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## SHOULD AMERICAN BUSINESS GIVE UP SMOKING?<sup>1</sup>

by Gary North

After 1983, the United States' trade deficit skyrocketed. This has led to a renewed interest in the question of free trade. More than this: it has led to a rethinking of just what it is that America's economy is supposed to do in order to compete in world markets.

We have been told that America's "smokestack industries" are threatened, and that this nation is losing its competitive abilities in the field of heavy manufacturing. I am sure this analysis is correct. Now, why am I supposed to worry about this?

Let me ask you a question. Are you worried about America's loss of competitive ability in basic manufacturing? Let us lay aside the military strategy questions for the moment. (I will return to this topic later.) Are you worried about the strictly economic effects of the loss of manufacturing capacity in the smokestack industries? Are you worried about the loss of jobs in these industries? Are you worried about "our" competitive edge being dulled?

Why?

I would hazard a guess that you are **not** really very worried about these possibilities. In fact, if you heard that a factory was going to be built across the street from your home, you might start worrying about **that** threat even more than you are worrying about the loss of America's smokestack industries. There are some of you who might even be tempted, however momentarily, to file a complaint with your local zoning board to keep that factory out of your neighborhood. (Yes, I know: "In principle we all agree that zoning is an immoral intervention of the civil government into the free market, and is bad economics, but in this particular instance. . .")

Let us say, just for argument's sake, that you live on Peaceful Street in the town of Upward Mobility, U.S.A. What I am trying to point out is that your fears concerning smokestack industries as a resident of the hypothetical "Nowhere in Particular, U.S.A." are very different from your fears as a resident on Peaceful Street. In fact, they are almost opposite fears. As a "Peaceful Streeter," you worry about keeping smokestack industries **out**. Yet you also worry about keeping smokestack industries **in**, if we are talking about Nowhere in Particular, U.S.A. This seems a bit peculiar. Of course, you may just enjoy worrying.

All right, let me broaden the geographical perspective. You live in the "Suburban Acres" tract. (All right, we won't call it a tract. We'll call it a development.) Now, what about smokestacks somewhere within the development, but on a different street? Still a bit nervous? Not what you had in mind? Fair enough. I am just trying to find out what you have in mind.

Let us continue. What about building new smokestacks in your town? Still not impressed? But you say that you're not opposed to business. You appreciate **business**. It creates opportunities. So if a computer manufacturing firm wants to come to town, you would not have any objections. Also, if a college wants to open up just across the city line, that would be all right, just so long as it is a small, private college for engineering majors. (After all, who ever heard of a campus riot by engineering majors?)

Smokestacks? No smokestacks!

Nevertheless, you are worried about America's future. America is losing its smokestack edge. We may be beyond the point of no return. (But in the town of "Upward Mobility," that's good!)

### The Question of Geography

I have no quarrel with smokestacks, since the nearest one to my house is five miles out of town—on the west side, where I seldom visit. In fact, I would not be brokenhearted if the nearest smokestack were six miles out of town. Or sixteen. Or, for that matter, 16,000. I just don't like smoke that much. So when I read that we are "losing our smokestack industries in America," I have a tendency to read a different editorial.

There is another argument which seems to be implied in the debate over smokestacks. We are warned from time to time that "they" will get "our" manufacturing jobs. You know who "they" are. **Them**. Those . . . **people!** Over there! You know the kind of people I mean. They talk funny. They talk too fast. Quite frankly, they jabber. You just can't understand them. And they wear funny-looking clothes. (Anyway, those over 50 years old do. The younger ones wear Levi's and polo shirts—all over the world.)

I suppose this fear is correct. Those sorts of people probably will get "our" manufacturing jobs. They seem to appreciate manufacturing jobs. For them, such jobs seem to be the best deal in town. Of course, their town may be 16,000 miles away. But I don't care. That's their business. They don't bother me.

I suppose we could all get together and lobby Congress to pass laws that would use tax money to keep "our" smokestack industries smoking. But I think there is a real possibility that if we do, there will be a lot of people trying to come to the U.S.A. to work here. I guess "those people" just like to work in factories. I don't, so it's no sweat off my nose. Let them work where they want to.

