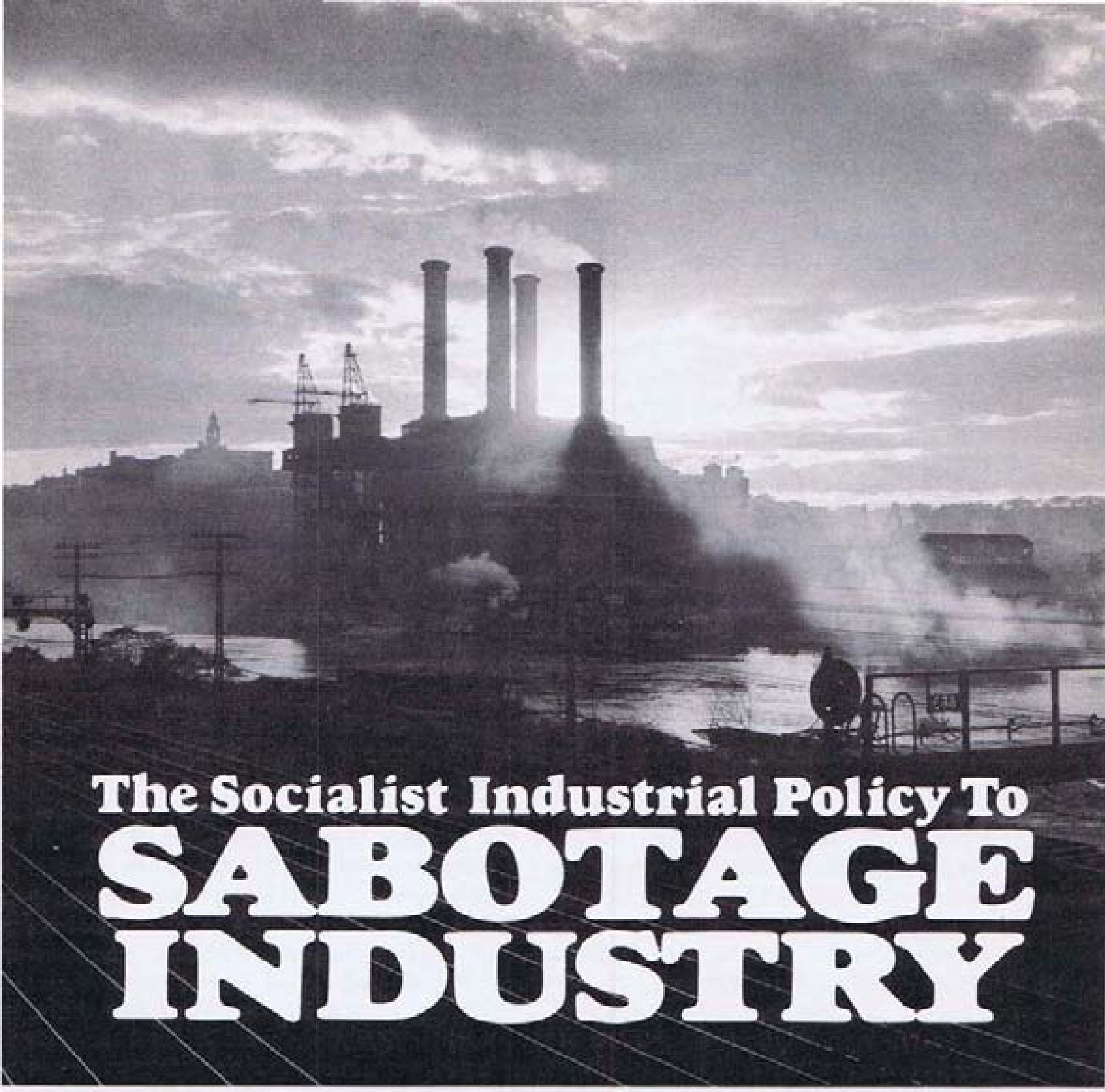

The Socialist Industrial Policy To SABOTAGE INDUSTRY

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■ THE PATTERN for extending the scope and power of Big Government over our economy is by now familiar to all. The American people are first bombarded by the mass media with propaganda about some problem or crisis, real or imagined, and made aware in the most vivid and somber language of the horrors, inequities, or threat to human survival posed by the target ills. These "crises," almost always caused or aggravated by previous interventionist policies of government, are then used as excuses to justify still more political meddling, usually in the form of a new federal program or bureaucratic agency to cope with the problem or avert the alleged impending danger. Suddenly almost every think tank, academic

H. Armstrong Roberts

institution, and social agency is singing the same song. Although it is made to appear that this chorus is a spontaneous harmony of independent scholars and social reformers, the lead singers and many of their accompanists have been carefully coordinated.

The increasing calls for a "national industrial policy" illustrate this very well. Crying alarm at America's waning "smokestack industries" and our economy's increasing loss of its former competitive edge in the international marketplace, advocates of Big Government are pushing a national industrial policy as the only solution. High unemployment in certain heavy industries is cited as an urgent reason for greater coordination of our economic interests through a comprehensive industrial policy aimed at achieving national goals.

