

Does America need reindustrialization?

BRUCE BARTLETT

CORPORATE AMERICA has recently launched a campaign to convince the rest of America that it needs "reindustrialization." The term has almost become a buzz-word, with *Business Week* running special issues on the subject (June 30) and candidates like John Anderson promising to work for it. Unfortunately, at the bottom, the whole thing is nothing more than an effort to enlist government subsidies by America's largest, wealthiest corporations for their least efficient business ventures.

The advocates of reindustrialization are persuasive. It is true that American productivity growth is less than that of some other major nations: between 1950 and 1978, for example, Japanese productivity increased an average of 7% per year,

compared to U.S. productivity growth of only 1.8% per year. This is cause for concern, but not for alarm. The fact is that in recent years productivity growth in *all* nations has declined. Between 1965 and 1973 Japanese productivity increased an astounding 9.1% per year, but since 1973 has only increased 3.1% per year. A similar drop in productivity growth has taken place in West Germany (4.3% to 3.2%), Italy (5.6% to 1.3%), France (4.5% to 2.8%), Canada (2.3% to .8%), and Great Britain (3.3% to .9%), as well as in the U.S. (1.6% to .4%). Moreover, the U.S. still maintains a healthy lead in total productivity. The West Germans, for example, are only 85% as productive as Americans and the Japanese only 63% as productive.

What the reindustrialists are saying is that the U.S. should adopt the Japanese model, in which the government works in close partnership with the nation's largest corporations, pumping low-cost capital into

growth industries, adopting protectionist trade legislation, and holding organized labor in check.

There is a lot we can learn from the Japanese in terms of increasing productivity and economic growth in this country—just look at how much more productive are those Japanese-owned and managed plants located in the U.S. as compared to similar American-run plants. However, we should not ignore some factors which have aided the Japanese in their efforts.

For one thing, Japanese taxes are much lower than those in the U.S.—especially Japanese taxes on saving and investment. For example, capital gains on the sale of securities generally are not subject to taxation in Japan. Japanese taxpayers may elect to be taxed separately on their interest and dividends at a rate of 25%; in America such income may be taxed at marginal rates of up to 70%. And a 5% to 10% credit on dividends received is allowed against taxes in Japan. As a result, it is estimated that the tax

burden on upper-income individuals in Japan—who do most of the saving and investment—is half of what it is in the U.S.

Moreover, one should realize that the quality of life in Japan suffers from its growth policies. Corporations are highly paternalistic, forcing a high degree of regimentation on their employees. And the heavy emphasis on saving leaves little income for consumption, which is the proper end of work and investment. As a result, the typical Japanese does not live nearly as well as the typical American.

But the advocates of reindustrialization look beyond these factors and instead talk about reestablishing the Reconstruction Finance Corporation to pump billions of dollars of capital into U.S. industry. The problem is that capital doesn't come from the tooth-fairy; ultimately the government will have to draw it out of

the existing pool of private saving, thus crowding private borrowers out of the market and forcing them to pay higher interest rates. Or the government will have to create forced saving by inflating the currency, which acts like a tax on cash holdings.

More important, the investment of this capital by an RFC would not be made on purely economic considerations but on political grounds. The result is that capital would not flow into high technology growth industries, as the reindustrialists claim, but into dying industries like steel and automobiles which still have a lot of political clout (remember the Chrysler bailout?). The RFC would just become a prop for perpetual money-losers, and rather than aiding in the rebuilding of America's capital structure it would lead to the squandering of scarce capital on projects that cannot be economically justified. ☐

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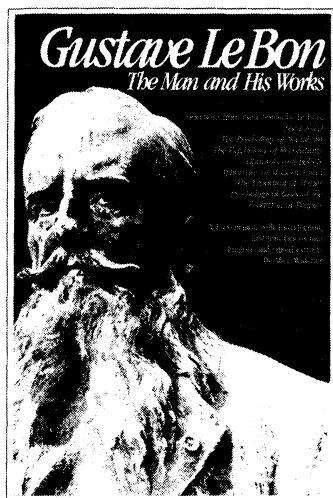
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COURTESY CLARK FOR PRESIDENT

Libertarian Presidential candidate Ed Clark talks to students at the University of South Carolina in Columbia after a speech he gave there earlier this year.

Issues and images

JEFFREY FRIEDMAN

ON JULY 1, ED CLARK formally opened his full-time Libertarian presidential campaign with a Washington, D.C. news conference. That event drew publicity across the country, including major stories in the *Washington Post* and the *Los Angeles Times* and ambivalent treatment in the *Village Voice* at the hands of Alexander Cockburn and James Ridgeway, who apparently could not decide whether they were pleased by the progress of "the most successful third force in operation this year" or appalled that that radical force is so decidedly non-leftist. The following week saw the broadcast of the first two of at least 60 five-minute Clark commercials on CBS and ABC; in them, Clark advocated major tax and spend-

ing cuts along with a non-interventionist foreign policy and pointed out that none of his opponents came close to that program. And the *New York Times*, the paper reporters read to find out what's news, ran three long, favorable pieces on the Clark campaign and the libertarian movement. The last of the three, by syndicated columnist Tom Wicker, called Ed Clark "an alternative if ever there was one—although he and his party are not right-wingers, as you may have heard, and they certainly aren't left-wingers... They are serious political thinkers who 'challenge the cult of the omnipotent state and defend the rights of the individual'—a stance long and honorably grounded in American history but disastrously abandoned, Libertarians say, by both main parties."

All the attention caused NBC and CBS News to ask to travel with the Clark campaign in late July.

The magnitude of media attention Clark suddenly

received was unexpected even by optimists among his campaign staff. But the coverage, reminiscent of the beginnings of the "Anderson Phenomenon" last December, came none too soon, since most signs indicated that voters were still reeling from the choice they face in November. Only 48 percent of those surveyed in a *New York Times*/CBS News poll the week before the opening of Clark's campaign were satisfied with a Carter/Reagan choice; interestingly, only 59 percent were satisfied even with so-called alternative John Anderson included.

Even more interesting were the survey's findings about how voters' positions on the issues relate to their candidate choices. Fifty-seven percent of those who favored Reagan opposed a constitutional amendment to ban abortions, which Reagan supports. Forty-seven percent of Reagan's backers supported the Equal Rights Amendment, which he opposes.