulted in a system conducive to private ownership and especially to enterprise ownership. The benefits of free enterprise have not been effectively cultivated among the general public who basically mistrusts entrepreneurs and business owners. The demagogy of the political parties have often destroyed and distracted the benefits of enterprising and have created a culture in which the general public has relied upon the government as a provider of needs. There is a clear need to revive the entrepreneurial and the private initiative of the Greek people. The intellectual support is not forthcoming, even though the Greek society has experienced the evils of nationalization/bureaucracy. The benefits and the value of profits

as a motivating and guiding force have not been communicated, thus making it easy for opponents of privatization to defeat the various efforts. The old saying, “that people tend to prefer known evil to an unknown good” is especially true in Greece. In public-owned firms, similar to government bureaucracies, both managers and the work force enjoy enormous and unusual privileges, which they are not willing to give up, thus creating an enormous concentrated opposition. Buying out these privileges through cash settlements, might be the best available option. The Greek effort has not created a knowledgeable consumer base who would police quality and price and demand improved services as well as accountability. People’s capitalism if it exists, is in its infancy stage. Perhaps if the Greek public could compare the protected public enterprise with its unprotected private counterpart, they could adjust their expectation of productivity, profitability and quality of service. Monopolies exhibiting failing marks could in fact be victims of the government protection they receive. Monopolies beget corruption and diminished prospects for useful employment by saving jobs in their area at the expense of prolonged and sustained job creation in other dynamic areas of the economy. The job subsidization does not only result in inefficient solutions and losses that have social, economic, and stability implications it prevents the discovery of efficiency.

## SECTION II PUBLIC SECTOR EMPLOYMENT

The complexity of the definitional and structural issues pertaining to the notion of “public sector” in Greece, render the estimation of its size in terms of employment a difficult task. There are three separate tiers: central government, government Agencies, and public entities. The meaning of “public” is often too abstract and inconsistently specified while the structural relationships between the public entity and the governing body are not properly organized. The typical quasi-public entity does not specify its relationship to the government with respect to ownership, control, and involvement in the daily routine activities. A large number of bankrupt enterprises operating under the control of state banks, agricultural cooperatives, and other lending agencies represent additional obstacles to a clear understanding of what constitutes the Greek public sector.

There are roughly 2,500 public entities in Greece with assets exceeding 2.2 trillion drachmas and employment figures ranging from 700,000 to 900,00. A 1994 research article written by F. Kalliri on data provided by the Presidential Ministry, points to an estimate of 650,00 employees utilizing a broad definition of public sector (Kathimerini 3/3/94). This figure means that seventeen percent (17%) of active population and eighteen percent (18%) of all employees are employed in the public sector. If the 900,000 employment figure, which is based on census data, is utilized the relative percentages are 25%, and 45% respectively. The inclusion and/or the exclusion of employment figures for the enterprises operating under the Organization of Restructuring Enterprises (OAE) in an additional factor contributing to the variation in the employment figures.

Two terms: DE and DEKO are utilized interchangeably to denote a purely public enterprise in Greece. These do not by any means measure or identify the same thing since DEKO very often includes various insurance agencies which bear little resemblance to the production of a public service. Two separate and very different employment figures are offered for the pure public sector. A January 15, 1995 article in VEMA (p. A38) indicates a 217,000 employment figure, while an estimate by the Presidential Ministry for the first quarter of 1995 appearing in Kethimerini (8/10/95)

reduces the figure to 124,000. The substantial variation in the estimate could be truly attributed to organizational and definitional issues or it could be easily perceived as an instrument of the political agenda since the politicians utilize public sector placement as a patronage for vote getting. In the latter case the estimate remains vague on purpose to avoid public outcry over new appointments and new hiring. Numerous articles by newspapers sympathetic to both major political affiliations (New Democracy and PASOK) have addressed the pressure on various public enterprises (including Olympic Airlines, DEI, ELTA and OSE) to not only hire seasonal, but also permanent workers. The pressure is at its highest level before and after an election year. The easiest methodology to avoid definitional issues is, to analyze only those DEKO which are specified and receive appropriations in the annual budget. This study will therefore address itself to 48 public entities, which appear on the annual budget.

Table A: Public Enterprises

ΟΑ	Olympic Airlines
ΟΤΕ	Telephone Service
ΕΡΤ	Greek Radio and TV
ΕΛΤΑ	Greek Postal Service
ΕΟΤ	Greek Tourism Agency
ΔΕΘ	International Exhibit Salonica
ΟΛΘ	Port of Salonica Agency
ΟΑΘ	Water and Sewer Authority
ΟΛΠ	Port of Pireas Agency
ΟΠΕ	Export Agency Promotion
ΟΔΔΥ	Organization of Material Procurement
ΟΔΙΕ	Organization of Horse Races
ΟΕΔΒ	Organization for Printing School Books
ΟΠΑΠ	Sports Agency and Lottery
ΟΑΕ	Olympic Navigation
ΟΣΕ	National Railroads
ΟΑΣΑ	Bus transportation Agency
ΗΛΠΑΠ	Trolley & Bus Agency, Athens-Pireas
ΗΣΑΠ	Subway Agency, Athens-Pireas
ΑΕΔΙΚ	Corinth Canal Agency
ΤΕΟ	National Highway Agency
ΙΓΜΕ	Institute of Geological and Metalurgical Research
ΔΕΠ	National Petroleum
ΚΕΔ	National Resource Organization
ΕΟΦ	National Pharmaceutical Organization
ΕΛΟΤ	Greek Printing Organization
ΔΕΠΟΕ	National organization of Building Permits
ΟΣΚ	Organization of School Buildings
ΕΟΜΜΕΧ	National Organization of Small Enterprise- Handcraft
ΕΒΟ	Greek manufacturing of Weapons
ΕΛΔΑ	Greek Oil Refinery - Aspropirgos
ΕΚΟ	Petrochemicals processing
ΚΑΕ	Duty Free Shops

Table A presents the major national enterprises receiving annual national budgetary appropriations while Table B presents the 10 most and the 10 least profitable enterprises respectively. The wide scope of these public enterprises, and their public finance make generalizations almost impossible. In fact, not all of them operate in the red, although a large number of them do. Oil related public enterprises are among the most profitable ones while transportation ones record the highest operation losses. It should be pointed out that the available data indicate that on average over the past years the public enterprises achieved only about 80% of their annual budgetary targets for the proceeding year as reported in their income accounts; in other words their targets consistently overstate their future results by about 20%. Regardless of the variation in the operating results, the public enterprises as a group have shown substantial losses and they have for many years been a drain in the annual budget.

