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The Belden Center for Private Enterprise Education
Harding University School of Business

The entrepreneur

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The Reindustrialization of America

Lomanco Board Chairman to Keynote Free Enterprise Week Activities

Dr. Del Belden, Chairman of the Board of Louver Manufacturing Company (Lomanco), of Jacksonville, Ark. has been chosen by the 1980-81 Harding University Economics Team to speak February 10, 1981 in the Benson Auditorium. Dr. Belden's address to about 3,000 students and faculty of all academic disciplines will help launch Harding sponsored statewide Free Enterprise Week, February 8-15, 1981.

Dr. Belden, immediate past president of the Jacksonville Chamber of Commerce, is this year's Chairman of the Economics Team's Council for Realistic Economic Education (CREED). Founded in 1946, Lomanco today goes about its business as the world's largest full-line ventilation equipment manufacturer. In an economy that is supposed to be in a recession, Lomanco is realizing record sales which are expected to be $22 million this year.

On November 5, 1980, Dr. Belden accepted a "Symbol of Excellence" presented his company by Sears. Lomanco has been a supplier of Sears for the past four years and has received the "Symbol of Excellence" three times. Out of 12,000 suppliers, less than one-half of one percent have received the award three times.

In 1978, Lomanco made a grant to Harding University for $90,000 to study ventilation and its affect on energy savings. In 1979, Lomanco's $500,000 gift endowed the Clark David Belden Center for Private Enterprise Education. The Belden Center is dedicated to an extraordinary entrepreneur, Clark David Belden, founder of Lomanco. Mr. Belden had a firm belief in free enterprise and the basic principles that have made America a great nation.

Lomanco is currently owned and operated by his son, Del Belden, and third generation Beldens — all dedicated enterprisers in their own right. We salute Lomanco and the Belden family for helping keep free, private enterprise in business and for their generous contribution to assist Harding University in passing the word about the economic system that supports us all so well.

Part I. The Problem

First in a two-part series by
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American industry has a seemingly endless list of genuine concerns:

Competition; changes in demand; the business cycle; court orders; natural disasters; poor management; foreign competition; welfare state; public opinion; labor unions; dependence on foreign oil; environmental issues; unemployment; socialized programs; unprofitability; shoplifting; strikes; boycotts; obsolescence; corporation debt; a decline in earning; double-digit inflation; shrinking gains in productivity; the mounting tax burden; the decline of the U.S. dollar in world markets; political turbulence and uncertainty; slow economic growth; the challenge of expensive capital and credit; rising public demands and governmental regulation; and the challenge of the legitimacy of profit-seeking enterprise.

Therefore, the creation of an economic environment in which all businesses can thrive and prosper has been a recurring item on our national agenda. A sustained high rate of productivity is the basis for a growing, healthy economy and a rising standard of living. It always has been, and it always will be.

In terms of reinvestment of earned capital, the U.S. has fallen sharply behind other industrial nations. The economic factor that brought the U.S. to world industrial leadership some 80 years ago was a constant and massive investment in new and better tools.

The highly respected profit system was the dynamic force behind this growth, and the present low estate to which profit has fallen has arrested this growth. The shrinkage in new tool investment has been accompanied by a shrinkage in output per man hour.

Our level of capital spending does indeed bear direct relationship to unemployment levels, productivity gains, wages and corporate profits — the ingredients that determine a country's standard of living.

Our prime competitors in world markets, Germany and Japan, encourage private investments to a far greater degree than the United States. Therefore, further measures are needed to stimulate the investments we need in new plants, new machinery, and new business ventures.

When overseas competitors boost their productivity, they are more and more able to manufacture products at a lower unit cost than we can. And that hurts all of us. It allows them to see at much lower prices in this country a flood of consumer products, materials, industrial components, and so on. The list of these items is practically endless.

When inflation is severe, industries may lack the confidence and ability to invest in modernization. Productivity growth sags. Our output of goods and services can fall short of growing demand. If wage increases are not adequately offset by higher productivity, labor costs and prices rise, and this keeps the inflation rate going up.

Roughly speaking, our standard of living has doubled for each generation each 30 years — until 1970. However, there has been no net gain in real income in the last 10 years. That doesn't bode well for our children (and their ability to care for us in our old age).

THE PRICE WE PAY

Failure to find ways to reindustrialize to keep up with demand will mean the following: low productivity levels (fewer products); fewer new jobs available, when the number of people needing jobs is increasing; continued shortages of materials and products with accompanying higher prices; a slower growing economy that will produce fewer gains in living standards (fewer goods for more people); and loss of competitive position.

