

# The Creation of Wealth

## Editorial

**T**he wealth of a country is a result of capital investment to enable a greater result from work, raw materials upon which to work, and the creative idea that determines what work will be done. This wealth is a fixed item at a given time. If inventions such as computers increase efficiency, wealth is increased. If workers stay at the job for eight hours rather than six and efficiency is not impaired, wealth is increased. If the raw material upon which work will be done is at hand rather than at the other end of the earth, wealth is increased. But, at a given time, when machines are used and hours are constant, the wealth of a country is stable, fixed, nothing more can be done to make a country richer.

A basic implication flows from this assumption. If I get a raise in pay, another person will get less money. My raise in pay increases the cost of the article on which I work. This increased cost either comes from the income or profit of my employer or it decreases the sale of the article I am manufacturing. If the employer gets less money, either his consumption is less or his investments, either in his company or another company, are. My pay raise creates unemployment. Because most people expect and even demand a raise in pay because they have lived another year, and because such increases increase poverty in the rest of the community, the government prints money, or inflates the economy, to equalize the field, or bring it back to where it was before the round of pay increases, and to prevent unemployment and a depression.

At the moment, inflation is being held at around two percent, which is commendable and as good as we can hope for. However, a two percent rate of inflation for twenty years, a hoped-for period of retirement, amounts to forty percent. If you are living from a fixed income, under the best of circumstances, almost half of your estate will be destroyed by inflation in twenty years.

The popular theory that we are a service economy, driven by information, is nonsense. Wealth is created by production so that if there is no production there is no wealth. A farmer produces food. To get that food the farmer needs information about farming and we need information about where we can buy the food, but without the food produced by the farmer information is a waste of time. Service industries are created by the farmer, and other wealth creating activities such as builders of farm machinery, banks that loan money to the farmer, stores sell his products, schools to educate his children, someone to clothe him and keep him warm, carpenters to build him a home, and so on and on. As the farmer creates the possibilities of service providers, so does every wealth creator who applies energy to raw materials and makes or grows something which would not exist without his effort. The wealth of a country depends on manufactures so that "maturity" to a service economy is nonsense.

When a class of people form a monopoly or use their muscle to compel acceptance of their demands, society is impoverished. Teachers form such a monopoly. Education will not be improved by increasing the pay of teachers, which is their constant demand, but by competition. The practise of advertising the “teacher of the year” of some state or district is similar to the practise in Communist countries. The quality of the teacher is not determined by a popularity contest but by the quality of the graduates. Competition will bring improvement and a fair market value in salaries.

Unions in the automobile industry recently won wages of \$60 to \$70 thousand a year, 3 percent raises each year, a signing bonus of \$1,350, improvements in pensions and cost-of living adjustments, and will gain more than \$29,000 over the life of the contract, while the average manufacturing wage is \$18.74 an hour. When, in addition to what they won in bargaining, the unions demand their employer not use nonunion labor, demand security for their jobs, forbid their employer to close inefficient factories, we have robber barons against society, selfish workers who do not care about the poverty of others. They get their way because they have the power to close down the manufacture of automobiles. Under these circumstances I have no patience with anguished cries about transferring automobile manufactures to Mexico. It would not bother me if they moved to Cuba. We do have Japanese competition, which has been a blessing. Domestic production has improved in quality if it has not decreased in price.

A few years ago the great cry was “save the poor countries of the world with foreign aid.” Today we seldom hear rhetoric for foreign aid, presumably because the aid we gave was not spent wisely. In place of foreign aid we have the World Trade Organization (WTO) which has replaced the General Agreement on Tariffs and Trade (GATT). The only continuation of former foreign aid is by private donations to help children, who are touted graphically on television. This is a nice thing to do, but it will have no lasting effect and will not increase the wealth of the country.

The purpose of WTO is to raise the living standards of all people, ensure full employment, and a growing volume of real income. The yardstick for measuring the increase of wealth is the degree of international trade, and this has increased by around 25 percent in the last four years; but the increase of trade has been of no benefit for the poor countries. While the poor comprise 20 percent of the world population, they generate .03 percent of trade flows. The reasons for this are two. First, they do not have the income or expertise to compete with developed countries in anything, from food production to manufactures. Second, decisions in the WTO are made by the developed countries, and they impose rules to their advantage. The result of the policies of WTO is that the developed countries get richer, profiting by free trade, while the poor countries become further depressed, and helpless.

Free trade is a blessing between mature countries—Japan, United States, and Europe. In the eighteenth century when France grew grapes in the open air and made excellent wine, it was stupid for England to compete with grapes grown in hot-houses. Each was to concentrate on what it could do well and make exchanges

that would bless both countries. The situation changes with poor countries living with rich countries. A poor country must first aim at self-sufficiency of food and then proceed as fast as possible with manufactures so that it can raise its living standards. It must protect itself before it goes into international battle. After a country has enough food and some simple manufactures, it should develop manufacturing skills that will take care of as many domestic needs as possible. China, for example, is a huge country with enormous potential and anxious to be a player on the world stage. They would act with greater wisdom and probably achieve their goals more quickly if they devoted their attention to manufacturing toilets. The majority of Chinese evacuate where they happen to be.

One of the great cries in behalf of free trade is that without it we would increase the chance of war. War is not caused by a denial of free trade but by politicians who lust for power. Peace and prosperity will come to all when poor countries have manufactures, either by creating them by saving or by asking rich countries to help them with investments. Under these circumstances, free trade becomes a blessing.

