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AFTA NAFTA GATT & APEC: Reinventing Ourselves Inside Out

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Reinventing Ourselves Inside Out

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INTRODUCTION – ALPHABET SOUP

"*What do you think of NAFTA?*" asked Third District Congressman Tim Hutchinson (R-AR), as we had an enjoyable conversation recently. "*Well*," I replied, "*if you want a short answer – here it is: NAFTA is going to save our economic hide for the next generation and beyond.*"

Short answers are often simplistic; but as the earth rotates, it's obvious that our planet is evolving toward three major trading blocs: *the Americas, a United Europe, and the Pacific Rim*. Thanks to NAFTA, our trading bloc will be the largest. From the Yukon to the Yucatan, it involves upwards of 400 million people and $7 trillion in goods and services.

Yes, we are well into a new era of our continental prosperity. Prior to the recent pro-NAFTA vote, the unification process was well-advanced. Since 1987, Mexican imports from the US had tripled. During that period of time, tariffs on U.S. goods flowing into Mexico fell 90 percent. Today, Mexico is our third largest export market, behind Canada and Japan.

Quietly, in the last half decade, 400,000 Mexican export-related jobs have been added to the U.S. work force. That is why most state governors were near unanimous regarding the NAFTA controversy. The governors have seen positive job-growth – a significant net gain. Certainly, there will continue to be those who would parade joblessness of some Americans before the TV cameras. However, the conditions which led to NAFTA have already proven to be a significant net job gainer.

Will there be some unskilled jobs lost to Mexico? A nominal amount. But let's remember that 80 percent of our unskilled workers in America are producing services, not manufactured goods. After a few more years go by, we will see that most of the low skill and medium skill jobs lost to Mexico, were in fact, lost not by America but by more direct competitors of Mexico – other developing nations.

Environmentally, Mexico City is like the Los Angeles basin: 20 million people in a close metropolitan area surrounded by mountains, creating a natural basin for smog. Industry is jammed up against that in horrible conditions. NAFTA allows industry to move up and out to other enterprise zones.

One of the more visible opponents to NAFTA said last year, "*Mexico needs us – we don't need them.*" That's the point – we'll sell much more to them than we will buy from them. In fact, we don't have to wait awhile for the results to come in. In the last six years, America has moved from a $5 billion trade deficit with Mexico to a $5 billion trade surplus.

Under the process that was formalized by Congress, NAFTA contains rules to insure that benefits occur only to North American companies. NAFTA retains stringent US trade remedies for dumping products and it grants US investors in Mexico and Canada equal treatment with local investors. NAFTA also establishes a process for harmonizing health, safety, and industrial standards at tough US levels.

I. GATT AND APEC TOO

What about GATT? The General Agreement on Tariffs and Trade dates originally back to 1947. Over 100 nations have just gone through seven grueling years to develop the most comprehensive agreement which will significantly eliminate national tariffs, subsidies, quotas and other forms of protectionism.

Just as with the NAFTA, GATT should result in all the good things that free market economists have been preaching about free trade: more products, lower prices, rising standard of living, more jobs, reduced trade barriers, improved diplomatic relations, elimination of monopolies, and may even make the weather perfect every day.

That's what GATT is all about. It was created to set fair and common rules for the ways in which each country must conducts its trade with others. Just as GATT has come into the limelight, we will see it go through a metamorphosis, with its successor organization to be called the World Trade Organization (WTO).

Much has been accomplished since former President Reagan launched the new round of GATT discussions in 1987. One could say that the benefits from the GATT pact would be similar to these outlines in greater detail by NAFTA. We should always remember that it may take years, and even decades, to fully play out, and that these agreements were still at best, formulated by fallible, mortal human beings.

Lesser known is APEC. A new organization, dating back to 1989, APEC stands for Asia-Pacific Economic Cooperation Forum. The members of APEC encompass the single largest chunk of USA foreign trade: Australia, Brunei, Canada, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Republic Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and, of course, United States.

All combined, the Department of Commerce lists goods and services traded within APEC as on a par with the near $400 billion worth of goods and services traded between the NAFTA partners. APEC has resulted in open and constructive dialogue between these key nations. Again, the results are likely to be freer trade, more regional economies developing, and above all, the preservation of peace in our times. As we look to formal agreements which will come out of the APEC meeting in Seattle, there is certainly a lot of common ground on which to develop treaties and accords.