Every contender for the Democratic nomination for President is riding the industrial-policy bandwagon. Each is criss-crossing the country, peddling his version to voters as the Democratic alternative to Reaganomics. Senator Gary Hart (D.-Colorado), for example, speaks vaguely of how traditional policies, and especially those of the current Administration, have become "increasingly irrelevant to the unique economic realities of the decade." Thus, he says, a more comprehensive plan for organizing the economy must be constructed by "melding" the "Jeffersonian principle of free competitive economy" with the "Rooseveltian principle that economic success cannot be divorced from social conscience."

What these Democrats want is even greater government involvement in the economy than we already have. If the economy improves, and the recovery continues to unfold, the Democrats will by election time claim that they can do even better. Mark Policinski, an economist for the Congressional Joint Economic Committee, observes: "Industrial policy will certainly be the No. 1 domestic issue of 1984, and if we see unemployment and interest rates go up, we could get a political atmosphere that would bring about monumental government involvement in private industry."

Many Americans are still out of work. Displaced workers forced onto the Welfare rolls have become demoralized, frustrated, and despairing. This is particularly true of blue-collar workers formerly employed in the automobile, steel, and machine-tool industries — fields which have traditionally formed the backbone of the U.S. economy. The production levels and work forces in these industries have dramatically declined in recent years.

For example, only five years ago the nation's auto-manufacturing industry reached an historic peak in employment, providing jobs for 781,700 Americans. As of this summer, the industry employed only 487,190 employees. If present trends continue, according to projections by the United Auto Workers, the industry's payrolls will fall to less than 350,000 in the next few years. Similarly, our steel industry is in serious trouble. In 1974, there were almost 1.02 million workers employed in steel. Today, there are about 683,000, and actual steel production has dropped to nearly half of what it was nine years ago.

Figures released by the government's Bureau of Labor Statistics show that about 1.5 million jobs have been lost in heavy manufacturing over the last five years.

While parts of the rest of the nation seem to be coming out of the

The proposed "national industrial policy" is a transparent ploy of the Far Left to introduce more socialism in the United States while paying off the giant banks and providing the connected multinationals with huge government subsidies. The largesse given to those privileged firms would be at U.S. taxpayer expense.

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recession, Detroit and Pittsburgh are still experiencing near-Depression levels of unemployment. Moreover, experts believe that both steel and autos are in a long-term decline and could be on the way out as major U.S. industries. Although some rehiring has taken place in recent months, most of the jobs erased in this last recession will never again exist. The displaced auto and steel workers, therefore, are not experiencing merely a temporary layoff, but a permanent loss of the kind of work they've been doing for years and the only kind of work for which they have training. Either these former blue-collar workers retrain for occupations with a brighter future, or they will remain part of America's structural unemployment problem.

The dwindling fortunes of these industries have been attributed variously to foreign competition; to the current recession; and, to the hike in wages and fringe benefits gained in earlier decades by labor unions, making their products more expensive.

Foreign competition has certainly taken its toll. Americans are buying more Japanese cars than ever. But our domestic auto industry helped make this possible by arrogantly dragging its feet in shifting over to the small-car market. Management was comfortable and overconfident, believing that Americans would never abandon the large cars of the past. When gasoline prices bolted up during the 1970s, however, the large vehicles were seen as gas guzzlers and Americans increasingly favored the lower priced and more gas efficient foreign-made small cars.

The United Auto Workers union was also arrogant in insisting on, and getting, spectacular benefits far surpassing those in other fields. In the long run, it appears that the unrealistic union demands backfired by contributing to the decline of the industry on which union members depended for employment.

We will return to the causes of the ills of the steel and auto industries later in this article; the point here is that these troubled areas serve as a central part of the rationale for the calls for a "new industrial policy." What can or should be done to save such industries? Will it require our nation to take a "new direction" involving even more massive government intervention?

Once beyond the broad generalities, one finds that the versions of national industrial policy now being discussed and promoted vary widely in goals and in amount of anticipated government involvement. But they all seek fundamentally to alter and realign the ways in which decisions are made and resources allocated in the American economy. The following elements are typical of most of the plans that have been proposed:

• The establishment of a modern-day Reconstruction Finance Corporation or "development bank" for industry which would make federally subsidized, low-interest, long-term loans, grants, and loan guarantees to certain favored industries. The idea is for this bureaucracy to "pick winners" — firms and industries which will succeed and fare well in international competition. Such an industrial-development bank would guide the economy by "allocating sacrifice" through its power to make available or refuse funds. We will return to this proposal later.

• The institution of "tripartite economic cooperation councils," which would be federally funded and made up of "representatives" of various interest groups in the ranks of organized labor, management, and government. Such councils would be used to "guide" national economic planning. The Russian word for a council of this kind is *soviet*.

• Strengthened "protectionist" measures (tariffs and import quotas) on behalf of selected domestic firms to protect them from competition with foreign imports, usually under the guise of "saving American jobs."

• Huge increases in federal spending on education, health care, child care (for working mothers), unemployment compensation, retraining of unemployed workers, relocation expenses, disability benefits, and funding for research and development. These measures are intended, in part, to provide a smoother "transition" for workers displaced from waning "smokestack" industries to new jobs in such up-and-coming industries as high-tech and service enterprises.

• Giving labor bosses the "right" to participate in management decisions, such as how to invest and reinvest profits.