Another highly touted adventure of the last few years has been with NAFTA (North American Free Trade Agreement). This proposal was supposed to benefit the United States, Canada, and Mexico. It has failed. NAFTA has cost the U.S. more than 200,000 jobs. While we have created jobs, this has not been because of NAFTA. Many American imports from Mexico are manufactures we have sent south because of lower expenses and then import for assembly here. This benefits us by reducing our costs, but it does nothing to improve the wealth of Mexico. Mexican labor is \$1.51 an hour (one dollar and fifty-one cents). One of the goals of NAFTA was to increase the wealth of Mexico so that it could become more of a consumer society and a mature trading partner. The earnings of Mexico have declined since the introduction of NAFTA. In 1997, 7,771,607 Mexicans earned less than the legal minimum wage of \$3.40 a day, 20 percent more than in 1993. Among the working class, salaries at the end of 1997 had fallen to 60 percent of their 1994 value.

Hazardous wastes have increased dramatically in Mexico and along the borders of this country, and there is little inspection. There were inadequate sewage treatment plants before NAFTA. Employment increased by 54 percent in Ciudad Juarez but no sewage treatment plants have been installed for the 1.3 million people who live and work there. Food exports have increased 57 percent since 1993 so that in 1998 52 percent of all U.S. fruit and vegetable imports came from Mexico, yet inspections of these have declined from 8 percent to 2 percent. In 1993, strawberries from Mexico had a violation rate of 18.4 percent. Extreme fetal contamination in the Rio Grande River leaves residents along the border in danger of hepatitis. Sewage from Tijuana is dumped into the ocean a few miles off-shore, containing dioxins, pesticides, solvents, and heavy metals. The water exists in a current that circulates the water back to land. The U.S. Drug Enforcement Agency estimates that 70 percent of cocaine smuggled into the U.S. comes from Mexico. Much of this comes from the flood of trucks entering this country. In 1998 at least 5,000 trucks a day entered the U.S., but were inspected by only 10 to 14 inspectors. In El Paso,

there is one inspector for the 1,300 trucks that pass through every day.

I do not know why Mexico cannot improve the standard of living for its residents. The country is older than the United States. When Mexico discovered oil, it became poorer! It seems nothing works in that country. Are the politicians corrupt? And could this be the cause? Have the aristocrats kept people in subjection, not heeding Henry Ford's advice that well paid workers are better workers and better citizens? I do not know. This country, and most European countries, have inventors who constantly introduce new ideas and machines which increase the living standards of their people. I have lived and worked in Australia and the United States, and have visited in Canada, Japan, China, England, Scotland, and Russia. Each of these countries bustles with entrepreneurs, men and women with ideas who set up shops and risk all they have in some venture. I saw this in Moscow and St. Petersburg and in Japan where everyone is supposed to be a conformist. In our small town of Stillwater, small shops open up and close down, showing the adventure-some spirit of our people. So it is, I suspect in all countries and must be so in Mexico. Does Mexico lack a respect for property that makes it too hazardous to risk one's future on a throw of the dice for some exciting adventure? I wish I knew. I am prepared to believe that the theory that started NAFTA was well-meaning but I am not convinced that the results have measured up to expectations.

The other great arm of foreign aid is IMF, the International Monetary Fund.

The IMF was created to promote international monetary cooperation; to facilitate the expansion and balanced growth of international trade; to promote exchange stability; to assist in the establishment of a multilateral system of payments; to make its general resources temporarily available to its members experiencing balance of payments difficulties under adequate safeguards; and to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

At the moment credit and loans outstanding are (in billions),

World	63.6
Africa	6.7
Asia	20.3
Europe	18.3
Middle East	.07
Western Hemisphere	17.6

Nothing could be nobler than the intentions of the IMF, and no doubt it has done much good. The problem is that loans are made not to countries, but to politicians, and these cannot always be trusted. Loans to Russia go to Mafia leaders. Recipients in some countries play the game of getting what they can and have weak records of honesty and thrift.

Many countries are in need, and should be helped in any way that works, but there must be honesty in the recipient. Perhaps there is no alternative to transferring help through the medium of politicians and bureaucrats but it would be preferable if we could direct our help to individuals and these could safeguard their property.

The quick fix for poor countries would be to invite outside businesses into their economy, but these businesses would have to respect the citizens of the country they entered by producing what the individual country needs and by paying generous wages. Poor countries need not and should not enter the international market until they increase domestic wealth, being protectionist until they can afford to be otherwise, giving their attention to the manufacture of shoes, shirts, overcoats, fuel, and other basic needs. There is no other way for individuals or for countries other than work, saving, and getting machines to help them multiply their efforts. That is the proven record and must be maintained. Ω

## From Our Readers

*The following letter was in response to a letter from the publisher.  
Mr. Maguire is president of the Maguire Oil Company.*

Dear Mr. MacDonald:

In response to your question, "Did I have any recommendation for the increase in our oil supply," I would say that we still have a large amount of oil and gas to be still found in the United States. There have been lots of wells drilled in the United States, but many only to shallow depths. So, there is still much oil and gas to be found at deeper depths. The United States relies too heavily on importing oil, and because the decision on how much oil should be produced is made by politicians (rather than business men), we get these wild fluctuations in the price, which have wrecked havoc with the domestic industry. We have been willing to spend \$100-150 per barrel to protect the oil in the Middle East and risk our young men's lives, but we have been unwilling to have a meaningful energy policy in which no oil could be dumped in the United States market below \$25. There is much oil still left to be found (and also through secondary oil projects), which would reduce our dependence on erratic foreign supplies. But we need some kind of stable energy policy, if that is to be accomplished.

Yours very truly,

Cary M. Maguire