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With Free-Market Friends Like This . . .

Senator Jesse Helms (Republican from North Carolina) is widely regarded as a forceful supporter of the market economy. Unfortunately Senator Helms's commitment to free-market principles suffers the same weakness as that of too many other politicians who support those principles in rhetoric but undermine them in practice. This Senator's hypocrisy is revealed by his defense and support of Government intervention in the market on behalf of the domestic tobacco industry. Senator Helms has called for Congress to "put aside the business as usual mentality that has dominated Washington in recent years." If the likes of Senator Helms do not put aside this mentality, there would seem to be little chance that those dedicated to big government will. Without that change, the retrogression of this Nation will not end.

There is no hope of a return to a freer system until the leaders of the movement against state control are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept.
F. A. Hayek

On March 20, 1981, that champion of "conservative" causes, Senator Jesse Helms delighted the delegates to the 34th annual meeting of the Tobacco Associates with this message: "I make this commitment to you: The protection of the economic security of our tobacco growers, and all others who make their livings in tobacco, will always occupy a top priority with me – far above and beyond any partisan considerations. . . . Tobacco is fortunate in that those of us who care so much about it are 'in' positions which impact so decisively upon the Federal tobacco programs. . . . [O]ur goal is to make tobacco farming more profitable, and keep it profitable – to enhance the profitability of tobacco farming we must maintain a strong tobacco program."

If most other U.S. Senators had made these remarks, this Institute probably would not have considered them worthy of comment. But since he was sent to the Senate in 1972, Jesse Helms has cultivated a reputation as a staunch defender of private-capital, free-market, limited-Government economics. *U.S. News and World Report* called Jesse Helms "the uncontested leader of the Senate's now-sizable conservative bloc" and "the self-appointed protector of conservative values within the Reagan administration." A recent sample of a Helms-style defense of free-market economics is offered in a speech delivered to the National Conservative Political Action Conference (NCPAC) in Washington on March 21, the day after the Senator's remarks to the Tobacco Associates. On that occasion, Senator Helms explained the relationship between the "new" supply-side economics and the "old" Keynesian economics: "We can bandy around all of the words we want to – supply-side and all the rest of it – but when you get right down to it, we are talking about socialism versus the free enterprise system." Ostensibly to force some monetary discipline on Government, Senator Helms has introduced a bill that would reinstate gold as the Nation's monetary unit.* The *Congressional Record* reported that Senator Helms introduced his gold standard bill with the argument that it "would provide for the removal of politics and manipulation from the monetary system."

To the grave harm of the Nation, "conservative" politicians so often have mouthed free-market principles but practiced special-interest pleadings that much of the public has wrongly identified the two as one. For this reason, Senator Helms's hypocrisy can not go unchallenged by those who are firmly convinced that a closer approach to free-market economic practices is essential for restoring progress in America.

Fleeting Commitments

In Raleigh, Senator Helms's commitment to free-market economic principles evaporated on contact with his powerful, special-interest tobacco constituents. He enthusiastically endorsed the following Federal Government interventions in the economy for the benefit of the domestic tobacco industry.

Price Supports Nonrecourse loans administered through the Commodity Credit Corporation establish a minimum price floor for tobacco producers. If the market price falls below the floor price, the Government will purchase the commodity at the higher support price. Surpluses so purchased by the Government are stored at taxpayer expense, to be sold only when prices rise above the floor price. Taxpayers' funds are the means by which the Government purchases and holds the "surplus" tobacco, at no expense to the tobacco growers. At a time when interest rates on short-term borrowings are 15 to 20 percent, this "free" money for tobacco interests has a high cost to U.S. taxpayers.

Acreage Allotment and Market Quotas These programs restrict the amount of tobacco that each farmer can grow or market and thus limit the total supply of tobacco offered in markets. A restricted supply of any commodity fosters higher prices than would prevail under free-market conditions. To gain farmers' cooperation, the Federal Government imposes a penalty charge equal to 75 percent of the average market price for the previous year on tobacco sales in excess of specified allotments.

Export Promotion The U.S. tobacco industry is the world's largest exporter of tobacco. The Federal Government provides export credit financing at below-market rates of interest in order to boost exports of tobacco. In addition, the Government supports promotional activities abroad on behalf of the domestic tobacco industry.

* See "Plans to Revive the Gold Standard," *Economic Education Bulletin*, October 1980.