As Arkansas Governor Jim Guy Tucker attended that conference in Seattle, we received word that Arkansas exports to Malaysia alone grew from 1.2 million in 1989 to 29.8 million dollars in 1992, according to the numbers provided by the Arkansas Industrial Development Commission. Arkansas exports to Taiwan nearly tripled in that same three year period, and combined exports to all APEC member nations are now pushing $400 million a year.

In the Nineteenth century, the French economist Frederick Bastiat put it this way, "*if goods do not cross borders, armies will.*" One has only to think back over the decades and centuries to recall the wars, large and small, that flared up over the issue of resources and markets. So, although it may be too soon to fully tell, this writer says *"Three cheers for NAFTA, GATT, and APEC!"* We will all be the better for them.

The next question is, *"What does the United States do now in order to make sure that we remain on the leading edge of all aspects of these new relationships, to gain maximum benefit?"* First of all we need to look at a mixed bag of circumstances. It is estimated that the economic impact of GATT for the World Economy would be in the range of $500 billion, including an increase in economic output of $110 billion in the United States. Also factored in would be an increase of 1.4 million jobs in the United States over the next decade.

As the United States is in a very significant position, compared to most of our trading partners, we have a great deal to benefit as the biggest exporter in the world. Our own markets are already the most open to imports. America's grain growers will potentially gain a massive foothold nearly everywhere.

II. GOOD NEWS ON THE HOME FRONT

Today, our American Incentive System is faced with both good news and bad news. First the "*Good News."* We are in our third economic revolution; it provides us with computers to supplement minds. The first revolution was Agricultural and the second was Industrial – each provided us with machines to augment our muscles. Economic progress must occur in that order in all countries: Agricultural, then Industrial, and finally the new hi-tech, hi-touch revolution.

Will there always be dislocations wherever we alter the dynamics of production, distribution, and consumption? That's what economics is all about. There will always be beneficiaries and victims when such changes occur. We can ride the crest of change and be beneficiaries; we can refuse to adapt and become victims.

Today, it's the same planet but a new world. In the past two decades, global competition has brought down our "wall" of isolation. Before the 1970's we had weak neighbors to the North and South – fish to the East and West. As a result of global competition and, for over a decade and a half now, we have been applying hi-tech to lo-tech industries.

Presently, basic lo-tech industries are smaller, leaner, stronger, and more profitable. We have learned that it is not "*written in the stars"* that we have to lose markets to overseas competitors or that their quality has to be better than ours.

Will we have to automate, emigrate, or evaporate? Yes. It has happened to the family farm, the mom and pop grocery store, and the corner soda fountain. It is called economies of scale. Joint ventures, involving the peoples and resources of many lands, are a growing trend as ways to reduce risk, build expertise, and penetrate markets.

Here's the scorecard: With five percent of world's population, the American Incentive System produces about 25 percent of the world's GNP. Two percent of us grow enough food to feed 200 percent of us. Our poverty level income is greater than the average Russian income. Our work week is 40 percent shorter than in 1900. There is a rise in the acceptance of entrepreneurship.

Fifty years ago, incomes in the South were 40 percent the national average. Today, southern incomes are 80 percent of the U.S. average. Sixty-six percent of us own homes, compared to 44 percent just 50 years ago. Living standards improved greatly. In the mid-1940's, some 33 percent of the nation's homes and no running water, 40 percent had no flush toilets, 60 percent had no central heating and 80 percent were heated by coal or wood.

Just in the past 20 years (the lifetime of most of the students I teach), tourism has increased 100 percent. There are 30 million more jobs. Manufacturing output percent. Deaths from heart disease are also down 40 percent. The number of houses with central air conditioning has increased 200 percent, and our homes are 40 percent larger.

Are we "Energy Pigs?" Hardly. In these past two decades we have grown 60 percent in real terms on only 10 percent more energy. We have doubled our vehicle fleet mileage. The equipment in our homes and factories is 30 percent to 60 percent more efficient. We have had better efficiency gains than powers six percent of our electrical energy; it was 17 percent in 1973. Particulates in the air have decreased by 60 percent.

Recently, 12 nations and as many Soviet republics took partial steps toward freedom. For us to match the claimed achievements of the late, great former Soviet Union, what would we have to do? We would have to cut all the paychecks in America by 75 percent . . . Send 60 million of us back to the farm . . . Tear down almost 75 percent of our houses . . . Rip our railroad tracks . . . Junk 85 percent our automobiles, and tear out 9 to 10 of our telephones. That would be a terrible price to pay.

Is the Cold War really over? Yes. The USSR lost. Japan and Germany won. The United States has paid most of the bills. We rebuild the world. What obstacles are on the domestic American enterprise agenda?

