is interested in it. That's his job. I simply don't see why it's my job. My parish is reverently celebrating the Paul VI Rite. My job is to receive that gift, not to look it in the mouth. Nor is my job to suggest that, if you like the Tridentine Rite instead, you are a second-class Catholic and a narcissist. It would be nice if many enthusiasts for the Tridentine liturgy could return the favor.

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TRADE

Free Trade and the Sacrificialists

by Larry Eubank

Mainstream economics "experts" constantly attempt to lull the fears of anybody worried at seeing our manufacturing sector relocated abroad and our factories turned into ghost towns. They invoke Adam Smith's arguments against mercantilism, arguing that it is a matter of free trade, that free trade always is the best policy, and insist that "protectionism" is a reversion to the policies Smith discredited so long ago.

P.J. O'Rourke once gave a good description of the principles of free trade:

> Economic progress requires division of labor, freedom of trade, and pursuit of self-interest. One person produces one sort of thing—a sack of rice, perhaps. Another person produces another sort of thing . . . Being self-interested, both people want both things, so they trade.

That's the situation Adam Smith defended in *Wealth of Nations*, arguing against the mercantile theory, which called for maximizing exports and minimizing imports in order to maintain a positive balance of trade and a maximum amount of gold circulating in the country. But note carefully the picture O'Rourke presents: One party produces goods on his own initiative, and the other party does similarly, and then they trade. The arguments for free trade apply to such situations.

The situation we're faced with today is not one in which this definition applies. Instead of each side producing goods on its own hook, then trading with the other, we have one party (ourselves) setting up the other party in business, building them manufacturing facilities, and investing capital in order to enable them to produce goods; then, we trade with them.

Thus, what we are really talking about is not free trade but capital flight—the investment of our productive capital in foreign countries. And the question is, Does this situation lead to increasing wealth for our nation?

We might seek an answer by examining an illustration Smith gave about the benefits of trade:

> It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor . . .
>
> What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.

In other words, it is more economically efficient to concentrate on the things we are best at and can produce most efficiently, and to trade those goods for items other people or countries can produce better.

Note that Smith's example shows the benefits of trade, not of the alienation of capital. Smith says, "if a foreign country can supply us," not, "if we can invest our capital in a foreign country in order to supply ourselves." Smith says, "The taylor does not attempt to make his own shoes, but buys them of the shoemaker"; he doesn't say, "The taylor buys his neighbor a cobbler's bench, tools, and materials to start a shoemaking business, in order to provide himself with shoes." Smith's conclusions cannot be stretched to include the latter situation.

This truly is the most elementary of economic principles—first-semester stuff. Smith argued for free trade and against the mercantile objective of maximizing the amount of gold and silver in a country by maintaining a favorable—*i.e.*, positive—balance of trade. The mercantilist objectives weren't the path to increased wealth, he maintained; rather—and this is the whole point of his book, the ultimate wealth-producing principle which he identifies—the aim should be to increase production by increasing capital investment. That is the path to the increased wealth of a nation.

Smith sets forth this essential conclusion, his identification of the central wealth-producing principle, plainly. After arguing that the balance of trade doesn't matter, he says,

> There is another balance, indeed . . . very different from the balance of trade, and which, according as it happens to be either favourable or unfavourable, necessarily occasions the prosperity or decay of every nation. This is the balance of the annual produce and consumption. If the exchangeable value of the annual produce . . . exceeds that of the annual consumption, the capital of the society must annually increase in proportion to this excess. The society in this case lives within its revenue, and what is annually saved out of its revenue, is naturally added to its capital, and employed so as to increase still further the annual produce. If the exchangeable value of the annual produce, on the contrary, fall short of the annual consumption, the capital of the society must annually decay in proportion to this deficiency. The expence of the society in this case exceeds its revenue, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily decay, and together with it, the exchangeable value of the annual produce of its industry.