Senator Helms proudly told growers, "tobacco farmers... benefit immensely from [the Government's] export promotion efforts."

Import Restrictions The Federal Government imposes a tariff on foreign tobacco imports. This tariff protects inefficient domestic producers (the efficient ones could succeed without protection), forces consumers to pay higher prices, and, as is the situation with all import restrictions, impedes attainment of the benefits of general free trade. At the Tobacco Associates meeting, Mr. Helms referred to foreign tobacco products as "scrap imports," and he rationalized continued Federal protection of "our tobacco" because of supposedly unfair "subsidized foreign competition."

Tobacco Producer Cartels The Federal Government organizes, supports, and protects domestic tobacco producer cartels. Nonparticipants in these "voluntary" cooperatives are penalized. Of course, the very purpose of cartels is to prevent competition. That is a proper role of Government?

Research and Extension Services The Federal Government provides free market news reports and other forms of information to tobacco producers, and it funds research projects to improve the "quality" of domestic tobacco.

What Free-Market Economics Is Not

Before Senator Helms rightfully can call himself a leading guardian of free-market economics, the Senator evidently must learn what free-enterprise economics constitutes. A free-enterprise economic system does not promote the special interests of any group at the expense of others. A free-enterprise economic system does not include policies to ensure profits to specific domestic industries by keeping out what Senator Helms calls "subsidized foreign competition... and the 'scrap' [tobacco] imports." Free enterprise is not a system in which the coercive powers of the state are used to limit an individual farmer's freedom to plant whatever amount of tobacco he chooses. Free enterprise is not a system that uses taxpayers' money to "support" the prices of certain commodities. And the free-enterprise system is not a system that uses the power of the state to set up, promote, and protect producer cartels.

As the foregoing list of tobacco programs clearly reveals, the system Senator Helms has vowed to preserve and protect is not the free-enterprise system at all. The system he defends is something else: State capitalism? The mixed economy? Neo-mercantilism? The New Deal? Why not the latter? This Republican "leader" of Senate conservatives is defending the very tobacco program that was a key component of Franklin D. Roosevelt's New Deal era Agricultural Adjustment Acts.

This is the Senator Helms who is famous in conservative circles for his fierce opposition to wasteful Government spending on social-welfare programs. This is the Senator with the reputation for demanding "fiscal responsibility" within the Federal Government. In opposing Government spending for social-welfare programs while advocating Government welfare schemes for tobacco growers, Senator Helms invites charges by "liberals" that "conservatives" are not opposed to socialism, rather they oppose socialism for the poor but advocate socialism for the rich. Jesse Helms has provided the critics of private-capital, free-market economics with a powerful weapon against free enterprise, notwithstanding that free enterprise is implicated by association only, not in fact.

A free-enterprise economic system is more than a system to accumulate profits. When one is attracted by the potential reward of profits that private-capital, free-market economic systems offer to producers who wisely use the Nation's resources to provide consumers with something they want, one must also be willing to accept the harsh judgment that economic freedom imposes on the wasteful and inefficient. For resources to be allocated to their most useful purposes, losses and failures are as essential as profits and successes. Free-market economics requires the capitalist to bear the entire loss and suffer the consequences of wrong decisions. The ebb and flow of productive ventures is essential for keeping the economy changing appropriately in an ever-changing world.

Connection to the Political System

When the state intervenes in markets, it reduces the risks of the favored capitalists. Government intervention forces taxpayers collectively to become unwitting partners in taking the risks of business ventures but reserving to the special-privileged producers the potential reward of profits. Small wonder that anti-capitalists find ready converts to their cause. Communism at least promises the people the reward of profits as well as the risks of losses from operating industries. (That profits never seem to materialize is another issue.) Government intervention of the type supported by Jesse Helms for the tobacco industry thus undermines political freedom as well as economic efficiency.

The list of Government interventions in the tobacco industry does not include another form of Federal involvement. Senator Helms denounced that form in his speech to the tobacco producers: "We still have the Ted Kennedys, the Gary Harts, and the Howard Metzenbaums... these Congressional liberals [who] have an obsessive political opposition to tobacco." The list of "liberal" Government programs Mr. Helms finds so indefensible includes use of taxpayers' funds to discourage tobacco consumption, to support medical care for smoking victims, to fund research into the adverse health effects of smoking, and to ban television cigarette advertising.