Table B: Most and Least Profitable Public Enterprises  
(Billions of Darachmas)

	<b>1993</b>	<b>1996</b>
OTE	140.8	250.00
ΟΠΑΠ	71.0	66.23
ΤΕΟ	21.6	24.79
ΔΕΗ	-----	83.04
ΕΛΔΑ	11.9	13.86
ΚΑΕ	11.0	15.49
ΕΚΟ	8.4	11.44
ΔΕΠ	8.2	11.84
ΕΥΔΑΠ	5.2	14.27
ΟΔΔΥ	2.9	2.58
ΕΑΒ	2.6	-0.83
ΟΣΕ	-70.7	-93.49
ΟΑ	-15.7	+ 7.27
ΗΣΑΠ	- 14.7	-18.72
ΕΡΤ	- 14.5	- 5.57
ΕΒΟ	- 11.5	- 2.72
ΕΛΤΑ	- 10.7	-14.78
ΗΛΠΑΠ	- 8.9	-14.72
ΟΣΚ	- 7.8	- 18.29
ΦΕΔΒ	- 4.7	- 6.98
ΕΟΜΜΕΧ	- 7.5	+ 0.73

Source: Audited National Income Accounts; Bank Of Greece

Table 1 reports the overall performance of all public enterprises in Greek from 1985 to 1996. The losses peaked at around 1.3 trillion drachmas in 1984 or 5.6% of the Greek GDP. After a decline in 1995, they are though increasing again. The operating results have improved and they have shown a surplus since 1992. The surplus in 1996 represented 1.72% of GDP up from 1.35% of 1993 GDP mainly because of the improved results of the phone and the electricity enterprises. The capital investment appropriations to the public enterprises from the public fixed investment budget averaged about 25.7% or 0.62% of the annual budget (Table 2). The borrowing needs of the public enterprises as a percentage of all borrowing by the government was consistently over 10% between 1978 and 1987 with record years in 1980 and 1983. The percentage of borrowing is below 10% for all the

years since 1987. In fact the public enterprises registered a small surplus in 1992 and 1993. The borrowing needs did increase in 1994 and 1996 (Table 3). The funding needs of the public enterprises are met through annual budgetary appropriations, allocations through the Fixed Public Investment, allocations through the EU development fund, depreciation allowances, lines of credit from suppliers and one-time charges to users. The borrowing needs are thus determined after subtracting these sources of funds from the operating results and allowing for debt repayments. It is therefore possible for the losses (Table 1) to differ from the borrowing needs (Table 3).

### INTERPRETATION OF NUMERICAL EVIDENCE

The reported losses and the borrowing needs do not imply that those enterprises are poorly managed and that massive privatization effort should be implemented. They do indicate that most public entities are overstaffed due to the Greek political system and most of them would show improved operating results and reduced costs under a different set of objectives and directives. More specifically, the social objective overshadows the economic objective since the public enterprises are directed to price below full cost and to increase output beyond the cost effective or profit maximizing levels to encourage consumption and to serve as job creators. In these situations, the government is ready to nationalize and to subsidize accordingly, since the objective is to assist underdeveloped regions and sectors as they seek to develop by selling to them at below cost. Perhaps in these situations, the government ought to provide grants if the providers of these services are privatized and/or compete under special rules as is spelled out in the special EU provisions regarding public entities.

The Greek public enterprises are not a homogeneous group and solutions ought to be targeted to each enterprise in realistic terms free from political influence and interference. The political parties, especially the left, are slow in proposing and implementing solutions because the political implications overshadow the economic gains. Some of the public enterprises ought to be privatized, others ought to operate under different directives and objectives so as to reduce cost, improve efficiency and foster creativity and private initiative; yet others ought to receive higher budgets to enhance their presence and their performance in the economy (EOT, ELOT, etc.). The excessive losses registered by certain public enterprises in the absence of strict budgetary constraints and accountability is indeed evident in their improved results and their reduced reliance for public funding following the 1992 introduction of public sector adjustment and harmonization (*demotiki-prosarmogi*).

Table 1: Public Enterprise Losses and Sources of Funds  
(Millions of Drachmas)

1 Year	2 Operating Results	3 Capital Investment	4 Combined (2+3)	5 Budgetary Appropriations	6 Borrowing Needs	7 % of Total Finance from Budgetary Appropriation (5/4)	8 % of Total Finance from Borrowing (6/4)
1985	-66842	-289851	-356693	103222	160973	28.94	45.08
1986	-55179	-305359	-360538	100321	142165	27.83	39.43
1987	-50081	-415765	-465846	114152	188528	24.50	40.47
1988	-56947	-471734	-528681	187642	201759	29.82	38.16
1989	-127434	-546134	-673568	221375	240055	32.87	35.64
1990	-142936	-632250	-775186	203002	323628	26.19	41.75
1991	-56734	-679245	-735979	205713	285161	27.95	38.75
1992	109598	-851389	-741791	200238	205042	26.99	27.64
1993	124852	-1150777	-1025925	291442	315699	28.41	30.77
1994	84721	-1380996	-1296275	359964	382100	27.77	34.35
1995	213372	-1143557	-930185	394300	337915	42.38	36.32
1996	<u>268659</u> 363911	<u>-1392759</u> -1542116	<u>-1124100</u> -1178205	<u>511200</u> 572800	<u>327286</u> 500120	<u>45.47</u>	<u>29.11</u>
		Average	30.76	Standard Deviation		6.48	

Table 2  
Budgetary Appropriations To Public Enterprise In  
Millions of Drachma and in %

Year	Annual Budget	Public Fixed Investment	Public Enterprise Appropriation from Annual Budget		Public Enterprise Appropriation from Public Fixed Investment	
1985	1497277	274197	23916	1.60	58561	21.39
1986	1823299	309835	11258	0.62	59430	19.18
1987	2359150	318288	15968	0.68	67961	21.35
1988	2810789	365354	40490	1.44	93038	25.47
1989	3512392	428964	61529	1.75	95556	22.28
1990	4657425	465123	52990	1.14	98613	21.2
1991	5883622	602748	-15559	-0.26	126362	20.96
1992	7615566	725877	-32996	-0.43	185598	25.57
1993	8565527	728331	3152	0.04	179647	24.67
1994	10760800	807000	25155	0.23	239371	29.66
1995	11653052	1029521	34041	0.29	360243	34.99
1996	13343000	1120000	41353	0.30	469834	41.95
		Average	25.72	Standard Deviation		3.11