The odd thing is that so many of those Americans who are opposed to sending "our" jobs abroad also are opposed to opening our borders to allow foreigners to come here to work. But if we try to keep "our" manufacturing jobs here (for

1. Published in *The Freeman* (November 1985).

instance, by passing quotas or tariffs against imports), and we also try to keep foreign workers from coming here to work, then we are saying that only Americans have a legal right to such jobs. Not a legal right to **bid** for these jobs, but a legal right to keep them at the high bid.

### Trade Union Restrictions

I have seen a similar argument in a slightly different context. Defenders of compulsory trade unionism use such arguments to justify the actions of the unions. What if a worker who is not a union member asks for the legal right to bid for a job? He doesn't demand a right to the job, only the right to bid for it. The union leader argues that this opportunity to bid for a job "hurts labor," and he then seeks government legislation to prohibit employers from hiring people who bid on jobs at wage rates under those that are preferred by union leaders and union members. When governments go along with this sort of political pressure, the high bid wins: the workers who will work only for more than the going market wage.

I will go farther. I think the main arguments in favor of "keeping America's smokestack industries smoking" were originated by people who on the whole are also defenders of the arguments favoring coercive trade union activity. They want to keep the above-market wage levels that are demanded by the unions and enforced by Federal law (such as the Wagner Act of 1935), and they do not want foreigners—**them**—to be allowed to make market wage bids against the trade unions. First, they do not want American laborers to be allowed to make such bids, which is why they also promote minimum wage laws, so that "foreigners" in places like Texas and Alabama and especially Puerto Rico cannot make wage bids at market levels. Second, they also do not want foreigners in other nations to be allowed to make such bids.

What amazes me is that American citizens who clearly understand that coercive (government-protected) trade unionism is a threat to their interests as consumers and as free men, do not also recognize the danger of very similar legislation to keep America's smokestack industries "competitive." Legislation to achieve this goal will, in fact, keep America's **uncompetitive** smokestacks smoking, not the competitive ones. The competitive ones are competitive, after all. Nobody is worried about keeping U.S. businesses open that are successfully competing in world markets. When was the last time you heard anyone tell you that we need to impose tariffs against imported mainframe computers, in order to help save IBM, which, we must understand, is an "infant industry"? Not lately, I would guess.

### Should We Give Up Smoking or Freedom?

Even more amazing is the fact that millions of the same middle-class voters who are worried about the loss of smokestack industries are also fans of the ecology movement, which is an anti-smokestack movement generally. People are subjected to fears that are frequently conflicting. We should give ourselves a break. We should try to worry about the same problem only one way at a time, either not enough smoke or too much smoke—but not both alternatives at the same time!

Let us examine the logic that most suburban Americans are not being shown. We are being asked to support political decisions that do not make sense. The promoters of these ideas apparently have not thought through the logic of their position. We should. For example:

1. We Americans need to save our factories. We need to keep them here in the U.S.A. Not in Upward Mobility, of course. Not even very close to Upward Mobility. Somewhere else. But right here in the U.S.A.
2. We do not want to have all "those people" come

here to work in "our" factories. We need immigration quotas to keep them out. (This raises the cost of labor, and therefore the cost of operating the factories.)

3. (Implied, but not stated:) We know that we are unwilling as consumers to "buy American" simply in order to keep "our" factories smoking. We know that we keep buying foreign products if "the price is right."

4. We therefore need government legislation to reduce our freedom as consumers to buy what we want at market prices. In other words, "let's **not** make a deal!"

In short, we are being told that we need subsidies for business, or tariffs (an invisible subsidy) or import quotas (another invisible subsidy). We need to give up our freedom in order that we can breathe more smoke.

If people really faced the implications of what the "save the smokestacks" propaganda is all about, they would not be very likely to get on board that particular bandwagon. The problem is, people have a tendency to get excited about dangers that they do not really understand, and at the same time ignore dangers that are a very serious threat to them. If "save the smokestacks" were being promoted as "give up your freedom of choice as a consumer in order to save the smokestacks," or "raise our taxes in order to save the smokestacks," I think fewer people would get involved in promoting the political schemes that are being touted to save them.