• Discouraging businesses from closing inefficient or failed plants by requiring lengthy notification of intent to do so and by imposing "community restitution" requirements. This would allegedly make private firms more "socially responsible" and keep them from moving plants to areas with more favorable labor climates.

• Providing unions and other organized worker groups with subsidies from the taxpayers with which they can buy out their factories and thereby prevent them from being closed. This would be a great way for firms to unload unprofitable operations at public expense.

Professor Robert B. Reich of the Kennedy School of Government at Harvard is one of the lead singers in the chorus calling for a national industrial policy or "I.P." He warns that these measures are needed because the Japanese have adopted such policies and we can compete with them only by doing the same. Professor Reich sounds like a Marxist, observing: "Foreigners may argue over which I.P. option is best, but never over the appropriateness of I.P. itself. For them, it's the third leg on the policy stool, as critical as monetary and fiscal policies for economic growth and stabilization."

Reich and other would-be social engineers would try to discover which industries promise to become effective international competitors, then they would accelerate the development of these companies and help position those firms to move quickly into world markets. This would be done by political planning and subsidies which would go beyond the research-and-development phase of product development.

Advocates of a national industrial policy point out that the taxpayers already support a wide range of subsidies and protections for various industries and business enterprises. They say they only want to extend this and organize it with a coherent strategy to direct the political system of rewards and disincentives in favor of more "winners" and fewer "losers."

Never mind that government bureaucrats have a terrible record when it comes to "picking winners." As Nobel economist George J. Stigler puts it, "One thing we know about government is that it is not a good entrepreneur. Look at the splendid triumphs of government: It supervised the railroads into bankruptcy, destroyed interurban transportation with regulation, and regulated thousands of banks out of existence in the 1930s."

Reich and other I.P. partisans, however, point to the Chrysler bailout as a successful "public investment" which has had a happy ending. Democrats are already making political use of the fact that Chrysler has paid off its federally guaranteed loan seven years ahead of schedule. They claim this is proof that America can successfully embark on an industrialization program in which the government backs selected producers.

Chrysler chairman Lee Iacocca has been widely praised in the press for pulling his company out of danger. But the recession, which was at depression levels in Detroit, was the catastrophic jolt that got auto management to clean up its act. Thanks to sharp cost reductions and improved labor relations, the auto industry can now break even on production of one-third fewer cars. The result is a much more efficient operation. But how much of this improved efficiency in the Motown industry can be attributed to the widely lauded Chrysler bailout? Consider some of the myths and half-truths on which the arguments about Chrysler's "comeback" are based.

Three or four years ago the Chrysler Corporation was on the brink of bankruptcy. For months you could read the company's obituary in your morning paper. Chrysler's stock was devastated, collapsing at one point to a pitiful three dollars a share. For weeks, Congress debated whether to bail out the ailing firm with a $1.5 billion loan guarantee. Actually, the deal was about as much in doubt as a Harlem Globetrotters basketball game. The fix was in from the start.

This was because Chrysler's board was loaded with bigshots from the powerful Council on Foreign Relations. Among them were C.F.R. official Gabriel Hauge (retired chairman of Manufacturers Hanover, the key *Insider* bank) and Establishment C.F.R. stalwarts Najeeb E. Halaby, Jerome H. Holland, Tom Killefer, Robert B. Semple, and J. Richardson Dilworth. Dilworth's primary occupation, it should be noted, is managing the Rockefeller family's investment portfolio. With this kind of horsepower, there was very little chance that Chrysler would be permitted to imitate the *Titantic*.

The bailout deal was made. And Chrysler's stock is now selling for around $73.00 a share — a rather healthy increase in less than four years. Who do you think was buying that stock at three dollars back in the gloom-and-doom days of 1979? Every Establishment *Insider* with eyes and ears knew for sure that Chrysler would be saved.

Did the federal bailout of Chrysler avert its bankruptcy and save blue-collar jobs as is now claimed? No way. In an article entitled "Lemon Aid" in the March 1983 issue of *Reason* magazine, James Hickel refutes several myths surrounding the Chrysler bailout. He observes:

"The Chrysler Corporation has already gone bankrupt. Or, to be precise, in the past three years it has renegotiated its debts and restructured its organization in a way that greatly resembles a company that has gone through bankruptcy.

"The Chrysler Corporation Loan Guarantee Act of 1979 included a clause that required Chrysler's creditors at the same time to make certain 'concessions' to Chrysler. With that clause to exploit and with U.S. Treasury Department officials, including then-Secretary William Miller [*C.F.R.*], pressuring its creditors, Chrysler was able to pay off more than $600 million in debts for 30 cents on the dollar."

So Chrysler's bailout was partly at the forced expense of its creditors, who were left holding unpaid I.O.U.s. But Chrysler's creditors weren't the only ones hurt by the company's crypto-bankruptcy. Despite the fact that the loan guarantees were supposed to protect workers from being laid off or fired from their jobs at Chrysler, the auto company has cut its work force by more than 62,600 employees since the loan guarantee was signed into law. In the opinion of many observers, the number of workers fired or laid off at Chrysler during this period is at least as large — and probably larger — than the number of jobs that would have been lost had Chrysler actually been required to undergo formal bankruptcy. So, despite the collusion of the United Auto Workers in promoting the congressional bailout scam, the workers suffered anyway.