III. ALL IS NOT WELL

Is there really some "*Bad News?*" Yes, American industry has a seemingly endless list of genuine concerns – each chronicled all too briefly here (the subject of another monograph later):

> *Competitions…changes in demand…the busi-ness cycle…court orders…natural disasters… poor management…foreign competition… wel-fare state…public opinion…labor unions…de-pendence on foreign oil…environmental issues …unemployment…socialized programs…unpro-fitability…shoplifting…strikes…boycotts…ob solescence…personal, corporate and government debt…a decline in earnings…shrinking gains in productivity…the mounting tax burden… political turbulence and uncertainty…slow economic growth…the challenge of expensive capital and credit…rising public demands…and the challenges of the legitimacy of profit-seeking enterprises.*

IV. PRODUCTIVITY AND GLOBAL TRADE

How can we make sure that the "*goods*" always outnumber and outweigh the "*bads?"* The creation of an economic environment in which all enterprises and the people who do business with them 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, health 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 behind other industrial nations. The economic factor that brought the U.S. to world industrial leadership some 100 years ago was a constant and massive investment in new and better tools. This also included our social capital – our infrastructure of highways, bridges, harbors, utilities, etc.

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. Any shrinkage in new tool investment will be 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 demands. If we wage increases are not adequately offset by higher productivity, labor cost and prices rise, and this keep the inflation rate going up.

Productivity gains, positive changes in the ratio of output to input, are important because they are the only way to raise our standard of living and keep us competitive in international commerce. In our American economy and since the 1960's, productivity increases have slowed down at a faster rate than that of the other major industrialized nations. In the 1980's, the productivity of U.S. manufacturing kept pace with foreign competitors, however the service sector which employs 80 percent of the work force has had very small increases in productivity.

Overall productivity trends are such that our standard of living doubles every two generations, instead of one generation in the past. That doesn't bode well for our children and their ability to care for us in our old age. The U.S. economy has low savings and high deficits; Japan's economy boasts high rates of savings, investment, productivity, growth and prosperity.

V. INTERNATIONAL COSTS

Failure to find ways to reindustrialize and keep up with demand will mean the following: low productivity levels; fewer products; fewer new jobs available; shortages of materials and products with accompanying higher prices; a slower growing economy that will produce fewer gains in living standards; and loss of competitive position.

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

American productivity, although over all the highest, 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 35 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.

VI. DOMESTIC TAXATION WEDGE

What is the reason that American investment has lagged behind? We have hamstrung profits. Money goes where it will make money. Money has not nationality, and American investment does not have to stay in America where profits are being penalized.

The redistributive society typically 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). 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).

How pervasive is the effect of taxes on savings and new capital? Taxes also reduce spendable income. Taxes also reduce ability of individuals to save. Taxes reduce ability to buy capital goods. Taxes shift individual and business spending to government spending. How does this happen? Chronic inflation, high taxes, insufficient corporate earnings and little provision for escalating depreciation allowance occurred 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 who savings and investment pay for these tools.

VII. PUBLIC SECTOR INTRUSIONS.

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.

What is the private sector best at achieving? 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.

And what toll does the public sector exact? 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.

VIII. REGULATION WOES

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 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 competitive with large firms, the small firm must cut back in some manner.

What is the philosophy of public sector regulator? On the one hand, he is usually convinced that business is bad, and that big business is very bad. But he is also frequently convinced that people in general are not very smart.

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 $5 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. Upshot? 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 of 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 profit.

IX. LEGACY OF DEFICITS

Has deficit spending ever snapped any country out of a business slump? Not really. 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 and women 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 often takes 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, threatening 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 people 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, business people who need case to build new plants and purchase new equipment, thereby opening up new jobs. To add just one employee to the work force requires an investment of $40 to $50 thousand. By hogging the supply of credit, the government elbows private firms out of the market. Strapped for funds, businesses languish and unemployment rises.

X. A CURE FOR WHAT AILS US

Our Second District Congressman, Ray Thornton (D-AR), has proposed a domestic Marshall Plan to keep America strong and viable. What items should be on that agenda?

More resources must remain with the private sector if America is to overcome its economic problems. Changes in productivity can come from changes in production, techniques, equipment, the skills of the work force, upgraded education, managerial ability, the scale of operations, materials, product mix, the state of labor-management relations and the quality of work environment.

We need fiscal restraint to control federal spending. We need to improve the climate for capital formation and make money available for investment. We need to create sensible government regulation and reform our regulatory network. We need sound policies to use natural resources, including energy, effectively in a balanced manner.