### Which Form of Exclusion?

It gets even more silly. Americans argue as though foreigners were in some inscrutable way **stealing our factories**, simply by offering to work so cheaply. What is the response that some editorial writers want us to make as voters? They want us to pressure Congress to vote for controls on the "export of jobs." They want to make it illegal for certain people outside the borders of the United States to have the right to hire American agents (salesmen) in America who will come to American consumers and offer to make a deal. These editorial writers see many kinds of voluntary agreements as a form of theft, if (but only if) the deal is done across a border. Not every deal, of course. They want **some** trade allowed. They love exports, of course; they just do not trust imports. They hate any voluntary exchange that might "hurt" a factory located in the U.S.

The problem is that any transaction with one person makes impossible that same transaction with someone else. You cannot buy two items with the same money. All voluntary exchanges are inherently **exclusionary**. Anyone who says "let's make a deal" is inescapably saying, "let's you and I make the deal by excluding our respective competitors. I will exclude my competitors by offering you the best terms you think you can get, while you exclude your competitors by making me the best offer that I think I can get."

This form of exclusion is the very essence of freedom. It is **exclusion by service**. But it tends to make the excluded parties angry, if they are unwilling or unable to make a comparable competitive offer. So they get the Federal government to step in and substitute a different form of exclusion: **exclusion by coercion**. Instead of pitting buyer against buyer and seller against seller, they reduce everyone's opportunity to make exchanges. It becomes illegal for others to come in and offer a potentially better deal. Governments make **exclusion by service** illegal.

### The Trade Deficit

People are worried about the trade deficit. The odd thing is that so few people understand what a trade deficit is. Consider this: Do you think foreign manufacturers are **giving** us their goods? Are they doing it for free? Of course not. Then

we must be exporting something to pay for it. What are we exporting? Money. What is money? The proper definition is: "money is the most marketable of all goods." We send them money, and they can do whatever they want with it.

Specifically, we send them dollars. They can buy oil with it (the world oil market is denominated in dollars). They can buy U.S. manufactured goods and services with it (main-frame computers) or raw materials (farm goods, wood products) or services (American business and financial information), or invest in America with it (farms, corporate shares, Treasury bills). We keep running those savings bond ads: "Invest in America." So that's what foreigners are doing. The next thing you know, someone writes a scary editorial about "foreigners are buying up America."

Then why are we worried about a trade deficit? If we traded, then we must have traded **something**. Then why do we call it a trade deficit? It is defined as a deficit in the value of the **manufactured goods** that have been exchanged **within the time period of one calendar year**. It is not a trade deficit of **value**. Value is given for value received. (In other words, trade is **trade**.) What foreigners have valued most highly is **investment opportunities in the U.S.** But the government statisticians do not count the value of these investments in the figure called "the trade deficit."

Are we worrying too much?

### Toys vs. Tools

Yes, but. . .

What about all those videotape machines we are importing? We are spending our money on electronic gadgets that we buy from the Far East, but we are selling our economic futures to them.

Good point. That is precisely what we are doing. But if we "yuppies" want to buy videocassette recorders, then we cannot simultaneously invest in America. It is one or the other. It is consumer goods vs. producer goods.

The question of foreign imported electronic gadgets is a red herring. The problem is that Americans want toys, and they are willing to mortgage their economic futures to buy them—mostly from U.S. manufacturers. After all, only 15 percent of the U.S. economy is foreign trade, meaning exports and imports. Americans are increasingly willing to exchange their economic futures for present delights. They are becoming present-oriented. But that is not the fault of the Far East. That is the fault of the Americans.

I suppose that you could argue that it is the high quality of the foreigners' toys that is to blame. But that begs the issue: What should the Federal government do about the short-sighted vision of American consumers? Is it the responsibility of the Federal government to pass legislation controlling people's time perspective? Is it the State's responsibility to tell American citizens what they should prefer, toys or tools?

If Americans are driven internally to buy toys, why should we care what company takes the orders? Furthermore, if people in the Far East want to invest in the U.S., while U.S. residents do not want to invest, then why not allow foreigners to invest here? If they will put up the money to help capitalism grow, why should that bother anyone? Those who want toys should be allowed to buy them. Those who want to invest in American business should be allowed to invest.