The data indicate a clear improvement in both operations and borrowing needs between 1992 and 1994 under the direction of the New Democratic party, while the greatest reliance on the government is associated with the Pasok administration in 1983-1986. The increased borrowing activity in 1995-96 is the result of increased investment from 18.8% to 27.8%. Improved operating results were registered by the phone, the electric, and the airline entities. The transportation public entities experienced substantial declines in revenue. Most of the improved results are attributed to price increases. The overall results are thus, a 213 Billion drachma surplus in 1995 and a 269 Billion drachma surplus in 1996. These results ought to be evaluated in the context of "pelatiako", the vote getting game. Most of the enterprises are overstaffed and they offer inferior quality service. Over 500,000 complaints which have been received and classified by the Customer Satisfaction Institute (Instituto kotonaloton) in a 25 year period from 1970 to 1995. Of the 25 classifications, six categories involve services provided by the public enterprises directly, while another 13 indirectly they implicate public enterprises. More specifically the January-February 1995 issues of INKA (page 11) lists OTE (phone) as the recipient of 12.24% of the complaints (1<sup>st</sup>), (electric) 9.94% of the complaints (3<sup>rd</sup>), transportation 5.68% (6<sup>th</sup>), taxi service 5.68% (6<sup>th</sup>), and water and sewer 3.93% (10<sup>th</sup>). Furthermore if the survey results on the public, perception of corruption in the public sector are taken into consideration, there is a clear need for drastic improvement in the quality of service, the elimination of losses, the reduction in operating costs, and the rebuilding of trust.

Table 3  
Public Sector Borrowing  
(in Millions of Drachmas)

	<b>Central Government</b>	<b>Public Organizations</b>	<b>Public Enterprises</b>	<b>Total</b>
<b>1978</b>	61419	-13980	11014	58453
<b>1979</b>	87138	-20620	17227	83745
<b>1980</b>	126030	-15688	33004	143346
<b>1981</b>	255390	-12474	59421	302337
<b>1982</b>	271501	2479	54544	328524
<b>1983</b>	297903	-35461	88190	350632
<b>1984</b>	479840	1488	103946	585274
<b>1985</b>	664641	36527	127219	828387
<b>1986</b>	577980	76027	122143	776150
<b>1987</b>	736633	18880	88340	843853
<b>1988</b>	1105519	48322	47169	1201010
<b>1989</b>	1520322	-8083	82465	1594704
<b>1990</b>	1931881	-89895	115484	1957480
<b>1991</b>	1946677	38243	31024	2015944
<b>1992</b>	1557255	-159238	-35132	1362885
<b>1993</b>	2709420	-294924	-6382	2408114
<b>1994</b>	2760102	-516551	206751	2455302
<b>1995</b>	2904915	-546404	-725	2417800
<b>1996</b>	3677302	-600105	28912	3106100

Source: CentralBank of Greece Annual Budget

### SECTION III

#### A. Privatization

The effort to restructure and reorganize the public enterprises should seek the enhancement of the quality of service, the restoration of profitability or at least fiscal restraint in the form of a reduction of losses. This effort presupposes strong political leadership and a political will which is free from the political vote getting game. The appropriate political framework is a democratic process that is resisting political pressure and implications as it pursues answers to 5 basic questions:

1. Can the public entity fulfill its mission under government ownership?
2. When is privatization or even renationalization mandatory?
3. When will the privatization effort be successful?
4. When does the privatization effort require enhanced competition and the elimination of the monopoly status?
5. How can the government maintain control in privatized industries deemed vital to the national interests without effecting the profitability of the enterprise through the enactment of price and output controls.

Answers to these questions:

1. There are successful government-owned, profitable companies that provide good quality service at reasonable prices, are receptive to customer needs, and are constantly seeking ways of improving both the service and the cost by stressing productivity gains (Lance Marston offers a good summary of the checklist that a decision maker could incorporate before privatization). These companies are immune to government pressure and to special interest groups that seek to enhance their own positions. They are responsible for the size of their operation including the number of employees, their hiring placement, transfer, evaluation and reward. Furthermore, their operations and their budget are heavily scrutinized by outside agencies, and expenses must be well documented and substantiated, as are their long-term capital projects. Their autonomy and independence is very much a function of the type of political system that prevails and the culture and social fabric of the society in which they operate. These prerequisites do not seem to exist in the Greek society and the Greek political system, which thrives on favoritism and a feudalistic attitude. Furthermore, the public sector is bureaucratic, corrupted, lacks innovation, and is grossly inefficient at all three levels, national, provincial and local. Short-term individual efforts will fail without a critical mass needed to move the process forward. What is necessary is a shock treatment that will change the way of life, and shake the foundation of the societal thinking and behaving.
2. Each case is unique and out to be analyzed and evaluated in this manner. Perhaps other means besides privatization might be considered reasonable and effective including, but not limited to the elimination of tenure of public employees, the change of management and a new reward system. Privatization is mandated in cases where the privatized entity will be able to provide quality service at reduced cost by eliminating personnel and by stressing productivity gains and innovativeness. These could be achieved by the nationalized entity as well at least, theoretically. In reality though, the political might and the political gains or losses prevent the reduction in the size of operations, which is often needed for a successful

turnaround. Thus it seems that privatization is a desirable type of arrangement provided that the entity is free to adjust accordingly in order to survive. The reduction in costs ought to lead to lower price for the consuming public or at least competitive prices if the privatization effort is to gain the support it needs for its continued success (Steve Hanke presents good evidence of successfully privatized companies). If on the other hand, the privatized entity is free to charge higher prices to enhance its own position at the expense of the consuming public, both in the short and in the long-run, the government would have failed in its effort to oversee the operations of the privatized entity. It is a question of the proper estimation of the costs and benefits of each privatization effort.