Senator Helms evidently fails to see that the fundamental problem is not the "liberal" anti-tobacco forces; it is that the taxpayers are being forced to finance interference in the tobacco industry. On one side of the issue, the Department of Agriculture subsidizes and promotes tobacco consumption. On the other side, the office of the Department of Health and Human Services is at work attempting to reduce smoking. To taxpayers, these contradictory actions must seem nonsensical. But to those who benefit from this resource shuffle, it is totally sensible. The tobacco producers benefit; the anti-smoking lobby benefits; Senator Helms and other Senators and Congressmen from the 25 tobacco producing states benefit; Senators Kennedy and Hart and the other anti-tobacco Congressmen benefit; and the bureaucrats who administer the programs benefit. Only American taxpayers and consumers pay.

From an economic standpoint, Government intervention in the tobacco industry is unwarranted – on either side. Tobacco producers should "risk it" in the free market, as all other producers in the American economy should. If they conclude they cannot afford to take the risk, they are free to re-allocate their resources. Senator Helms evidently has no difficulty applying this dictum to economic undertakings other than tobacco.

Anti-smoking groups also should kick the habit of seeking Federal funding. In a free society, if enough anti-smokers feel strongly enough about this issue, they are free to collect voluntary contributions to finance an advertising campaign to educate the public about the harmful effects of smoking. There simply is no reason to involve the state in this issue, except to extract special privileges from the Government at taxpayer expense. We should think that Americans surely are responsible enough to decide for themselves if they will smoke or not.

The issue is not whether Government should oppose or support tobacco policy; it is whether or not the Government should grant special privilege. More basically, the issue is how are limited resources to be allocated? There are two options: (1) allocation via the free market, with no favors for political causes or special-interest groups; or (2) allocation via the political-bureaucratic arena, with the elected and appointed "leaders" doing battle over what is "good" and "just." In the political arena the pressure groups, selected industries, and influential persons who "scream" the loudest get the largest Government handouts. But since Governments can only hand out what they take in, special privileges for some require forced sacrifices by others.

When purported free-market supporters like Senator Helms complain about the "liberal" programs that supposedly help this or that group, their complaints will fall on unsympathetic ears until they, themselves, stop trying to elbow their own favored groups up to the public trough.

MOTOR VEHICLE PRODUCTION AND SALES

The U.S. automobile industry failed to participate in the general economic expansion during the first quarter of this year. Sales of domestic-make new cars rose during March, when factory rebate programs were in effect for 3 of 4 weeks, but they decreased during April, after the rebates had ended. General economic uncertainty, substantially higher prices for automobiles, and continued high interest rates for consumer financing are depressing automobile sales. The introductions of smaller, more fuel efficient U.S. models (as for example General Motors' new "J" line) have improved the product mix of U.S. car manufacturers and dealers' inventories over all are adequate but not excessive. These conditions probably will keep U.S. motor vehicle production from decreasing further, but there are no signs that the U.S. automobile industry soon will expand rapidly.

For the 6 months ended April 1981, U.S. automobile sales trended downward slightly from year-earlier sales and totaled 3,266,954 units, which was 8.0 percent less than the year-earlier total of 3,551,860 for the same period but 22.3 percent less than the recent peak of 4,202,792 units sold for the similar period between November 1978 and April 1979. Chart 1 reveals this year-to-year decrease in auto sales and in truck sales as well. Truck sales for the 6 months ended April 1981 totaled 1,004,446 vehicles, 19.4 percent less than in the same period a year earlier, when 1,246,350 trucks were sold and 44.8 percent from a total volume of 1,819,805 units during the 6-month period November 1978 through April 1979. Chart 1 indicates that truck sales have remained depressed during the most recent past months, showing no sign of even the usual spring-season spurt.

Sales of U.S. cars during the 3 months ended April were little changed from the volume a year ago, but truck sales continued downward, having suffered larger decreases throughout this cyclical contraction. Three-month February through April sales data for the past 3 years are shown below.