There is a deep-seated problem with people who decide that buying toys is more important than long-term investing. The problem is not an absence of tariffs and import quotas. The problem is in the hearts of the people. Keynesian economists tell us that we ought to buy toys and not worry about investing—maintaining consumer demand is the be-all and end-all of Keynesian economics. This is the problem, not foreign imports. It is that Americans have believed the nonsense of Keynesianism, whether called Keynesianism or

hedonism, not that Japan offers low-priced gadgets. (As I write this, the dollar is falling against the yen, as I have repeatedly predicted that it would, but the U.S. toy-buying spree is not over yet. When Japanese toys get too expensive, then it's off to Korea we will go.)

### Exports

We keep hearing this answer to the trade deficit problem: "What we need is exports. We have to increase U.S. exports. We need to send more American goods and services out of the country." In short, we need to increase productivity. I'm all for that!

I have an idea for increasing American productivity. Why don't we export smokestacks?

Well, why not? We can tear them down, and then ship them overseas. Let someone over there buy them and put them back up and start pumping smoke through them.

Of course, our smokestacks may be too old. Maybe nobody overseas wants them. Maybe we could just tear them down (they're ugly, after all), and put something else in their place. How about a computer factory? Or even better, maybe a software development company to produce programs to run the computers.

Or what about this? Let's build smokestacks over there. We will own them—those who invest in the U.S. companies that build them—but we will get the smoke out of Upward Mobility, U.S.A. Then we can trade with "them." They send us the goods, and they keep the smoke. We send these smokestack industry job opportunities to "them," and they send us the finished goods.

But why do they want to do this? Why would they build a bunch of smokestacks, or allow us to build them for them? Why would they want to live in "Blue Collarsville" instead of the kind of town we live in, "Upward Mobility"? Incredible as it seems to us, **our discarded "Blue Collarsville" is their "Upward Mobility."** Our discarded "smokestack jobs" are their yellow brick road to the Emerald City. In short, they can't afford to move to our version of "upward mobility," so they move to the best approximation they can presently afford—a smokestack version. (I wonder if there may be someone in Monte Carlo—or even Balboa Island, California—who cannot understand why you and I live in a place like "Upward Mobility, U.S.A." By their standards, we live in indescribable poverty, economic and cultural.)

### No Sweat

What I'm trying to say is that not many of us really are all that fond of smokestacks. If we don't like them in our neighborhoods, why do we worry so much about them? As far as I can figure it out, **what the U.S. is exporting is opportunities to work in places where most Americans prefer not to work.** Americans who live near smokestacks send their kids to college so that the children can move away from the smokestacks, to places like Upward Mobility.

We associate Upward Mobility, U.S.A. with service industry jobs: education, telecommunications, medicine, law, theoretical physics, break dancing—that sort of thing. If that isn't Upward Mobility, what is? So then, after decades of savings, after two or three generations of paying college tuitions, most of us finally got into Upward Mobility, U.S.A. We have now started exporting the job opportunities that we have worked so hard to get away from. Why not? We really don't want these opportunities for ourselves, or for our sons, our daughters, and our grandkids.

I think the reason why we are losing our smokestack industries to foreigners is that **we really don't want to work in smokestack industries, except maybe as accountants.** To get us to go work in such places, factory owners would have to offer us wages that are just too high, compared to the wages that foreign workers are willing to accept. Quite

frankly, those accountants who work in various smokestack industries in the United States have looked at our wage demands and have decided to shop elsewhere. When it comes to wage demands, we "have been weighed in the balance and found wanting."

This brings me back to our original topic: your worry about the loss of our smokestack industries. Why? Why not worry about something else? Try something new.

### World War III

Are you worried about World War III? That seems like a reasonable fear. What if the Soviet Union uses its fleet to cut off our shipping with South Africa, or the Middle East, or Venezuela, or a lot of other places? What if we can no longer import the things we need from "over there"? Then what will happen to America?

There is no question about it, it is a bad thing to lose a war to the Soviet Union. There is no question about it, the Soviets do appear to be planning to cut off the West's trade routes. This is their "choke-point" strategy. There is no question about it, the massive coercion which is involved in military conflict is painful, expensive, and fearful.