Countries which invest higher percentage of income in new production facilities can, and will undersell us in world markets. We need to remember what's at stake — employment, standard of living, prices, competitive advantage.

American productivity must be improved. Japan's rate of productivity improvement is three times our own. Germany's is double. Other western countries throughout the world rank ahead of the United States in current rate of productivity increase.

Today, the United States is importing 25 percent of all its automobiles. Jobs are exported when products of American businesses are not competitive with products manufactured in other countries. America is not as dynamic as she once was or can be. Incentives plus labor, business and government cooperation must combine to recapture our worldwide markets.

The United States is exporting jobs when products of American businesses are not competitive with products manufactured in other countries. The world is our marketplace, not just America. Because American productivity has been lagging, we have lost the dynamic position we once enjoyed and have joined the ranks of countries with the lowest growth rates.

The reason American investment is lagging behind is screamingly obvious — we have hamstrung profits. Money goes where it will make money. Money has no nationality, and American investment does not have to stay in America where profit is being clobbered.

The redistributive society evolves through three stages. In stage one, we tax the wealthy (we steal from the rich). In stage two, we deficit spend and inflate (we steal from the middle class — that's the U.S. today). In stage three, through over-consumption, there is less capital available for necessary growth (in producing less and demanding more, we steal from our children — that's Britain today).

The effect of taxes on savings and new capital is pervasive. Taxes reduce spendable income. Taxes reduce ability of individuals to save. Taxes reduce ability to buy capital goods. Taxes shift individual and business spending to government spending. How did this happen? Chronic inflation, high taxes, insufficient corporate earning and no provision for escalating the depreciation allowance as replacement costs went through the ceiling.

Why isn't this crucial problem taken seriously? Because most people do not realize how important modern power tools are in multiplying productivity, lessening inflation and increasing real income. And most Americans overestimate the size of profit — the reward for those whose savings and investment pay for these tools.

GOVERNMENT CAN CAUSE STAGFLATION

A company may be forced to reduce its size, forced out of business, or be forced to lower the benefits it offers . . . if it cannot or will not invest in new, modern tools and or adopt modern management methods; if its goods or services are not of competitive quality; if its workers refuse to use modern, labor-saving devices, and/or if it cannot economically comply with increasingly restrictive federal regulations.

Although free enterprise provides us with a "full-service" economy, we have, unfortunately, a state religion in the country. It's the Federal Bureaucracy — the highest power to which to appeal in the minds of most. Government role has shifted from that of "protector" to that of "provider," from referee to quarterback.

The private sector should be free for creativity and innovation. No economy that has prevented private profit seeking planning based on the wishes of the customer has ever achieved a high level of prosperity in terms of material blessings.

It is impossible for government to interfere with a balanced and integrated market system without creating unreasonable distortions, many of which are invariably counter-productive. Government solutions frequently reward the inefficient and penalize the productive which the market will not allow.

Government is subject to the influence of special interest, rewarding those who find political favor and penalizing those who do not. The intrusion of government into the market always creates enormous "confusion penalty." Government solutions, when successful, are always extremely costly.

The growth of unchecked regulation has struck at the very heart of business investment, productivity and the formation of new jobs. In 1979 alone, economists estimated the opportunity costs of regulation — that is, the loss of income from having to invest in non-productive rather than productive projects — totaled $15 billion.

FEDERAL BUREAUCRACY — THE FOURTH BRANCH OF GOVERNMENT

Once created, regulatory agencies tend to be self-perpetuating — promulgating more regulations, seeking rulings or test cases against smaller firms before seeking out the big ones, and generally trying always to improve their own prestige and "batting averages" before Congress in order to secure larger appropriations for the following years.

According to the National Federal for Independent Business, the impact of regulations is disproportionate in three ways: Discovering regulation, understanding regulation, and paying for regulation. This disproportionate impact means that in order to remain competitve with large firms, the small firm must cut back in some manner.

The philosophy of super-regulator is a curious one. On the one hand, he's usually convinced that business is bad, and that big business is very bad. But he's also frequently convinced that people in general are — and there's no other way to put this — stupid.

Because of their task orientation, regulatory employees are likely to have only a limited knowledge of the industries they regulate. In fact, it frequently seems that they pay little attention to the effects of their actions on the basic purposes of business and industry — to provide goods and services for the public.

There are presently more than 80 regulatory agencies and commissions and over 100,000 government workers whose job is to interpret and implement regulatory laws passed by Congress. Salaries paid employees of federal regulatory agencies total $3 to 4 billion a year — and are rising steadily.

