

*"Life is like a snowball. The important thing is finding wet snow and a really long hill."*

-- Warren Buffett

In "The U.S. Needs an Industrial Policy," February 8, John Hofmeister spoke of "our foolhardy fondness for 'free market' philosophies that tell us it's OK to export all our jobs," and he called for "increasing business investment." Allow me to add, let us have increasing business investment *here*, please – not in China.

The verdict is in on the wisdom of increasing investment abroad and exporting our jobs and factories to foreign countries. That verdict is visible in thousands of closed factories, with "For Lease" signs out front and grass growing through the parking lot. To a normal, non-academic, non-intellectual, such things are frightening and sad; but to the experts, they are wonderful economic indicators. They tell us the Emperor's new clothes are lovely, to wit:

[E]xporting routine production means that employees in the U.S. can focus on higher value-added tasks such as R&D, marketing and general management.

(-- "How To Destroy American Jobs," by Matthew J. Slaughter, February 3.)

That is, firing all its production workers allows a company to concentrate on R&D, marketing and management, and allows all those laid-off workers to concentrate on starving. That's efficiency.

The one hopeful note on the economic horizon is Obama's attempt to discourage U.S. companies from expanding production abroad. That attempt includes \$122.2 billion in tax increases on U.S.-based multinational firms proposals in the current proposed budget, and Obama's plan, "Leveling the Playing Field: Curbing Tax Havens and Removing Tax Incentives for Shifting Jobs Overseas." (As a Presidential candidate, Obama said he would "stop giving tax breaks to companies that ship jobs overseas, and I will start giving them to companies that create good jobs right here in America." That's what he is now trying

to do.) Such policies would be a good start, though it would probably take tariffs to stop cheap foreign labor from being such an "attractive nuisance."

But Slaughter's article said Obama's efforts were bad policy:

The fundamental assumption behind these proposals is that U.S. multinationals expand abroad only to "export" jobs out of the country. Thus, taxing their foreign operations more would boost tax revenues here and create desperately needed U.S. jobs.

This is simply wrong. These tax increases would not create American jobs, they would destroy them.

Well, that settled that! Off-shoring is good economics; that explains why we owe everything but our underwear to China.

Albert Einstein reputedly defined insanity as "doing the same thing over and over again and expecting different results." In that vein, we continue to invest all our productive capital in foreign countries, shrinking our manufacturing base, transforming into an economy where we only consume, and other countries produce -- they make and we buy; and then we wonder why our balance of payments is out of whack! But the experts continue to say that everything is for the best in this best of all possible worlds:

Academic research, including most recently by Harvard's Mihir Desai and Fritz Foley and University of Michigan's James Hines, has consistently found that expansion abroad by U.S. multinationals tends to support jobs based in the U.S. More investment and employment abroad is strongly associated with more investment and employment in American parent companies.

(-- "How To Destroy American Jobs," by Matthew J. Slaughter, February 3.)

Academic research also shows, the Emperor's new clothes are very beautiful, and not invisible at all.

Our leaders and pundits follow Adam Smith's classical economic principles not wisely, but too well; they have an idiot's idea of *Wealth of Nations* – a sort of *Adam Smith for Dummies*. Their belief is, we don't need to produce – we can live by consuming what others produce. We don't need to invest our productive

capital here – we can send it abroad to build the economies of other countries, so they can produce goods cheaply using cheap labor, and then export them to us so we can buy them with borrowed money. Does it take a genius to see that this won't work forever?

John Stossell quoted a passage from *Wealth of Nations* the other night, to help lull our fears of pending economic ruin:

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 .l 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.

That's an important Adam Smith passage, as far as it goes. It says, it is better to produce the particular goods we are best at and can produce most efficiently, and then to trade those goods for things other people or countries can produce better.

However, it shows us the benefits of *trade*, not any benefits 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 don't expand to include alienating our productive capital.

For some light on that latter topic, let's look at this central, essential passage from *Wealth of Nations*, which answers the question, "What creates the wealth of nations?":

There is another balance. . . 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

What makes the wealth of nations is *production* – production greater than consumption, leaving a surplus to invest in still more production. It creates a "snowball effect" (so called in the title of Alice Schroeder's book "The Snowball: Warren Buffett and the Business of Life"). But the key is that on each turn of the snowball, production must be greater than consumption. That is the key to *Wealth of Nations*.

What we have now is massive disinvestment, or a shrinking snowball – every time some company withdraws productive capital from this country and invests it abroad, the snowball shrinks, as if rolling back uphill and losing girth. Therefore we need to encourage, indeed compel, companies to invest here, not in the economies and prosperity of other countries. Otherwise, our prospects are dim; we will continue on the road to bankruptcy and ruin. As Hofmeister said,

Since government is involved anyway, let's shift it from disablement to enablement. Create manufacturing incentives like other governments do. Lower repressive corporate tax structures, accelerate depreciation, defer income and inventory taxes, tax abate existing and new jobs, pay for worker training, incentivize new, and the conversion of former, manufacturing sites.

We've never systematically used government incentives to help U.S. industry compete across the board. It's time we did, like everyone else. Use the unspent hundreds of stimulus billions to create millions of competitively priced manufacturing jobs in America. We've never had more people available, ready and willing to work. Let's practice the "globalization" we taught everyone else.

Besides all that, we could use the increased tax revenues from an import tariff. We have one stark choice now: disincentivize the off-shoring of our productive capital, or die economically.