It should also be pointed out, of course, that by guaranteeing loans to Chrysler the government made it possible for the auto firm to receive funds at lower rates of interest than it could have obtained in a free market. By pushing Chrysler to the front of the line at the loan window, the guarantee meant higher interest rates for everyone else. Money that would have been available to more creditworthy enterprises or young couples to buy their first home was more expensive because the low-cost money went to Chrysler.

Mr. Hickel writes: "But if Chrysler's creditors and employees have already suffered through the debt renegotiations and layoffs that typify reorganization under the bankruptcy laws, who is benefiting from those loan guarantees? Mainly Chrysler's stockholders, whose investment decisions are being paid for by the taxpayers."

Again, as always, we see another illustration of the principle that when government intervenes in the economy it never does so as a "neutral agent" for the "common good," but only to help some interests at the forced expense of others. The special-interest *Insiders* scored again!

When the real costs are taken into consideration, the Chrysler loan guarantee was a flop. If all failing companies were bailed out like Chrysler — as is advocated by proponents of national industrial policy — workers, suppliers, customers, and taxpayers would all be saddled with a further share of the burden of malinvestment. Such schemes do not benefit the economy but only transfer wealth from victims and direct it towards looters, taking from the needy to give to the greedy.

One faction of the industrial-policy movement would target not

Proposals for a controlled economy call for a development bank to make loans to selected industries; councils to guide the planning; strengthened tariffs and quotas on imports; huge increases in federal spending for social Welfare; and, laws to prevent businesses from closing their doors or moving failed plants.

just particular firms but whole sectors of industry with the intention of turning these areas into leading engines of national economic growth. Those sectors include high technology (such as computers and robotics, information processing, and semiconductors), alternative energy sources (such as synthetic fuels research and development), agriculture, and such service industries as finance and health care.

To achieve these goals, the big labor unions have put forth their own plans for national industrial planning. Thomas Donahue, the secretary-treasurer of the A.F.L.-C.I.O., has called for adoption of "a coordinated industrial policy that systematically includes the views of labor, industry, and the public." Specifically, the A.F.L.-C.I.O. is "proposing the creation of a tripartite National Reindustrialization Board, with representatives of labor, business, and the government to develop a balanced program to ensure the revitalization of the nation's sick industries with a promise for the future."

This summer, delegates at a United Auto Workers convention in Dallas unanimously adopted a scheme for national planning called "Blueprint For A Working America." The plan summarizes most elements discussed in other proposals and calls for a "social accounting system" to be implemented somehow through a tripartite strategic planning board, along with regional boards, in order to "balance public needs with their [*companies'*] need for private profit." You get the picture.

Others are concerned with the decline and decay of major urban centers. The International Association of Machinists is another union with a plan. Among other things, it calls for a federally backed bank which would launch a ten-year program, like the post-war Marshall Plan in Europe, to revamp the nation's inner cities. Here we go again. After decades of government programs fighting urban blight, the problem has only grown increasingly worse. You can bet that *Insider*-controlled corporations will be getting the building and housing and construction contracts which inevitably form the centerpiece of "urban renewal" schemes. But such programs are always sold on the altruistic grounds that they will benefit the downtrodden and disadvantaged in the urban ghettos; little or nothing is said about the largesse given to privileged firms at taxpayer expense.

Along with the union demands is an array of protectionist measures to preserve blue-collar jobs from foreign competition. But restrictions on imports work to the disadvantage of American consumers and do not in the long run protect inefficient firms. Yet Walter Mondale and most of the other Presidential candidates propose to protect Americans from the freedom to make their own choices in what products they will buy.

And despite his laudable Free Enterprise rhetoric, the current White House occupant is doing the same thing. A couple of years ago free-enterpriser Ronald Reagan pushed for and got "voluntary" import restrictions from Japan in automobiles. According to Lawrence C. Wolken, assistant professor of economics at Texas A.&M. University, "Although it is difficult to determine exact dollar figures, a recent study estimated that the first year of the 'voluntary' automobile import agreement with Japan cost Americans almost $1,900 per car. Some estimates place the cost of the 'local-content' legislation being discussed in Congress as high as $3,000 per Japanese car. As the price of foreign cars rises, the price of American-made cars will probably also increase." No "probably" about it!

Economist Walter Williams clearly and succinctly refuted the case for "protectionism" in a recent editorial. He pointed out, "Sure, if politicians keep Hondas out of the country there'll be *more* visible jobs in Detroit. But when the Japanese get our dollars for Hondas, what do you think happens to those dollars? They *eventually*, whether via the Japanese or somebody else, come back to the United States. The dollars may buy U.S. lumber, wheat, rugs, or computers.

"That means, if we don't allow Hondas into the country, the Japanese will have fewer dollars. Japanese, with fewer dollars, can buy less lumber, rugs, *etc.* If less of these items are purchased internationally, there are fewer jobs in the domestic lumber and rug industries.

"All that restrictions on foreign trade do is shift unemployment from one U.S. sector to another. But politicians like this kind of political sleight-of-hand. Since the jobs created (in auto plants) are visible, politicians can point with pride and say, 'See, I've done something.' The jobs destroyed (in the lumber industry) are invisible; the politicians can say, 'Huh, I don't know anything about that; it must be Reaganomics or evil spirits.' "

In short, the U.A.W. and other advocates of import restrictions cannot claim that such measures are in our nation's economic interest; they are exposed as special-interest pleaders.