America's ability to compete can be restored through greater productivity gains. We need more investment to replace and modernize facilities and equipment. We need more investment to increase productivity to assure domestic growth, restrain inflation, and keep the U.S. competitive.

Since inflation affects all segments of our economy it is to the benefit of all to keep it under control. Actually, both management and labor have a stake in pursuing policies that will help moderate the problem. The alternative for not doing so is continuing inflation, deterioration of U.S. industry's ability to compete with imports, and resultant unemployment.

By far the best solution is increased productivity, which by definition means the reduction of labor costs per unit of production. For management, this means setting production schedules so maximum efficiency can be attained, reducing overtime requirements to absolute necessities and providing the best tools and facilities possible. For labor, it means doing a fair day's work, being on the job every day, and reducing scrap and the need for repair work.

We should encourage every business firm, large and small, to minimize waste, reduce costs and offer more value for the customer's dollar. We need to encourage cooperation by organized labor in holding down business costs – and thus prices. By helping to improve productivity, labor helps to keep U.S. industry competitive at home and abroad, and thus increase job opportunities and real income.

We must reject the old demand to tax business, not the individual. This has to be an insult to the thinking consumer, who is the only real source of business revenue.

XI. KEEP AMERICA IN BUSINESS

What can business people do? Business people must make clear the fact that profits create new jobs, enable business to improve the quality of its products and services, provide vital tax funds for essential community services, and make possible the upgrading of employees from minority groups, control of pollution, and strides in solving other social problems. Let's change the tax laws so that business can be more certain recovering the cost of research and development, thus reducing the risk of losing money on efforts that, by their very nature, must prove disappointing in many cases.

Accentuate the positive. America must develop a better climate for investment by making it advantageous for people to invest. Existing tax laws don't do this. Specifically, we need to tax a system that would allow business to deduct faster the costs of putting up a new building or buying new machinery.

Depreciation under present law is a complicated system that puts a damper on investments. It needs to be replaced by a system of simple and rapid deductions designed to generate investment funds lead to new jobs and faster economic growth. Let's allow industry also to write off the cost of investments in new plant and equipment more rapidly. Technological advances are meaningless unless put to work.

Can government do everything at once? No. Some worthwhile programs must be postponed. Some problems are better left to private sector solutions. We cannot demand too much, too fast, of our economy without paying the price of inflation.

We must, therefor, continue to remain firm in the rejection of any form of mandatory wage and price controls. Wage and price controls, with their potential for distortion, only deal with the consequences – rising wages and prices – but not the causes of inflation – government monetary, fiscal, and regulatory policies. We need a binding endorsement of restrictive monetary policies until the rate of inflation has become substantially lower.

People need to be encouraged to save more and to invest more – directly through the stock market or indirectly through the savings institution. In a number of countries, some money that is put into savings accounts is exempt from income tax.

Is better control of government spending a must? Yes. Increasing deficits require borrowing by the government; and government borrowing takes away from the amount available for corporate borrowing – there's just so much available.

We need allowance for more rapid, more realistic depreciation, to recover investment in equipment sooner, for new investment. Recovery of a large portion of cost of pollution control by providing a tax credit for required investment is a must. We should make time schedules more realistic and related to overall problems. Where possible, let's reduce regulation of business where gains in safety and health are small relative to the costs of achieving them.

And what about the tax code? Lower tax rates on corporate earnings are necessary. We need to continue and expand tax credit for productive investment. Let's also remove the double taxation of corporate profits. Lower the capital gains tax to bring us in line with our trading partners.

XII. RECAPTURE THE MANDATE

What could be done to downsize government? Agencies should have to identify alternatives for the proposed regulation, and choose the least costly. The agency should have to justify choosing a more expensive alternative. A “sunset” provision should require that once every five years an agency must review regulations having an impact on the economy of $100 million or more.

Twice a year each agency should have to publish an agenda of major regulations expected to be acted upon, and projected dates for action. An agency contact, telephone number, and address should be listed for each regulation. These agendas should enable you to get the jump on new regulations before they are proposed.

Yes, there should be passage of broad-based legislation to reform the regulatory system, by way of imposing cost justification requirement upon regulators prior to implementation of regulations and I recommend that the same requirements be placed upon the legislative process.

The self-perpetuating regulation industry must be confronted at the sources of its mandate, so that one might transform the burden of over regulation into a manageable and even positive force. Yes, all laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost.