For Smith, then, the goal is an increase of productive capital ("the wealth of nations") and, thus, production. When production takes place in a foreign country, and consumption takes place here, however, the result is a deficit, not a surplus, in the balance of production and consumption. We are no longer "living within our revenue" but going into debt. When capital investment is made abroad, it is an increase in the other country's productive capacity, not our own. The message of *Wealth of Nations* is that this is the path to poverty.

If we spend all that we earn, or if we spend more than we earn, there is nothing left over to invest as production capital. That situation causes a decline in wealth. We might call this the Micawber Principle, after the *David Copperfield* character; in one film version of Dickens' classic, Micawber says:

> Young friend, I counsel you: Annual income twenty pounds, annual expenditure nineteen pounds–result, happiness. Annual income twenty pounds, annual expenditure twenty-one pounds—result, misery!

And the result is the same with the "balance of the annual produce and consumption" of a country, because, as Smith writes,

> The capital of all the individuals of a nation is increased in the same manner as that of a single individual, by their continually accumulating and adding to it whatever they save out of their income.

The "excess of production over consumption"—that is, savings—is available for capital investment:

> The annual produce of the land and labour of any nation can be increased in its value by no other means but by increasing either the number of its productive labourers, or the productive powers of those labourers who had before been employed. The number of its productive labourers, it is evident, can never be much increased, but in consequence of an increase of capital, or of the funds destined for maintaining them. The productive powers of the same number of labourers cannot be increased, but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labour; or of a more proper division and distribution of employment. In either case an additional capital is almost always required.

Offshoring means alienating capital: that is, it means a decrease in capital investment (and, thus, production) here, and an increase in it elsewhere. As such, it is a detriment: Our consumption remains the same (or goes up), while our production decreases.

This elementary concept is being confounded and confuted with the simpleminded formulation *free trade*. The term *comparative advantage* is also thrown in, with no reference to the actual meaning of the term, as a sort of all-explanatory magical incantation. Most of the ongoing debate about offshoring has taken place on a CliffsNotes level of economic understanding.

The two opposing sides in the controversy are thus arguing at cross purposes, holding different definitions of the central term. And a lot of *ad hominem* arguments are being directed at "protectionists." The latter want to stop capital flight; they do indeed want to protect our economy; but they are accused of being against "free trade." Actually, nobody has attacked free trade or suggested it should be abandoned; that's a straw man used by supporters of offshoring—those we might call "sacrificialists," as a counterpart to their derogatory term "protectionists." And so the argument continues in this atmosphere of rancor, ill will, and economic illiteracy.

Among the pundits are a great host of people who can see with their own eyes disastrous events and situations, and yet proclaim those disasters to be a tremendous blessing. We may call these "true believers," able to convince themselves of anything once they have their theoretical notions fixed. Because they are bolstered by abstract theories explaining what must happen (increasing wealth), they're able to ignore the clear evidence in front of them about what is actually happening.

The ordinary citizen, uncontaminated by theory, takes alarm as factory after factory pulls out of this country and moves to foreign lands. Intellectuals, however, can explain such things away, minimize events, and ridicule and patronize their opponents. Their theory must be right, they believe, and so they are able to discount all evidence to the contrary.

When a theory is outmoded or no longer fits the existing situation, or when the pundits' grasp of the theory was incorrect and misapplied to begin with, however, that theory should be abandoned. Instead, the pundits continue to try to fit the square peg of reality into the round hole of their misperceptions and half-grasped theory. It's the Emperor's New Clothes all over again, but with more tragic results.

Economists maintain that, while offshoring or globalization has cost many American workers their jobs, that's progress: New inventions always cost workers in old industries their jobs.

Sending the selfsame machines that American workers were using to China, so that Chinese citizens can produce the same goods, is not progress. It is a decrease in production by us, with no decrease in consumption, and that puts the "proportion between capital and revenue" further into the red—further along the path to the "poverty of nations."