From a conspiratorial viewpoint, probably the most important element being proposed in national industrial policy is that federally funded "industrial development bank" which would make available what proponents call "patient capital." That is, money to put into high-risk ventures for five or ten years (or more) before a return is made on the investment. This would enable the international bankers and their megacorp allies to get the American taxpayers to finance some of their riskier schemes — as they are already doing on the international level where taxpayers pick up the tabs for their bad loans to deadbeat Less Developed Countries and totalitarian East Bloc regimes. As American University's Nancy Barrett, an advocate of the plan, has admitted: "We're like an LDC that doesn't have an adequate banking system for development loans."

Although the proposed National

Industrial Development Bank is widely supported by key leaders in Big Labor and Establishment Academe, the key organizer of this support is banking *Insider* Felix Rohatyn (C.F.R.) of the international banking and investment firm of Lazard Fréres in New York City. Readers may remember that Rohatyn played the key role in managing the New York City bailout. Now, he is in the process of organizing another phase of the Big Bank Bailout for his buddies in *Insider* financial circles. Under the guise of "developing industry" and aiding "sunrise" businesses, the scheme would be used by the special-interest partisans to feather their nests at public expense.

Felix Rohatyn has been holding a series of meetings with key union bosses, economists, and corporation executives such as Chrysler's chairman Lee Iacocca and former du Pont chairman Irving S. Shapiro (C.F.R.). In public interviews Rohatyn, generally acknowledged as the next Secretary of the Treasury in any Democratic Administration, glibly calls for "an active role for government in cooperation with business and labor as policy makers for the economy." He explains: "Representatives of the main segments of the economy would argue out their differences around a bargaining table as they discuss government financing of some industries or companies and other national economic planning proposals."

In other words, the bankers want "national economic planning" for the United States of America. Both Mussolini and Stalin would have loved it.

Government planning is the keystone of the socialist state. It is the attempt to replace the informed decisions of millions of people acting in their own interest with a central program drawn up by a tiny intellectual elite in a far-distant capital. Under a Constitutional Republic limited to a policy of *laissez faire*, on the other hand, the people are free to make their own plans and to engage in voluntary market transactions for personal gain and business profits. The price system of a free market coordinates these independent decisions into a highly productive division of labor.

Even working with the most advanced computers, it would be impossible for central planners in government to duplicate the complex efficiency of the market economy. But would-be monopolists desire *control* above all else — and control is the name of the game under socialism. A souped-up National Industrial Development Bank, as the Democrats call it, would be a crucially important step in the direction toward more socialism in America. Which is why the banking *Insiders* are pushing the scheme. Socialism, it must be remembered, is the royal road to monopoly power for the super-rich.*

Many readers will recognize that the "National Industrial Development Bank" is just a new phrase for what used to be called the Reconstruction Finance Corporation. Created by Herbert Hoover, the R.F.C. lent more than $13 billion to "stimulate" commerce, industry, and agriculture during the Great Depression, until it was finally killed by Congress in 1957. The Reconstruction Finance Corporation Act, which created the

*See the author's book *None Dare Call It Conspiracy*, recently reissued in hardback with references, index, bibliography, and updated membership lists of the Council on Foreign Relations and the Trilateral Commission. It is available from Double A Publications, Suite 403, 18000 Pacific Highway South, Seattle, Washington 98188 at $12.50 plus $2.50 for postage and handling.

agency, was authored by none other than the late Eugene Meyer (C.F.R.). Like Felix Rohatyn, he too was an agent of the international banking firm of Lazard Fréres. Meyer was made chairman of the R.F.C. when the Act was passed, and used his power in that position to help finance *Insider*-controlled firms and war industries during World War II. Starting out with a substantial subsidy of $500 million, the R.F.C. also had special power to obtain more funds by issuing bonds and notes.

Better to appreciate the historical roots of the Reconstruction Finance Corporation, it is instructive briefly to review the background of *Insider* Eugene Meyer, who played so prominent a role in its development and management.

Eugene Meyer's family immigrated to America in the backwash of the failure of the Paris Commune of 1848. His father, Gunther, was named U.S. representative of the Rothschild firm of Lazard Fréres. Eugene studied international banking in Hamburg, Berlin, Paris, and London, and also became associated with Lazard Fréres. He later became a partner with *Insider* Bernard Baruch in Alaskan mining ventures. In 1917, Baruch brought Meyer to Washington, D.C., to head a division of the War Industries Board. Baruch and Meyer held virtually dictatorial control over America's wartime industry and placed billions of dollars in war-production contracts with friends and associates.

President Woodrow Wilson, at the urging of both Baruch and "Colonel" Edward Mandell House, soon put Meyer in charge of the War Finance Corporation, which had charge of selling War Bonds. This was like putting Liz Taylor in charge of a marriage-counseling agency. Meyer's dealings in that capacity were shady, to say the least. According to Congressman Louis McFadden, then Chairman of the House Banking Committee:

"I call your attention to House Report No. 1635, 68th Congress, 2nd Session, which reveals that at least twenty-four million dollars in bonds were duplicated. Ten billion dollars' worth of bonds were surreptitiously destroyed. Our Committee on Banking and Currency found the records of the War Finance Corporation under Eugene Meyer Jr. extremely faulty. While the books were being brought before our committee by the people who were the custodians of them and taken back to the Treasury at night, the Committee discovered that alterations were being made in the permanent records."