3. Privatization is possible if the buyers could generate a profit level consistent with the opportunity cost of capital within the framework of the pricing and output objectives that the government considers socially acceptable. For privatization to proceed and for the prospects to be fulfilled, the government must be ready and willing to reduce its control over the enterprise in pricing and other operating decisions including staffing needs. It is feasible for the government to expose the company to competition or to extend its monopoly status by controlling prices and output. The former solution is considered a superior solution. The valuation and the selling price ought to reflect the expected long-term profitability of the enterprise and should not exceed the expected stream of revenues from the current and expected projects. The current financial situation of the enterprise is of limited value since present and past performance is not a guarantee of future profitability. Privatization is also possible if and when the government is able to convince the potential buyer that the expected profitability of the enterprise will be forthcoming even in the event of future political interference, especially in the form of price control. The selling price ought to reflect these possible scenarios!

4. Very often the privatization effort is tied to the assumption that the buyer will maintain its monopoly status in the marketplace, if it is to be successful. This is a false statement given the numerous companies that have successfully been privatized globally. There is no doubt that every buyer will want to maintain a monopoly status to enhance the company's profitability. The benefits of competition should be given serious considerations, especially since they increase the level of efficiency, the allocation of resources, and are consumer-friendly. Obviously, lower prices would reduce the expected profitability and would reduce the selling price. The case of natural monopolies deserves special attention, especially in the case of large economies of scale since lower costs are beneficial to the producer and the consumer alike. Lower technological costs might not, though, always lead to reduce prices, especially if the managing team does not pursue total lower costs. The presence of X-inefficiency resulting from the political pressure might be in the form of enoluments, nepotism, and excess salaries. Natural monopolies are essentially related to technological and market factors, which are not always carefully analyzed and evaluated in a bureaucratic setting, and as such they should be removed from consideration. The often-mentioned strategic national interest argument, which extends monopoly power to certain industries, carries a substantial weight only after consideration of the following two questions: [1] Will the enterprise survive if it is open to competition? If not, what are the overwhelming factors that prevent it from being competitive? In the case of overburdening factors, then, consider the second question:

[2] In the case of war or other national emergency, would the government have access to the production means of this enterprise? If not, it is not sufficient for the enterprise to have monopoly status in a privatized form and should be government-owned and operated.

5. The government is usually in a position to control the operations of privatized national enterprises that it deems in the social and national interest. The control is usually in the form of price ceilings, which ought to reflect the interest of both the consumers and the owners. The owners are entitled to a fair rate of return similar to those earned in other equivalent industries in order to ensure the continuous supply of capital for the long-term survival of the enterprise. Another feasible solution might be to allow the public enterprise to operate under profit-seeking criteria which require pricing decision consistent with covering current expenses, as well as, meeting future capital needs. The capital needs are usually valued at replacement costs, and the enterprise is allowed to earn a fair rate of return. As already mentioned above, profit maximizing behavior depends on cost-reducing measures consistent with a predetermined quality of output or service. Profit-seeking enterprises should not serve as outlets of unemployed workers and/or political appointments of each government. The difficulty of implementing a sound and logically consistent pricing framework in Greece is related to the inability of the managing team to pursue its objectives without government measures and political interference. The government involvement very often replaces the consumer interests with political interests while the affiliations of the board members with the government officials who appoint them lead to a conflict of interest. The presence of independent board members knowledgeable of the enterprise interests and the environment in which they operate would most definitely lead to improved results. Greek public enterprises do not only suffer from weak pricing decisions, they also suffer from poor quality service since they lack the ability to evaluate consumer needs, changing trends, and the desire and/or the ability to meet these needs. A good dosage of competition through segmentation of the service providers at the regional level would be extremely beneficial, especially the electrical utility where such segmentation is not only possible but also desirable.

#### B. Valuation and Market Price of National Entities

Potential buyers of Greek national enterprises are very much interested in their value and their future profitability, which depends on the earnings from future sales and investment projects as well as the legal and structural framework following privatization. Valuation under different sets of assumptions regarding government guarantees and involvement is essential in deciding how much to offer. Earnings should be looked at in terms of the “times earnings “ or “times cash flow” valuation. Valuations in excess of three times earnings are considered unrealistic. Book values may be irrelevant since in many cases assets are reported as having negative networth. In these cases it is recommended that certain assets be valued at market prices. Very often there are hidden assets that need to be considered including trademarks, patents and royalties.

The possibility of valuing the various components of an entity separate from the whole is something that deserves special attention. For example: Olympic airlines might be worth more if broken up than if sold as a unit.

As a starting point, the historical performance data should be utilized in establishing an Investment attractiveness index. This index will need to be adjusted for business risk by explicitly

accounting for the earnings variation per drachma invested. Only public enterprise that promise positive result and exhibit the lowest risk should be considered including: misleading cost accounting, legal prohibitions, inadequate legal structure limited financing available and the fear of corruption during the bidding process. The accounting system for most of the Greek national entities is inferior in many respects especially in ignoring overhead costs, capital costs, and retirement costs. The numerous pension systems which are very often unfunded, present additional problems. Many of the national enterprises have extremely unfavorable balance sheets with debt to equity ratios exceeding forty to one, and no provisions to meet their debt obligations prior to privatization. Lastly, most of the financial statements are not audited thus rendering any comparison to private companies meaningless.

### PRIVATIZATION CHRONOLOGY

1992

A 70% stake of Heracles General Cement (AGET) was sold to Calcestruzzi of Italy for \$560 million. The National Bank of Greece maintained 30% ownership.

A 65% stake of Elefsis Shipyards was sold to Mihalis Peraticos for \$60 million.

1993

A 29% stake in the Hellenic Sugar Industry was sold through a public offering for \$31 million.

An 85% stake of the Bank of Athens was sold to Hanwha Investment Group of South Korea for \$30 million.

1994

Neorion Shipyards was sold to Amber Maritime International Group of Liberia for \$9 million.

1995 March

Cassandra Gold Mines and its gold were sold to TVX Gold Inc. of Canada for US \$47 and US \$204 respectively. The agreement was finalized on December 1995.

1995 August

Termination of operations of Kavalla Plastics which was privatized in 1992.

Elefsis Shipyard privatized in 1992 reverb back to IRO

1995 September

Under an agreement signed by the workers and ETVA (development bank) Scaramanga Shipyards will be owned on a 49% to 51% respectively. The agreement calls for a voluntary retirement of 600 workers and an infusion of 44 billion drachmas (US \$19 million) 2.2 billion from the state 1.2 billion from ETVA and 1 billion from the workers over a 2 year period. The state will take over drachmas 90 billion (\$380 million US) in debts. The agreement needs to get European Commission approval because of the EU Directive ending state subsidies to the shipping industry.