Any third-rate, C+ student should be able to see through this argument about "inventions." What is the new invention or discovery? Is it a method of producing First World goods with laborers who have a Third World standard of living? Is it a method whereby factory owners can enrich themselves while impoverishing the country as a whole? That's not how capitalism is supposed to work; the Invisible Hand is supposed to function such that, when a person produces goods or otherwise contributes to the economy, it benefits not only him but society as a whole. Manufacturers who offshore production and alienate productive capital have discovered a way to make the Invisible Hand give us all a very visible finger. That may be new, but it's not progress.

Users of the "new inventions" argument don't want to see through it. Political correctness—the liberals' cult of political virtue—has reached the field of economics, and it is now personal virtue and self-esteem that are at stake, not sound economics. It's considered immoral for this country to pursue her own interests, to seek what's good for herself.

A distorted political morality requires us to be "sacrificial"—that is, to sacrifice our country's interests to other countries, in order to boost the pundits' presumed moral virtue.

The pundits build their moral stature by being vicariously self-sacrificing. That is, their sacrificialist policy doesn't require them to sacrifice themselves; it requires sacrificing the country as a whole to their policies. In the economic realm, this is known as an "externality": The benefits (moral kudos) accrue to the sacrificialists, while the economic burden is borne by everyone, especially everyone with a job in manufacturing.

China now holds an enormous amount of U.S. currency. This doesn't worry the pundits, any more than deserted factories worry them. But the enormous amount of U.S. currency China and other countries hold is a sign that the "balance of the annual produce and consumption" of this country is so heavily weighted to the consumption side that

> The expence of the society in this case exceeds its revenue, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily decay, and together with it, the exchangeable value of the annual produce of its industry.

And, as a result,

> The same quantity of money . . . cannot long remain in any country in which the value of the annual produce diminishes. The sole use of money is to circulate consumable goods . . . The quantity of money, therefore, which can be annually employed in any country must be determined by the value of the consumable goods annually circulated within it.

That explains, if any explanation were needed, why the money ends up abroad, and it is a good indication of what our actual economic situation is. Economists should stop writing Pollyannaish articles explaining why alienation of capital, economic decay, and the loss of our whole manufacturing sector will be good for us.

If all this is true, how have we maintained our prosperity as we have? Where's the poverty?

There are several possible answers. For one thing, as Joe Scarborough says, "Rome wasn't burnt in a day." The recent depreciation of the dollar may be one sign of an impending reckoning.

Then, too, to use another common phrase, "We're in debt up to our eyeballs." Our economy may function fairly well, as long as we continue to borrow huge, staggering sums of money. And the biblical Proverb reminds us that "The borrower is servant to the lender." We're living on borrowed time, as well as money. This can't go on forever.

One reason offshoring, with a corresponding loss of capital, is a problem now, and not before, is that, in the past, countries with a Third World standard of living also had Third World production technology. Countries where wages were a small fraction of those in First World countries weren't competitors in production, because, although their production costs were minuscule, they weren't capable of producing goods for sale in the developed world. They didn't have First World machinery and factories.

Nowadays, the skills required for production with such machines are easily acquired; the goods can be shipped rapidly and with no tariffs to speak of; and communications and inventory-management methods are fast and efficient. So Third World countries can be given First World means of production.

And since it is profitable to do this, the situation operates under a version of Murphy's Law: If anyone can produce at lower prices, someone will. And if someone does, everyone must—that's competition. People won't buy more expensive goods when the same thing is available cheaper. And, since businesses have to compete, they simply have no choice but to offshore—not from malice or because they hate their workers, but to be competitive. Unions demonize the capitalist bosses for the practice, but that's just normal union bias and demagogy; economic forces are at work, not capitalist exploitation.

The net result is an imbalance: Manufacturers want to produce solely in the Third World, to sell in the First. The producers profit, and we all get cheaper goods, but at a cost of the loss of capital investment and jobs. That kind of "free trade" does not promote the wealth of this nation.