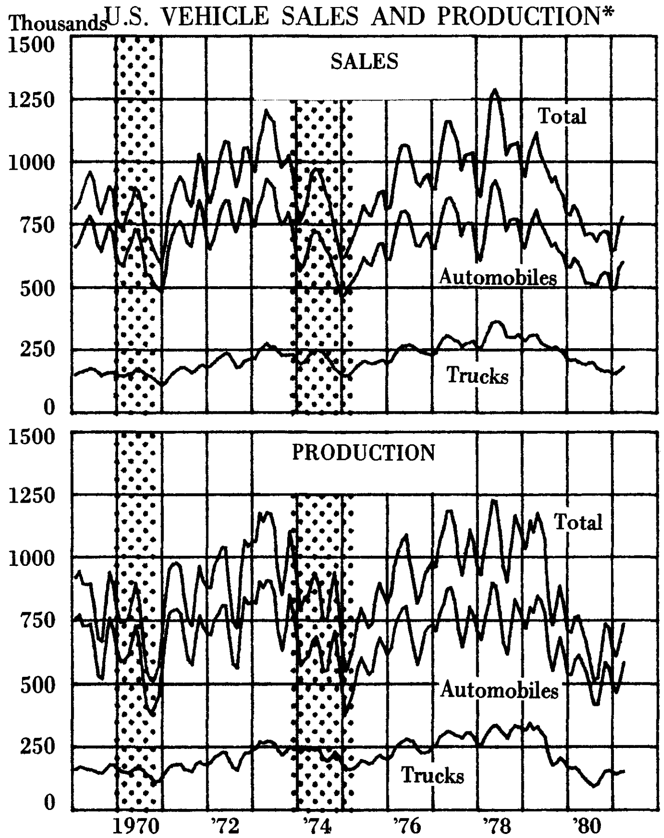
Year	*U.S. Cars*	*Percent Decrease from Year Earlier*
1979	2,303,735	3.0
1980	1,802,079	21.8
1981	1,796,361	0.3

Year	*U.S. Trucks*	*Percent Decrease from Year Earlier*
1979	930,611	5.0
1980	604,855	35.0
1981	540,446	10.6

Chart 2, Percent Change from 12 Months Earlier in U.S.-Make Automobile Sales, suggests, as do the above data, that the deterioration in such sales probably has ended. At the trough of this series, in May 1981, U.S.-make auto sales had decreased 37 percent from the same period 1 year earlier, but subsequently the rate of decrease slowed and finally, in March, auto sales exceeded those a year earlier for the first time in 2 years.

In earlier years, production trends for U.S. motor vehicles have followed the sales patterns with a slight lag. More recently, U.S. manufacturers have quickly adjusted motor vehicle output to sales rates and have brought inventories to usual levels. At the end of April 1981, U.S. car dealers had an inventory of 1,345,000 new domestic-make automobiles. This was a 65-day supply at the April selling rate, and although it was up from the March volume of 1,216,000 units and a 44-day supply at the

Chart 1
U.S. VEHICLE SALES AND PRODUCTION*



* Three-month moving averages, not seasonally adjusted.

Chart 2
PERCENT CHANGE FROM 12 MONTHS EARLIER
IN U.S.-MAKE AUTOMOBILE SALES

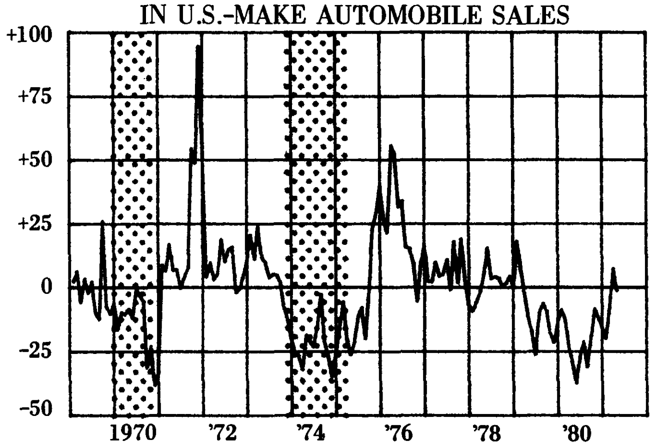
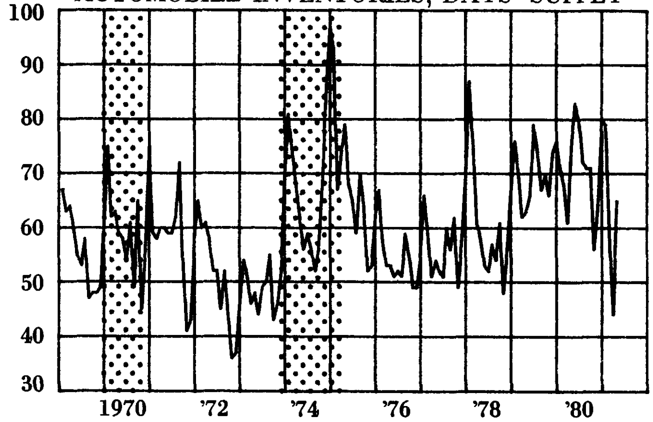