European Commission granted a nine-month extension until October 1996 for state assistance to Scaramanga Shipyard.

Chalkis Cement Company sold to Calcestruzzi of Italy for drachmas 36 billion (\$128 million US).

1995 December

Alpha Credit Bank and Biolignit Company agree to purchase the state owned Skalistiris Mining Group for drachmas 1.3 billion (\$5.5 million US).

1996 January

Bank of Crete is formally re-opened with a capitalization of drachmas 38 billion (\$160 million US) from the government and drachmas 110 billion from the performing assets of the previous Bank of Crete.

Macedonian Textiles is sold to a private investor for drachmas 200 million (\$850,000 US). Investor will take over debts totaling drachmas 1.9 billion (\$8 million US).

1996 February

The third attempt to privatize Peiraiki-Patraiki fails as the December 1994 bid to sell the firm to Evertania Textiles for drachmas 6.8 billion (\$29 million US) is annulled.

1996 March

Sale of 8 percent of the national telephone company OTE for drachmas 128 billion (\$550 million US).

Chalips Metal Works privatized for drachmas 3.6 billion (\$15 million US).

1996 May

Government presents a bill to Parliament on the restructuring of public enterprise management including their conversion to Societes Anonymes and the use of management contracts.

1997 May

The government decided to offer the sale 10.7% or 45 million shares of OTE Hellenic Telecommunication organization. The sale is to take place using the book building method for institutional investors and public subscription for OTE employees and pensioners.

Various Sources: Domestic and Foreign

The privatization in Greece, as indicated in the chronological overview, does not appear to be impressive. The initial effort was not only ill perceived, but also it dealt with small, mostly problematic industrial firms belonging to the Organization for Restructuring of Enterprises (IRO). The failure of the effort led to the deterioration of the investor's sentiment and to the increased skepticism on the part of the public as to the potential success of privatization in Greece. The subsequent efforts to privatize, although somewhat more successful, were nonetheless circumvented by macroeconomic imbalances, as well as, inadequacies in the legal and institutional framework. The macroeconomic imbalances were the result of imperfections in the goods, credit, and labor markets build-in rigidities, but mostly because of the long tradition of government involvement and

intervention in the economy. This involvement did not only impact on economic variables, including prices and profit margins; it also had strong bearings on the mentalities and the behavioral attitudes of economic agents. These agents became accustomed to state interference and to petitioning the government for permanent assistance and protection whenever their relative income positions were perceived as threatened by structural change or by competitive forces. The intervention intensified during the 1983 PASOK regime when public enterprises were restructured to accommodate political appointments as a means of patronage. Furthermore, not only did social criteria for recruiting replace economic criteria; public enterprises were utilized as dumping ground for civil servants. These actions did not only affect the payroll and the pension levels they also had a major impact on retention and recruiting.

Institutional factors such as laws and regulations, which were suitable for an agricultural economy, had not changed to reflect the changing economic structure. Most crucial seems to be the legal obstacles in the form of claims of the previous owners and the various banks and pensions. The lack of qualified personnel to analyze and to properly estimate the market value was intensified by the inadequacies of the accounting and reporting systems. Very often, asset prices were inflated in order to minimize the perception that valuable Greek assets were given away for free.

Two additional items deserve special mention: the lack of consumer associations and the lending practices of banks. The former did not generate the necessary support to demand improvements in the public enterprise performance and were not a major opposition to the intensified efforts of organized trade unions and professional association as they sought to block the modernization efforts. The latter did not provide the necessary credit and financial services to the emerging enterprises.

## CONCLUSIONS AND SUMMARY

Public enterprise and privatization issues in Greece are not only technical and economic but political and social as well. The paper has explored some of the reasons privatization is lagging in Greece. A successful drive toward privatization is not simply a changing of ownership, but a change in the expectations and the functioning of the Greek society. A new social contract that is motivated by productivity gains and improved service could change the attitude of the Greek citizen. The achievement of these objectives requires a structural reorganization and a philosophical redirection. The new public entities ought to be free of political interference in personnel matters, free of legal implications and complications and the new owners ought to be free to rejuvenate the entity for long term survival by emphasizing the interest of the consumer rather than the employee. Very often there is a tendency to pursue blanket programs which are soft on accountability and then do not fully maximizing the potential of each entity. A more proper way might be one that:

- Establishes an objective body from a broad spectrum of participants to evaluate information and make recommendations.
- Gather and analyze data on each enterprise to understand the business and the commercial viability of each enterprise.
- Formulate an entity profile and a SWOT matrix for each to evaluate its survival in an open market. Three indices: Productivity Index, Efficiency Index, and profitability Index are essential.

- Review the comments of each Ministry and ask for input from many stakeholders. This could reduce the resistance to privatization.

The search for improved performance in the public sector in view of the conditions set up for the currency unification has led to the formation of a committee to present legislation for the structure and the performance criteria to be applied to. The general statements provide for the following:

- Independent boards not influenced by the government to be appointed for 3 to 5-year terms to be selected by a bipartisan committee
- Budgetary proposals for each public enterprise for a 5-year period
- Performance Criteria to be spelled out in the contracts for the board and the managing team.
- Periodic Review of the performance by auditing teams to observe compliance.

These measures are too general to be effective and as such, they could be manipulated. The main focus is to separate the governing body from the political party but, falls short of the tougher question. The public enterprises are treated as a homogenous group, which they are obviously not. Each one has unique characteristics (opportunities, strengths, weaknesses, and threats) and serves a different purpose. It is necessary to clarify the role of each with respect to its mission and its objectives within the sociopolitical and economic system so as to identify performance criteria. A subsequent step should be the generation of a SWOT matrix to identify whether they ought to be privatized, restructured, merged, or eliminated. Furthermore, the question of their monopoly status needs to be addressed within the overall objective scheme taken into consideration sociopolitical, economic, and competitive trends in a global context. The objective should be to generate the strongest possible enterprises, which will serve the Greek public effectively. Failure to do so could lead to ineffective multiple levels of supervision, as well as, another level of bureaucrats without specific purpose and scope of operation. If the primary objective is that of quality, cost-effective service for the Greek citizen, each public enterprise should have the proper legal and structural framework within which it could operate effectively. It should pursue performance enhancement through productivity gains and cost reductions including staffing adjustments. The governing bodies and the renewed freedom of operations will call for increased accountability and assessment criteria. The ability of the consumer associations to bring legal action against public enterprises is a positive step in the of accountability.