We've also heard enough chortling about how "They're selling us stuff dirt cheap, cheaper than we can produce it, haw, haw, haw." This amounts to a prescription for a new form of mercantilism; it concentrates on one factor of the economy to the exclusion of all others. "Minimize the price of consumer goods" is as mistaken a policy as the mercantilist theory of "maximize gold reserves." An economy is an organic whole, composed of many elements, and all of them must be healthy in order for the economy to be whole. We have to have jobs; we have to make things as well as consume them.

Moreover, a country is more than just an economy. National security must also be taken into consideration. Consider China, for example. We're building China's economy at the expense of our own—shipping our manufacturing infrastructure to the Chinese as fast as we reasonably can. (And they already have virtually unlimited manpower.) This means we are effectively grooming them to take over the role of economic powerhouse of the world.

We're also giving them all of our advanced technology and educating their college students in our universities—so much so that an American student in an upper-level computer-science or nuclear-physics course nowadays feels like a stranger in a strange land. (And it's a hostile one: Chinese students in American universities are openly disdainful and hostile to white Americans.)

The United States won World War II because of her incredible manufacturing capacity—the capacity we're now so eager to give to China (and to other cheap-wage countries). In any major future war, we'll have to go to the Chinese and ask them to make us some airplane wings, because Boeing is now giving them all the means to design and produce wings. As the *Seattle Times* opines,

> The steady transfer of airplane manufacturing from Seattle to countries like China shows little sign of slowing. Lower labor costs are only part of the reason. In China, the heated competition between Boeing and Airbus for nearly $200 billion in sales over the next two decades hinges not just on prices and politics. The more willing Boeing and Airbus are to share technology and provide local jobs, the more likely they are to win Chinese orders.

That is, Boeing and Airbus must bribe China with technological information in order to get her to accept our economy. As Boeing itself proudly attests,

> Boeing supports Chinese efforts to ensure a safe, efficient, and profitable Chinese aviation system to keep pace with the country's rapid economic growth. Commercial aviation is crucial to China's economic growth, and Boeing provides the world's best airplanes to China.
>
> Boeing helps Chinese companies develop skills, achieve certification, and join the world aviation and supplier networks. China has an increasingly sophisticated and expanding role in the commercial aviation industry. China has a role on all of Boeing [*sic*] airplanes—the 737, 747, 767, 777, and 787. China has an important, highly visible role on the 737—building horizontal stabilizers, vertical fins, portions of the aft tail section, doors, wing-panels, and other parts. China builds all the trailing-edge wing ribs for every 747. China has an important role on the new 787 Dreamliner airplane, building the rudder, wing-to-body fairing panels, and leading edge of the vertical fin. China is the first location for conversions for the new 747-400 Boeing Converted Freighter—with many parts and assemblies built in China and conversion, test, certification in China and delivery from China.

Boeing's fatuously proud statement, praising itself for selling out our national security and economy, raises a question: Do we want to resist the Chinese, or would we rather build their economy by sacrificing our own? In light of that question, "protectionism" sounds better than "sacrificialism."

Larry Eubank is the author of The Case Against Capital.

THE SERVILE STATE

On the Lam From the Census Bureau

by Doug Bandow

I'm hiding out—from the Census Bureau. True, they usually don't send out U.S. marshals with guns and handcuffs. But I'm playing it safe anyway, because the Bureau has been after me since I failed to fill out its treasured questionnaire, "The American Community Survey."

I've been through this before. I don't mind if the government learns how many people live here. That's necessary for drawing electoral districts, which is a legitimate government function. So, on the traditional census form, I routinely fill in the number of people living in my house and leave the rest of the questions blank. That has led the Bureau to call and even send busybodies to my door to pry into my affairs. They are as determined as those kids recruited to sell magazine subscriptions at inflated prices, only much worse. A few years ago, I received a special small-business survey. It was even longer than the decennial long form, so I tossed it in the trash. The Census Bureau thoughtfully sent a second one, followed by a threatening letter. The government eventually gave up on me; maybe they found a substitute victim.

More recently, I received a new, equally obnoxious demand for information. And it *was* a demand. Although Bureau Director Charles Louis Kincannon's cov-