Meyer, who held important positions in every U.S. Administration from Wilson to Truman, was also head of the Federal Reserve Board and the first president of the World Bank.

Using money made from his World War I manipulations, Eugene Meyer bought the *Washington Post* in 1933, ostensibly to support F.D.R.'s New Deal, but also reportedly to squelch investigations into how Meyer and his partners in New York and Europe had helped to maneuver the United States into the war and then helped themselves to government contracts. Eugene Meyer's first move as owner of the *Post* was to fire the paper's Editor for refusing editorially to support U.S. recognition of the Soviet Union.

With this background about the father of the Reconstruction Finance Corporation in mind, it should not be considered overly suspicious to suggest that Felix Rohatyn of Lazard Fréres, as head of the *new* R.F.C., might serve a similar role for his banking friends and corpo-

None of the versions of "national industrial policy" addresses the real cause of our economic difficulties: government interference. The direction an economy takes is something that no bureaucrat or national board of central planners can second-guess. Such decisions must be left to a free people in a free market.

rate-socialist allies. All for the general good of the country, of course.

While Exxon will probably use public funds from such an industrial bank to subsidize its laser and high-tech research and development projects, blue-collar workers in the declining "smokestack" industries will be looking for hard-to-find jobs. But, after all, why should David Rockefeller and his associates in international banking have any special allegiance to American workers or the domestic economy? They can just as easily put their investments in other countries. And, as they set up new high-tech and robot plants in the newly developing countries, they can abandon old-line industries in the U.S. in the same way that retail stores abandoned the downtown areas of the big cities and relocated in suburban shopping centers.

To understand the real causes of America's apparent industrial decline, one must first appreciate what made possible our former leadership position in the world. Taking full advantage of the early Machine Age and embracing the political ideas of John Locke and the economic ideas of Adam Smith, the United States of America became the most affluent nation on earth and the powerhouse of the planet. What was responsible?

The reason for this dramatic advance in prosperity was simply that Americans were free to pursue their own economic interests — free to save and invest in ventures which were in turn free to produce and to market. This process began to generate an increasing quantity of wealth to make available more capital in the form of more tools and machines — which led to further production, satisfying the needs and wants of more and more people. It was, in other words, capital accumulation based on private saving and investment in a relatively free marketplace, with private property rights protected by government, that made this progress possible.

In his book *Dividing The Wealth*, Dr. Howard E. Kershner describes the terrible living conditions which prevailed in the pre-capitalist era and how capital has dramatically elevated our living standards:

"Life was hard in Europe during the Middle Ages and the first two-thirds of the Modern Era, coming down to well after the beginning of the Industrial Age and the rise of capitalism. Indeed, it was the lack of capital that made life so hard. It is still very hard in most parts of the world and for the same reason — lack of capital. The Chinese coolie works so hard because he does not have power machinery at his disposal. The American workman accomplishes far more in fewer hours with less expenditure of energy because accumulated capital has provided him with excellent tools and power equipment. In primitive times human muscle supplied all the energy available to man in his efforts to wrest a living from nature. This has been reduced to less than five percent. A little is supplied by animals, but well over 95 percent of the power men use is mechanical. That's why the burden of crushing toil has been lifted from the backs of men and the scale of living so miraculously increased."

A man can obviously produce more with the right kind of tools than he can with just his bare hands. Give him better tools, and he can produce even more. Capital is simply tools bought by accumulated savings. This creates wealth, and the wealth it creates can, in turn, be used to create more wealth with new and better tools.

The standard of living of every country, therefore, depends on the amount and quality of capital that has been accumulated through private savings and investments. Any country whose people are willing to save and invest in more capital is headed for a higher living standard. And, as Dr. Kershner points out, "beliefs and practices which discourage the formation of capital or, even more tragic, that dissipate or destroy it, will drag downward any people toward more poverty." If freedom to make profits (or incur losses) and incentives to save are interfered with, capital formation will fall. Dr. Kershner warns:

"The accumulation of capital was painfully slow, but it finally relieved the horrible conditions existing in Europe down to a century and a half ago. There is grave danger that the process is now being reversed. Decapitalization results from wrong economic [*political*] policies. Excessive taxation discourages the will to save. It penalizes our most productive men. The continued seizing of property by government not only stops progress, but will head us backward toward the unspeakable degradation and suffering which we have discussed in the preceding paragraphs."

If investment for capital accumulation is the key to prosperity, then the question is: What is the status of capital formation in America today and what is the trend in recent years? Consider the following appraisal of the situation by former Treasury Secretary William E. Simon in his book *A Time For Action*:

"It is incredible but true that over the past twenty years the United States has the worst record of capital investment of any major industrialized nation in the world. Since investment is the key to productivity — which must improve if our standard of living is to increase — this shortfall affects our ability to compete, not only in global markets, but even in our own. And without sufficient investment, there cannot be jobs for our growing labor force — or for our children.