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## USING THE INTERNET AS A RESOURCE IN AUDITING COURSES

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### ABSTRACT

*Educators in all disciplines are faced with the challenge of incorporating technology into the curriculum. This is particularly important for business students, who will be expected to utilize technological resources in the workplace. This paper provides an example of how the Internet can be used in an undergraduate course as a resource for required reading materials. A discussion of student reactions to the experience is also presented.*

*Students in a senior-level required accounting course, Auditing I, accessed information from the World Wide Web (WWW) in order to complete required reading assignments. The material included professional standards and ethical codes of conduct for internal auditors and fraud examiners, and professional ("yellow book") standards for governmental auditors. This approach is useful in exposing students to topics not often covered in traditional auditing textbooks and increasing students' awareness of the professional resources available on the WWW. Student reactions to the experience were quite positive, with 69 percent of the students indicating they prefer to use the Internet instead of buying an additional textbook to cover the same material. Problems encountered in using this approach are also discussed.*

### INTRODUCTION

As business enterprises are rapidly embracing the opportunities offered by Internet-based technology (Davis, 1997; Matyska, 1995), it becomes increasingly important for students in the business disciplines to be exposed to this technology. Therefore, higher education professionals in all business disciplines are being called upon to increase the use of technology in their courses (see, for example, Denning, 1996; Dyrli, 1993). This paper reports on the use of the World Wide Web (WWW) as a resource for required reading material in an Auditing course. Although the example used in the paper is an Accounting course, this approach can be used in other business and economics courses as well. This approach has the advantages of :

- giving students hands-on experience with using the Internet as a research tool,
- making students aware of professional associations and the information available on their Web sites,
- providing the students with more up-to-date information than often available in published textbooks, and/or
- providing students with no- or low-cost information on topics not covered in a standard course text, which would otherwise require the purchase of an additional textbook.

There is little published research to date on how business educators and students are using the Internet and what types of Internet-based activities have been successful. There are a few recent papers which provide educators with an overview of the Internet and how it can be used in the curriculum (Monahan & Dharm, 1995; Boldt et al., 1994; North et al., 1996; Ragothaman & Hoadley, 1997). For those looking for more specific suggestions and useful WWW addresses for business-related information, Matyska (1995) provides suggestions and site references for applications in several types of business courses, including accounting, business communications, business law, entrepreneurship, international business, and finance. Boldt et al. (1994) suggest ways in which available Internet-based resources can be used in an economics course. Kilger (1995) provides information on the use of the Internet as a means to incorporate cultural diversity topics into the business curriculum. Suggestions regarding WWW resources for business communications courses are also available (Andrews, 1995).

Information not available in extant publications includes whether or not students are learning from Internet-based activities in the undergraduate business curriculum and how students are reacting to these activities. The following section presents one example of Internet use in a business course, followed by a discussion of problems encountered and student reactions to the experience.

#### DESCRIPTION OF THE INTERNET USAGE

The Auditing course described in this study is a four credit hour, 10-week required course for senior accounting majors at a midwestern state university. The learning objectives for the course include the AICPA Code of Professional Conduct, auditors' legal liability, portions of the external financial statement auditing process, audit reports, and an introduction to internal auditing, governmental auditing, and fraud examination. The students are required to purchase the American Institute of Certified Public Accountants' (AICPA's) auditing standards book and a case book. In order to expose students to up-to-date information about other auditing-related career options, they were required to access and read information from professional accounting organizations' Web sites. The items accessed were:

- (1) The Institute of Internal Auditors Code of Ethics (<http://www.rutgers.edu/raw/iaa/standards/code.htm>)
- (2) Standards for the Professional Practice of Internal Auditing (<http://www.rutgers.edu/raw/iaa/standards/iiastand.htm>)
- (3) Government Auditing Standards (<http://www.ignet.gov/ignet/internal/manual/yellow/yellow.html>)
- (4) Information about the Certified Fraud Examiner program (<http://www.acfe.org/whatis.html>; <http://www.acfe.org/program.html>), and
- (5) The Certified Fraud Examiners' Code of Ethics (<http://www.acfe.org/ethics.html>).

All of the assignments were completed by the students outside of class. At the end of the quarter, students were asked to complete a survey about their perceptions of the Internet experience.

## STUDENT REACTIONS

The students in the course were all senior-level Accounting majors, with a mean self-reported grade-point average of 3.32. As summarized in Table 1, slightly more than half of the students were women. Because it was thought that the ease of Internet access for the students might influence their satisfaction with the assignments, information was requested as to how and from where the Internet was accessed and whether access problems were experienced. The location used by most of the students from which to access the Internet was the university computer lab (42.9 percent), while 30.6 percent of the students were able to access the Internet from home, and the remaining students used computers at work, at local libraries, or at friends' houses. When not using the university lab, more students used the university's dial-in service to access the Internet as opposed to using either a service provider or having a direct access connection.

	<u>Number</u>	<u>Percent</u>
Gender:		
Men	21	42.9
Women	28	57.1
Accessed Internet From:		
University Lab	21	42.9
Home	15	30.6
Work	4	8.2
Other	2	4.1
Multiple Locations	7	14.3
When off-campus, used:		
University Dial-in Service	10	20.4
Direct Access	8	16.3
Service Provider	5	10.2
Multiple Services	1	2.0

As summarized in Table 2, the students encountered some problems in completing their Internet reading assignments. Like other universities nationwide, this university has recently experienced a dramatic increase in usage of computer facilities on campus, due to the increased use of computer assignments in courses and increasing popularity of electronic mail services. Therefore, the students often encountered times when they were put on a waiting list to obtain access to a computer in the lab. With the equipment being used by so many students, accessing a printer also required some waiting, and the printers malfunctioned at times. In addition, there were problems with the university's server being temporarily down or being inaccessible due to too many students dialing in from home. There were also times when the Web sites were under revision and were temporarily inaccessible. Approximately 69 percent of the students reported at least one type of problem.