Chart 4
AUTOMOBILE INVENTORIES, DAYS' SUPPLY

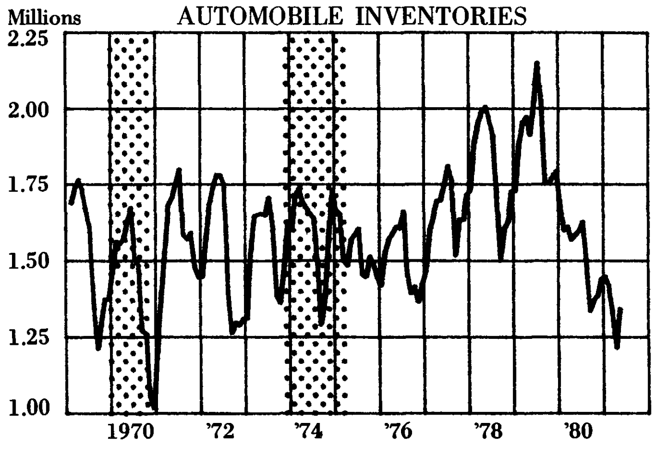


March selling rate, it was within the usual range for this time of the year. The March 1981 inventory was the smallest number since November 1970, when dealers had 1,018,000 units in stock at the end of that recessionary and strike-related period. Chart 3 reveals the low level of inventories in absolute numbers of units, but that picture is deceiving. Because sales are also depressed, the number of units was not low in relation to sales. This is indicated in Chart 4, Automobile Inventories, Days' Supply. Following the March 1981 decrease, inventories increased to 65 days' supply on hand, which is near the lower end of the range since early 1979 and near the 60-day supply considered to be normal by the industry. Moreover, the April inventories were well balanced among U.S. produced subcompact, compact, intermediate, and full-size models.

In response to Reagan administration warnings of possible Congressional action to restrict imports of foreign-made automobiles, the Japanese government announced on May 1st a 3-year plan to limit "voluntarily" automobile exports to the United States. During the plan's first year (April 1, 1981 to March 31, 1982) Japanese car shipments will be held to not more than 1.68 million units, 7.7 percent less than the 1.82 million units sold during 1980. Second-year volume is not specified, but it can exceed 1.68 million only if total U.S. sales increase. At this point, no quota is set for the third year. The Japanese reduction of 140,000 units annually is a 1.6 percent reduction on a total U.S. automobile sales year of 8.5 million units, which hardly seems enough to restore "health" to the ailing U.S. auto industry. It remains to be seen if the domestic industry will be satisfied with this "token" cut from Japan and if not, if industry leaders can successfully pressure Congress to restrict foreign car imports further.

Favorable factors for the U.S. automobile industry include an apparent end to the sales decline, perhaps a maximum penetration of the U.S. market by Japanese makers, a cyclically expanding economy – even if expansion is halting, and an improved line-up of models by U.S. makers – with more smaller, fuel efficient models available. Unfavorable factors also are evident. Industry analysts indicate that average new U.S. automobile prices have been raised 6.5 percent since the introduction of 1981 models and might rise another 3 to 4 percent during the remainder of the model year. New car consumer loan interest rates remain high, in the 16-16.5 percent range since June 1980. Higher prices and already high interest rates could continue to dampen any consumer enthusiasm over the new domestic subcompact lines introduced for model year 1981. New Japanese automobiles might also continue to sell well on the basis of actual and perceived higher quality of manufacture; during the past several months there has been substantial publicity given to production problems, quality control and vehicle recalls on General Motors "X" compact cars since their introduction several years ago. GM has also admitted to several setbacks in the presentation date for the new subcompact "J" cars over quality control difficulties in production. If buyer interest does improve, the domestic auto industry now has available the product lines the public is supposed to need and want. But as long as the economic outlook generally remains clouded by slow recovery, rapidly accelerating prices, and high interest rates, it seems improbable the new-car buyer interest will improve substantially enough to take the U.S. automobile industry out of its depressed state in the next few months.

Chart 3
AUTOMOBILE INVENTORIES



PRICE OF GOLD

	1980	*1981*	
	May 22	*May 14*	*May 21*
Final fixing in London	$501.00	$476.50	$475.00

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