"Steel is a good example. In 1955 we exported more steel than we imported. But sweeping government regulations and de facto price controls affected investment and productivity so adversely that between 1964 and 1977 our growth in output was exactly zero. The Japanese, meanwhile, have increased production by an average annual rate of 14 percent. Markets, profits, and jobs for American steel are disappearing: 100,000 jobs for U.S. steelworkers were lost in a single decade.

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"Multiply that record across a host of other industries and you have some idea about the frightening nature of our problem. Key aspects of our economy are grinding down to zero . . . . The projected outcome is a declining standard of living, the continued loss of jobs, more government intervention, higher inflation, and the ultimate prospect of financial panic and collapse."

John Carson-Parker wrote of "The Capital Cloud Over Smokestack America" in the February 23, 1981, issue of *Fortune*. Observing the deteriorating balance sheets of heavy-industry corporations, he said "the liquidity ratios and interest burdens of many corporations have reached levels that cause bond-rating agencies and long-term lenders to look at these companies askance. Even more foreboding, inflation rates have got so high and interest rates so volatile that lenders are increasingly loath to lend long-term, period. The result is that corporations that cannot sell stock will find it extremely difficult to raise any external long-term capital at all."

Growth in productivity has declined because of lower rates of capital investment. These factors are down because of low rates of saving in this country. In fact, savings in America reached an all-time low in recent years, drying up investment money for the capital that business needs to replace old plants and create new jobs. According to some estimators, the average job in American industry today requires a capital accumulation of over $50,000; without the right kind and amount of tools and machines, a worker cannot produce enough to be paid union-scale wages and fringe benefits, so the job that would exist disappears because of insufficient capital investment.

Over the past twenty years, the U.S. has lagged behind other industrial nations in the percentage of net income that its citizens have chosen to save. Between 1973 and 1977, Canada had a savings rate of ten percent, while Japanese citizens saved twenty-five percent of their net earnings. During that same span, the United States saved only 6.7 percent, and the real savings rate has gone even lower in recent years.

William Simon adds the following observations:

"All investment comes directly or indirectly out of somebody's savings — either private or business — and U.S. investment rates have predictably declined with the fall-off of personal savings. In the period 1962-78, the United States ranked dead last among eight major industrial nations in average investment as a percentage of GNP. Our average rate was 17.5 percent, barely more than *half* the Japanese rate of 32 percent. Unsurprisingly, in view of this much higher investment rate, the Japanese have three times our rate of productivity increase and a 137 percent higher rate of growth for GNP."

Funds for the crucial activity of capital investment have been increasingly siphoned out of our economy by Big Government through taxation, inflation, and federal borrowing in the credit markets to fund red-ink spending.

Federal spending, whether paid for by taxes, inflation, or borrowing, steals hundreds of billions of dollars out of the American economy. And, the larger the National Debt becomes, the more the government has to inflate or borrow. Every time Congress raises the National Debt ceiling to permit more such spending, it results in greater deficits which must be paid for by either monetary inflation by the Fed (which pushes up prices, weakens purchasing power of the currency, and reduces the propensity to save for capital investment), or by the government borrowing in competition with business in the credit markets (which pushes up interest rates and starves the private sector of desperately needed capital).

Although American companies have more than doubled their *nominal* dollar expenditures for capital since 1972, when adjusted for dollar depreciation due to inflation our overall capital investment has been more or less static. The estimated average age of plant and equipment in the U.S. is now about seventeen years — compared to twelve years for West Germany and about ten years for Japan.

The heavy burden of government regulations and controls also takes its toll. Some businessmen have chosen to sell out or operate overseas rather than put up with the regulatory hassles. What money they were able to obtain in the capital markets is thus not allocated to new plants and equipment to increase productivity and create jobs. The money must be used to conform to all sorts of regulations from O.S.H.A., E.P.A., F.T.C., and so on. Minority quotas and bureaucratic paperwork add further nonproductive costs.

The fact that our anti-business tax laws do not permit firms quickly to recoup long-term investments has led corporate leaders to concentrate on short-term and medium-term projects which do little to improve productivity. Because of this, and borrowing by the federal Treasury crowding out private borrowers in the credit markets, corporations have had to place more and more emphasis on short-term debt instead of long-term bonds for funding. Alternatively, U.S. corporations have gone multinational and moved their operations abroad, punishing both union leaders and the taxman.

Carrying a weighty ball-and-chain, our domestic industries — especially traditional mainstays such as steel, auto, textiles, and rubber — have begun to fall behind in international competition. Should these trends continue — or be made to continue by self-destructive government policies — the U.S. could evolve into a high-technology- and service-oriented economy rather than the giant in heavy manufacturing and smokestack industry that it has been. As Lewis W. Bernard, managing director of Morgan Stanley & Company, puts it: "Our comparative advantage is in electronics and semiconductors and in the service industries, and you're going to see, for the first time, a lot of those companies having huge requirements for external capital."

In other words, the U.S. economy is undergoing a transformation because of the redirection of capital away from the traditional heavy industries and into new areas requiring less capital to compete in world markets. Clearly, in the anti-capital environment provided by Big Government today, those industries and sectors which require less spending on capital are at a competitive advantage compared to heavy, capital-intensive industries such as steel and autos. The shift to a high-tech, service economy will have been a self-fulfilling prophecy. However, it is very tough on those workers who can't readily make the shift. There is no real way of knowing if this shift of capital away from the "smokestack" sectors to the high-tech and service sectors would have taken place at this time in a free market, in the absence of the various capital-destroying forces now imposed by government. But, as Bernard points out, even though the service industries have required less capitalization compared to steel and autos, their capital needs will also greatly increase in the next few years in order to meet foreign competition.