<u>Problem Type</u>	<u>Number (Percent) of Students Reporting Problem</u>
Site or Server Accessibility	19 (38.8)
Wait Time at Labs	22 (44.9)
Printer Malfunctions	16 (32.7)
Travel to Access Location	6 (12.2)
Other Problems	2 ( 6.1)

Despite these problems, the students overall seemed quite satisfied with the experience. The students were asked to rate the amount they learned through the Internet reading assignments and to rate the overall experience of using the Internet. The ratings are summarized in Table 3. The average rating for the amount learned was 4.91 on a seven-point scale, from one (nothing) to seven (a great deal), with the lowest rating given being a two and the highest being a seven. Approximately 61 percent of the students rated the amount learned as a 5.0 or above.

Independent samples t-tests were performed to determine if the perceived amount learned varied by gender or was affected by problems encountered in accessing the information. The mean ratings by group are summarized in Table 3. While the women rated the amount learned, on average, as slightly higher than the men, the difference was not statistically significant at the .05 level ( $p=.301$ ). The students experiencing problems accessing the information rated the amount learned as lower than the students who experienced no problems, but the difference was not statistically significant ( $p=.365$ ).

	<u>Amount Learned</u>	<u>Overall Rating</u>
All Students	4.91	5.16
By Gender:		
Men	4.70	5.00
Women	5.05	5.29
By Problem Occurrence:		
Problems	4.80	5.18
No Problems	5.13	5.13

The ratings of the Internet experience overall were made on a scale of one (a disappointment) to seven (a great experience). The mean rating by all students was favorable (5.16). The lowest rating assigned was 3.0 and the highest was 7.0. Ratings of five or higher were given by 71.5 percent of the students. The women rated the experience more favorably than the men, but the difference was not statistically significant ( $p=.400$ ). The ratings apparently were not affected by the amount of problems encountered by the students, with both groups assigning similar ratings ( $p=.906$ ).

Written student comments indicated that exposure to the professional resources available on the Internet was appreciated and that use of the Internet was preferred over searching for printed information at the library. Students were asked specifically if they liked using the Internet to obtain the required information, or would prefer to pay for an additional course textbook containing that same information. Of the 49 students, 24 (69.4 percent) indicated that they preferred to use the Internet. Of those who indicated a willingness to purchase an additional book, the mean price they were willing to pay for such a book was only \$13.85. Only four of the students said they would be willing to pay more than \$20.00 for a book. This indicates that, despite the problems encountered, the students are strongly in favor of utilizing Internet resources as an alternative to textbooks when possible.

## DISCUSSION

Overall, the students appeared quite satisfied with the WWW as a resource for required course material. Despite problems encountered, the majority of the students preferred accessing information electronically rather than being required to purchase an additional textbook.

As the amount of available information on the WWW continues to increase, business professors may find the WWW to be an excellent source for a variety of up-to-date topical course information to supplement or replace traditional textbooks. Careful planning should be done, however, to ensure that it is a positive experience for the students. Some recommendations are:

- (1) It is important to give the students the assignments well in advance to allow for accessibility problems. However, making assignments too far in advance can create problems as well. The Web sites are updated frequently, and addresses change often, so instructors utilizing this technology must continually update the assignments and apprise students of any necessary revisions.
- (2) The students in this course were seniors with at least some prior experience with the Internet, so no introduction on how to access the Internet was required. However, instructors must consider the need for such an introduction, particularly in lower-level courses.
- (3) Depending on resource availability, some WWW-based assignments may be more productive when completed and discussed in class, while others are suitable for out-of-class assignments. At many institutions, this must be evaluated before the course starts so that computer classroom space can be reserved.
- (4) Depending on the goals of the assignment and the course, the students can either be provided with the specific WWW addresses for the information to be retrieved (as was done in the class reported on in this paper), or they can be required to use a search engine to locate the material. The latter choice can result in an increase in frustration and increased time to complete the assignments, but provides the benefit of experience in using the search engines.

In summary, the WWW provides a resource with which to teach business-related topics while providing students hands-on experience with the technology, providing the most up-to-date information, and reducing the cost of the course by eliminating the need for a supplementary textbook.

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## **CREDIT....HOW DOES IT FIT IN WITH FREE ENTERPRISE EDUCATION?**

**Cynthia M. Daily, Henderson State University**

### **ABSTRACT**

*A free enterprise system is one in which individuals, households and businesses are free to make their own choices about earning and spending activities without government interference. Such a system is based on decentralized decision making and decentralized control of the productive resources. Thus, each individual has the power to make decisions regarding the production of goods and services and all the choices associated with that decision. Credit is an important part of doing business, as well as everyday life. Businesses, banks, credit cards and other organizations are keeping more exact records of credit histories. Computers have revolutionized the credit industry. With the click of a few buttons, you can find out the credit history of anyone. And in our economy, good credit is necessary - to open a bank account, to buy a car, to rent an apartment, even to get a job. You name it, you need good credit to obtain it. Consumers must work at establishing and maintaining a good credit record.*

*The Henderson State University SIFE members established a two part program on credit related issues. The first part was focused on college students with tips on establishing and maintaining good credit. The second part was focused on those who have not been successful in using credit, are faced with financial difficulties and where they can turn for help with their financial problems.*

*Students are inundated with opportunities to receive credit cards. No job, no money - it doesn't matter. There are credit card companies willing to extend credit. Students think they'll be able to handle the credit as long as they can make those minimum monthly payments. What about a checking account? Most students do not realize that the activity in their checking account affects their credit rating. Students learn in junior high school how to balance a check book as part of their math lessons. Few have a checking account at that time and what they learn is soon forgotten. Banks maintain records on how many checks are received on accounts with insufficient funds. This information is available to any bank through "Check Systems". If a person has a history of writing checks on accounts without the available funds, banks will refuse to accept them as a banking customer. Most students make the mistake of writing a check on an account with insufficient funds because they have not kept the proper records, nor reconciled their bank account.*

*The second part of the program is focused on individuals who have not been successful in handling their credit. This presentation was made to local prisons. Persons who cannot pay their bills, for whatever reasons, have resources for help. But consumers must be weary of hidden charges by some companies advertising debt management. Our program emphasized organizations that provide confidential counseling, debt repayment plans and educational programs free of charge.*