Should we go further? Yes. Officials at decision-making levels in regulatory agencies should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself. Unlike ineptitude, conflicts of interest can be curbed, if need be, by vigorously enforced criminal penalties. Regulatory bodies should all the more be subject to real periodic Congressional review to limit their life spans.

Our power is our vote. We can elect a Congress that will fight inflation, fight waste in government, fight unnecessary regulations, and fight to reduce taxes. We should vote for a fiscally responsible candidate, regardless of party. We should get the facts before we vote, checking our Representative's voting record and casting our ballot appropriately.

Should we participate in the political process and vote? By all means. We must elect responsible people into public offices. Government has become like Casanova; it doesn't know when to stop. It's imperative that we elect individuals who will spend our money wisely and keep their hands out of our pockets.

Political leaders in Congress are followers of public opinion; usually they are not themselves opinion-leaders. They will enact legislation allowing the free market to operate only when it becomes politically profitable to do so. Only in this way will politicians unknowing act for America's long-range economic goods.

XIII. RESTORE THE BALANCE

Let's diminish government controls which tend to distort normal market practice, raise costs, and decrease needed profit. We must recognize the needs for adequate profits possible and popular.

Development of all domestic energy resources is America's best hope of reducing our dependence on imported oil. Coal, which requires reasonable environment precautions, is the most abundance of these resources.

Private sector programs that develop alternative energy technologies and put increased emphasis on nuclear power generation are other ways to get the job done, along with conservation efforts to increase energy efficiency be business and individuals.

We should require federal agencies to undertake an analysis of the economic consequences of regulation they propose. This would include an analysis if the impact of the regulations as reflected in increase in consumer prices – a significant cause of inflation.

All laws spelling out regulation, and all major regulatory decisions, should be required to first include an economic impact statement proving that their benefits outweigh their cost. Officials at decision-making levels in regulatory agencies should be required to have demonstrable competence to regulate an industry, based on substantial knowledge of the industry itself.

What else can we do? We should support alert, active trade associations. They provide an inexpensive ear to Capitol corridors. They also serve a positive lobbying force to improve legislation and rule-making.

We should also keep the heat on locally elected members of Congress and senators, especially newly elected ones who generally are more responsive to their constituents. There must be a legislative revision of the federal budgetary process that would make it more difficult to run budget deficits and that would serve as the initial step toward a constitutional amendment directed to the same end.

We need a commitment to a comprehensive plan for dismantling regulations that have been impeding the competitive process and for modifying others that have been running up costs and prices unnecessarily. There should be a plan of legislation scheduling of reductions of business taxes in each of the next five years – the reduction to be quite small in the first two years but to become substantial in later years.

There should be the establishment of a uniform procedure for Congressional review of the activities and regulations of “independent regulatory” agencies (those agencies which are not in the Executive branch but are arms of Congress), which may be contrary to law or inconsistent with Congressional intent, and permitting either of the House of Representatives or the Senate to prevent an objectionable regulation from going into effect by passage of simple resolution.

What would it take to develop a national commitment to productivity improvement? We can adopt measures to encourage saving and risk-taking. We can implement programs to increase business capital spending. We can create incentives to spur research and development and other restrictive practices which add to business costs and inflation.

We can also carefully build a constituency for creative capitalism. If we will adhere to the principles that result in sound and balanced growth, we can realize the goal of bringing all of our people into the economic mainstream.

The need is pressing. Let's get together and reindustrialize. Corrective, advocacy economics is the key. This is our task. Let us now begin our move in the direction of a more vigorous economy.

XIV. SUMMARY: REINVESTING 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. Countries, which invest a higher percentage of income in new reduction facilities can, and will, undersell us in the world markets.

As cited 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.

What should we write about to our legislative representatives? 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*," Friedreich von Hayek wrote in his book **<u>The Road to Serfdom</u>**, "*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*."

This writer 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.

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.

Today we can still argue with reason and good conscience 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 pounds 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 high sounding goal. But it is one that can be based on common sense economics.

Alas, this will remain the "*land of the free*" only as long as it is the "*home of the brave*." So isn't it a good time to rethink our goals, reinvent ourselves, restructure our processes, reassess our priorities, and redouble our efforts? It's still "*A Wonderful Life*."

The ***ENTREPRENEUR*** is quarterly journal and newsletter addressing contemporary economic issues from a moral perspective. One may not agree with every word printed in the ***ENTREPRENEUR*** series, nor should feel he needs to do so. It is hoped that the reader will think about the points laid out in the publication, and then decide for himself.

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