Moreover, because of the rigidities built into our economy by federal regulations, controls, and taxes, the transition between the traditional industrial forms and the newer forms will be much rougher in terms of unemployment and business closings than it would if labor, capital, and resources were free to move from the older areas of production into the up-and-coming ones. Already U.S. inefficiency in world-market competition has resulted in loss of employment and wealth. *Business Week* has estimated that this decline in American economic clout during the last decade meant the loss of $125 billion in production and more than *two million American jobs.*

None of the various versions of "national industrial policy" addresses the real cause of our economic difficulties. Their adoption would do even more harm. The direction an economy takes in terms of industry and technology is something that no bureaucrat or national board of central planners can second-guess. It must be left to a free people in a free market.

Richard B. McKenzie, professor of economics at Clemson University, is author of a recently released Heritage Foundation report, *National Industrial Policy: An Overview Of The Debate.* Professor McKenzie summarizes some of the main objections to N.I.P. as follows:

"The industrial policy movement is founded on serious concerns. First, the proponents fear that the U.S. economy is insufficiently 'adaptive.' However, these same advocates propose to 'democratize' and bureaucratize investment decisions, hardly a means of advancing adaptability.

"Second, proponents are concerned with the control that businesses have over government policies, but they propose to hand over to government additional economic powers, which may be exploited by businesses in pursuit of their own narrow goals. The proponents never tell us how such exploitation will be controlled.

"Proponents of a national industrial policy speak openly of 'picking winners' (as if the market doesn't do that) and fail to acknowledge that such a government policy means, in effect, that officially chosen firms and industries — those with the necessary political fortunes — will survive and prosper at the expense of others who have to pay the taxes used to cover the subsidies. In other words, a policy of 'picking winners' necessarily translates into a policy of 'picking losers,' many of which would not have lost in the absence of a national industrial policy.

"Finally, the industrial policy movement proposes to 'save jobs' through additional federal expenditures, but it doesn't explain how the additional taxes required to finance the additional expenditures will not destroy jobs."

Nevertheless, moves are afoot in Congress to impose this economic collectivism on America. Representative John J. LaFalce (D.-New York) has launched six months of Hearings by his House Banking Subcommittee on Economic Stabilization, with the purpose of developing an Industrial Policy Bill by early 1984. This was the same congressional panel that originated the infamous Council on Wage and Price Stability and the bailout of New York City.

Meanwhile, another New York Congressman, Representative Richard L. Ottinger, is heading a "national economy recovery project" backed by some 150 House Democrats, to build a "high-production strategy" through more central planning of the economy.

Even more ominous is a "master plan" called the National Industrial Strategy Act, written by a battery of "Liberal" Democrats including Richard A. Gephardt of Missouri, Stanley N. Lundine of New York, David E. Bonior of Michigan, and Timothy E. Wirth of Colorado. This Act would create a National Industrial Development Bank with authority to lend $12 billion over four years and grant an additional $24 billion in loan guarantees. Which is *just* what the godfathers of international banking ordered. And, in addition, the proposed legislation would establish an Economic Cooperation Council, involving bureaucrats, labor bosses, favored businesses, and other "public participants," to collect and analyse aggregate data and to oversee the planning of the U.S. economy. This is simply sovietism. In the Soviet Union, the economy is "planned" by councils called *soviets* which are said democratically to represent the "dictatorship of the proletariat." The proposed "Economic Cooperation Council" is an Orwellian step in that direction.

With each passing week the calls for an "industrial policy" grow more insistent. Walter Mondale, and every other Democratic candidate for President, is pushing his own version of it. The implication of these demands is that the U.S. has no industrial policy now. In fact, we do have an industrial policy, and have had one for decades, though it's been more implicit than explicit. That's the problem. The net effect of our tax system and the scourge of inflation and regulatory hassles has been a *de facto* industrial policy which discourages private savings and investment and hinders capital formation.

What is needed instead is a policy of *laissez faire*. The bureaucratic weight now handicapping American production must be lightened. Second, the corporate income tax should be abolished. Third, all taxation on saving and investment — including the capital-gains tax and taxes on interest and dividends — must be ended as soon as possible.

Finally, we should repeal those labor laws which put the hand of Big Government on the side of the irresponsible union bosses. Without their more-than-equal bargaining position, steel and auto unions would not have been able to force their wages up to more than double those of their Japanese counterparts, or to resist the kind of flexible working arrangements that have enabled Japanese cars to be produced in half the labor hours of American cars.

Sometimes ridicule is the proper response to absurd collectivist nostrums. Americanists should maintain that we will be willing to accept government planning when the socialists prove they can run a large, but basically simple, industry by delivering the mail efficiently and inexpensively. In the meantime, let us recognize the proposed national industrial policy as a transparent ploy of the Far Left wing of the Democratic Party to introduce socialism while paying off the giant banks and providing the connected multinationals with huge subsidies. Put in those terms, it will blow up in the faces of the Mondales and Harts like an exploding cigar. ■ ■