# **A NEW FREE ENTERPRISE CURRICULUM: ETHICS BASED COURSES FOR STUDENTS IN FREE ENTERPRISE**

**Frederick DiUlus, University of North Florida**

## **ABSTRACT**

*The development of teaching models for the delivery of Free Enterprise education and courses to support it are at the collegiate level. Faculty and administrators alike ask “what’s in it for me” or “what’s in it for the university”. It is in this environment, often skewed or influenced by an accrediting agency’s influence for certain types of courses, evidenced most recently by the rise in content rich ‘international’ applications, that faculty, department chairs, deans and university presidents, often find themselves. As a result, Free Enterprise education course designs may succumb to the so-called conventional wisdom which suggests “it’s not worth the effort”. This study, however, shows the contrary, that Free Enterprise course development is worth the effort and reaps measurable benefits. An almost immediate interest can be developed among students once exposed to the advantages of the free enterprise system and what it means to each of them personally. Secondly, multiple examples of the enormous public relations benefit which accrues to the university are illustrated along with how this normally immeasurable benefit is brought about mostly through student initiated community action and recognition programs. And lastly, the potential high-end financial value which may accrue to any institution which adopts the program, is shown as a means of overcoming potential operating and growth dilemmas, an issue of increasing long-term concern to every college and university.*

*The paper brings focus to the methodology for the development of a Free Enterprise curriculum and the development of teaching models for the effective delivery in introductory and advanced Free Enterprise courses; particularly at the undergraduate level. The study views how the curriculum was created and adopted in a major public university and illustrates the residual benefits, noted above, that came as a result. Moreover, the paper shows how these models can be adopted by any college or university both to introduce and challenge students with an education in Free Enterprise. The model curriculum proposed is phased in over an academic year. It provides opportunity for each year of a student’s program. The advanced courses, by design, evidence high degrees of concentration in honesty and integrity. A student’s ethical consciousness is, under the curriculum design, critical to the success of the program, particularly to those, who in turn, will teach Free Enterprise to others; children, young adults, and the disenfranchised entering, learning and awakening to the potential of the Free Enterprise system for the first time.*

## **ORGANIZATION ETHICS: AN INTERDISCIPLINARY STUDY**

**Frederick DiUlus, University of North Florida**

### **ABSTRACT**

*This is an advanced study which places special emphasis on exploiting applied ethics concepts which bring similar theory and applications to largely dissimilar disciplines. Special attention is paid to the evaluation of existing programs and the development of models for the teaching of Organization Ethics to college students. Also viewed in the development of Organization Ethics study are the strategies involved in teaching the subject and developing an ability to embrace divergent professional fields and academic disciplines.*

*This experimental course is among the first to concentrate exclusively on moving a traditional specialized applied ethics course, like Business Ethics, to a new level. The course as designed, therefore, is representative of an evolving field of study and teachable in literally all disciplines, under the descriptive name, Organization Ethics.*

*To document findings in order to measure results of a non field-specific, universally applied ethics course, the study demanded a continual examination, over three semesters, of upper division students with divergent interests in various major disciplines within the field of business. These core students surveyed students from other major fields in order to measure comparative similarities and differences in ethical attitudes. Further, the course was slightly modified each semester to effect the changes suggested by the results from previous student surveys and class experiences and learning. The sum of this ongoing study resulted in attempting to draw students to view ethics organizationally rather than personally in order to overcome resistance to personal value changes and moral challenges. Accumulating what appeared to be some extraordinary findings, the study exposed what appears to be a limited validation of the hypothesis that applied ethics "can not" be taught. The results also indicate the alternative, Organization Ethics, can be taught.*

*The study reveals why.*

## WHY DO COMPANIES ACQUIRE A MINORITY OWNERSHIP POSITION?

**James D. Bogert, Morehead State University**  
**John R. Wingender, Creighton University**

### ABSTRACT

*This study contrasts two theories, governance and influence, that explain why corporations may buy and hold minority positions in the common stock of other corporations. Long-term interfirm minority common stock investments seem to reflect poor judgment because in this study, as in previous event studies, the toehold targets provide persistently negative economic returns to corporate investors when the duration of ownership exceeds three years. However, simultaneous economic performance measures indicate that, on average, the corporate investors performed very well. This study provides direct evidence that corporate blockholders are able to extract value from toehold targets that at the apparent expense of other toehold target investors.*

## MINORITY BUSINESS PROFILE: A CASE STUDY WITH NATIONAL IMPLICATIONS

Eric K. Leung, Texas College

### ABSTRACT

*This study attempts to answer a simple, yet profound question: “Why so few minority businesses succeed?”*

*This study is an academic-oriented, empirical research project with field application and relevance to public policy. An extensive survey of the literature that provides the theoretical base to formulate the hypotheses to be tested was conducted. Data were collected through interviews with business leaders and minority businesses.*

*Analysis of the data concluded that the problems faced by minority businessmen are both cultural and structural in nature. From the cultural perspective, minority businessmen do not have the cultural background that fosters business activities. Other minorities, such as the Jews and the Chinese, are cases for comparison to support the importance of a business cultural background that is the basis for success or failure. It is also here, we see that the better educated and talented Black youths are more likely to be in government or social and military services than in business. Also, Blacks do not have a cultural specialty that appeals to a cross-racio/cultural and social class consumers as in the case of Chinese and Mexican restaurant business. Structurally, minority businesses lack the physical appeal and are often located in physically deteriorating, high-crime neighborhoods. Hence, they are having difficulty attracting clientele and securing loans or investments. Insurance is another problem for businesses in such areas. It is either hard to get or available at a much higher premium.*

*This study also addresses an intervention that could alleviate some of the hurdles faced by minority businessmen. The intervention consists of two stages: (1) The creation of a diagnostic tool known as “The High Risk Business Criteria”. The analysis of the data gathered, yielded a statistical score that enables the researchers to draw a conclusion and forecast the likelihood that a business would fail or succeed; (2) A “Minority Business Clinic” involving intensive case management, counseling, and monitoring was launched to assist those who needed it on a voluntary basis. The intervention technique may be a first of this type nationally.*

*The future of minority business is more than a minority issue. It has a far-reaching national implication. It deals with the problem of urban areas and the urbanization process. The problems of poverty, powerlessness, alienation, unemployment, and the quality of life hinge on the minorities’ ability to revitalize their neighborhood businesses.*

*When a “black belt” turns “ghetto belt”, it affects more than the minorities. It behooves us to pay attention to this minority issue because it is more than just a “Black thing”.*

*Finally, the project demonstrated that social stratification is the most important frame of reference for studying aspects of social organizations and change.*

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