Few would disagree with the announced goals of these agencies — clean air, safe working conditions, pure food and drugs, clean water, equal opportunity for all in the job market. There is a growing body of evidence, however, that the regulatory agencies are frequently not achieving their goals and that the costs of pursuing their objectives often exceed benefits to society.

Increased federal regulation is damaging the entire business system, causing managements to curb or to abandon the decentralized business approach. Why is that happening? Front offices are so uneasy over government rules that they're directing divisions and branches to clear everything with home base. Up-shot? The people in the field now make fewer decisions on their own — spend more time on regulatory paperwork, less on making and selling products.

With a recentralizing trend, top officials also are hobbled. And for a similar reason — more time and money are devoted to handling compliance with regulations, less to devising creative marketing strategies, other plans. Managers are looking over their shoulders, obsessed with legal hazards, the risk of suits or charges by the agencies, consumer or environmental groups. Preoccupation with regulatory issues stems the development of aggressive line personnel and spawns an air of timidity that balloons the number and cost of staff positions that add little to profit.

THE LEGACY OF FEDERAL DEFICITS

Deficit spending has never snapped any country out of a business slump. A recovery comes when businessmen, sensing fresh consumer demand around the corner, start ordering new goods and building up inventory. As the process picks up steam, production rises and men go back to work.

Every American must be made aware that government excesses — especially growing government regulation, political manipulation of the money supply, and the government borrowing that is taking four out of every five dollars from the long-term capital markets (thus leaving only 20 percent of available capital for investment in industry) — are destroying the dollar, destroying our free enterprise system, and eroding our personal freedom.

The basic economic truth is that in the long run, far from "creating new jobs," deficit spending actually throws men out of work. When the government spends more than it takes in, it borrows the difference by selling bonds.

Money raised from the floating of bonds would otherwise have been available to private borrowers, businessmen who need cash to build new plants and purchase new equipment, thereby opening up new jobs. To add just one employee to the workforce requires an investment of forty to fifty thousand dollars. By hogging the supply of credit, the government elbows private firms out of the market. Strapped for funds, businesses languish. And unemployment soars.

SUMMARY: LET'S REINVEST IN OUR FUTURE

America industry — the source of jobs, useful products, dividends and tax revenues — faces a variety of dilemmas that reduce productivity capacity and increase prices. Once a nation of savers, we need to save and invest again to remain secure and productive.

As stated earlier, failure to find ways to reindustrialize to keep up with demand will certainly mean the following: low production levels (fewer products); fewer new jobs available, when the number of people needing jobs is increasing; continued shortages of materials and products with accompanying higher prices; a slower growing economy that will produce fewer gains in living standards (fewer goods for more people); and loss of competitive position. Countries, which invest a higher percentage of income in new production facilities can, and will, undersell us in the world markets.

We should write to our legislative representatives and tell them what not to do for us, what not to give us, that all we want from them is a solvent America and a government that lives within its income. We should propagate the truth that government has no wealth, that whatever it gives to the people, it must first confiscate from them through oppressive taxation, ruinous inflation, or both.

We should cast our vote to eject from political office those who are responsible for public spending beyond the people's ability to pay. We should resist with every means we possess the attempts of those who seek to infect our country with the disease of socialism.

"To build a better world," Friedrich von Hayek wrote in his book **The Road To Serfdom**, "we must have the courage to make a new start. We must clear away the obstacles with which human folly has recently encumbered our path and release the creative energy of individuals."

I would like to make some modest and uncomplicated proposals. They would amount to little more than requiring the regulatory industry to operate by the same rules as the industries they regulate. Any corporation that ignores either economics or competence for long simply ceases to exist. And that is precisely the right fate. a good part of the regulatory system.

Let's be super-careful to only do things that continue to give decent life to the system that supports us — our economic horn-of-plenty that we call free enterprise.

I believe that if a basically free enterprise economy survives and flourishes, it will be due to a greater sense of objectivity among our opinion leaders, the reasoned arguments of business leaders, the unbiased research of economists, and to the more responsible actions of educators.

We can with reason and good conscience argue that the market economy and limited constitutional government stand or fall together because both are deeply rooted in the nature of man.

An ounce of initiative sometimes produces a pound of profit. We all have an opportunity to help mobilize public opinion toward an outcome in which government and business each attend to their respective roles. This is a difficult and highsounding goal. But it is one that can be based on common sense economics.

(The Spring, 1981 Issue of the ENTREPRENEUR will contain Part II. There Is A Cure For What Ails Us.)

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