But is this an argument to keep alive all of our smokestack industries? The free market says no. We, as buyers and sellers, keep telling the market that we want to buy our manufactured products from abroad. Well, not all of our manufactured products. Well, not even a sizable majority. About 15 per cent of our gross national product is involved in trade. Not all of this trade is manufactured goods, either; a lot of it is the import of raw materials, such as oil. And of course our largest trading partner is (and always has been) Canada. I feel confident that the Soviet navy will not soon cut off our shipping routes to Canada. Nevertheless, we do buy a lot of videotape machines from Japan. And 35 millimeter cameras. And about 22 percent of our cars.

In fact, when you think about it, the major threat to the U.S. by the Soviet Navy is the threat to **imported raw materials** that we cannot produce in the U.S. I am thinking about things such as strategic industrial metals that only South Africa and the U.S.S.R. appear to have in abundance. But this really has nothing to do with our smokestack industries, except insofar as their owners will be forced to close a lot of them if they can no longer buy certain critical industrial metals from the U.S.S.R. or South Africa.

Now, if there really is some absolutely crucial manufactured product that our military forces need to fight a war, then I have a suggestion. **Let the military pay for it.** The generals or admirals who have determined that some manufacturing process is vital to national defense can set aside funds from its annual appropriations in order to subsidize this critical industry. If saving some dying, uncompetitive smokestack industry is the recommendation of our national defense strategists, this can be put into effect at the time of the debate over the military budget. Let the generals and admirals pay for the decision.

The fact is, if the Soviets want to play hard ball, they can seal off our borders. They can stop all imports to the U.S. If we want to fight over it, they can annihilate 90 percent of the American population with little threat of a counter-attack. Twenty-five minutes after the Soviet general staff has "pushed the buttons," half of the American population will be

dead, and radiation will kill off most of the rest within two weeks.

If we want to save American industry for the sake of the war effort, then tariffs and import quotas will not do the job. Building them underground would help, and a national civil defense shelter system would help, and some sort of space-based defense would help. But if push comes to shove under present strategic conditions, the Soviets will crush us, if they go all-out. Any battles less than this are marginal anyway. So why worry about our smokestack industries in World War III? They will not be here after a Soviet nuclear first strike anyway. Neither will you.<sup>2</sup>

### The "Patriotic" Trek to Washington

I am suspicious—and remember, I specialize in suspicions about requests for Federal legislation. There are some increasingly uncompetitive manufacturing industries in this country that pay lobbyists to go to Washington and argue national defense, when they **really** mean "my company's inefficient production methods" defense. They are trying to get taxpayers and consumers to finance a military strategy that the military establishment would not be willing to play for out of their own budgets. Maybe the military experts really do need to keep the whole U.S. steel industry operating at full capacity. I have a suggestion: they can pay for this industrial strategy by reducing expenditures on military retirement benefits.

You say that they don't really think the steel industry is **that** critical to national defense? Well then, please don't ask Americans who purchase consumer goods to pay higher prices, so that American manufacturers can buy domestically produced steel which is produced by inefficient American firms, in order to finance a military strategy which the experts who are supposed to plan the nation's defense do not think is really **that** crucial to their strategic plans.

There is no doubt in my mind that the world would be better off if there were no military aggression. Smokestacks could then be distributed freely across the face of the earth in terms of economic criteria (including ecological criteria). If trade routes were open to all shippers without fear of aggressive navies, we would see a far more efficient distribution of smokestacks. The point is, military considerations are important, but it is not the responsibility of free market institutional arrangements to support a hypothetical and unannounced U.S. military strategy concerning industrial mobilization in time of war.

### Conclusion

I have no great attachment to smokestacks. I can take them or leave them. If they are competitive, and if consumers, both foreign and domestic, by their unhampered voluntary purchases indicate that "our" smokestacks are better than "their" smokestacks, that is good enough for me. But at the same time, if consumers "vote" for "their" smokestacks in preference to "ours," then that is also good enough for me. The decision about where to locate smokestacks should be based on the decisions of consumers, not the decisions of political planners.

2. Arthur Robinson and Gary North, *Fighting Chance: Ten Feet to Survival* (Ft. Worth: Texas: American Bureau of Economic Research, 1986).