

The Carbon Quandary

August 2012

For the great majority of the industrial period, regulatory policy has followed the saying, "it's always easier to get forgiveness than permission." Industrial growth almost always preceded any regulatory effort to "better manage" the consequences of industrial activity. There wasn't anything to regulate until after we could see the consequences. But there are always consequences.

Would we have permitted the internal combustion engine's proliferation had we known of the resulting carbon release 100 years later? How about coal fueled electricity plants knowing their toxic emissions? What about the invention of gunpowder? What about the nuclear bomb and nuclear energy? Unfortunately we can't project the future, so the process of industrial regulation tends to occur after something obviously needs regulating.

Pablo Picasso said, "Every act of creation is first an act of destruction." The Armchair likes to say it two other ways: 1) There is no production without destruction; and 2) There is no production or consumption without waste. Production requires natural resources and you can't get at natural resources without first changing the environment from where they come. Plus no process perfectly uses all the raw materials involved in production. There is always some waste. Even consumption produces waste. That's a simple law of Mother Nature.

The bottom line is that we can't produce or consume anything without creating waste. And for decades, probably centuries during the industrial economic period, waste just wasn't in our field of vision, until it was. Following the post WWII industrial explosion, our rivers and lakes became toxic, our air became more dangerous to breathe and our highways were littered with heaps of trash. We were all guilty of being so seduced by growth and prosperity that we didn't consider its consequences.

Rachel Carson's 1962 book *A Silent Spring* outlined the many toxic effects of DDT, which was used widely during the 1950s in urban and rural environments. Cities used DDT to wipe out those pesky mosquitoes, and farms used it to destroy insects that reduced their harvests. DDT successfully eradicated those pests, but bird and fish populations were collateral damage. And toxins were seeping into the food chain. Carson's book spawned modern day environmental awareness and served as the tipping point in American industrial policy.

This year we celebrate the 50-year anniversary of the environmental movement. It's an effort that has done America a lot of good. It motivated us to clean up our act. According to the EPA, from 1980 to 2010, emissions for carbon monoxide have been reduced 82%, for lead 90%, for sulfur dioxide 76%, and for particulate matter 83%. And anyone who remembers the 1970s knows that programs like "Don't Mess with Texas" have significantly reduced the amount of trash strewn across our highways. America is a much cleaner country, but at the same time, it has come at some cost.

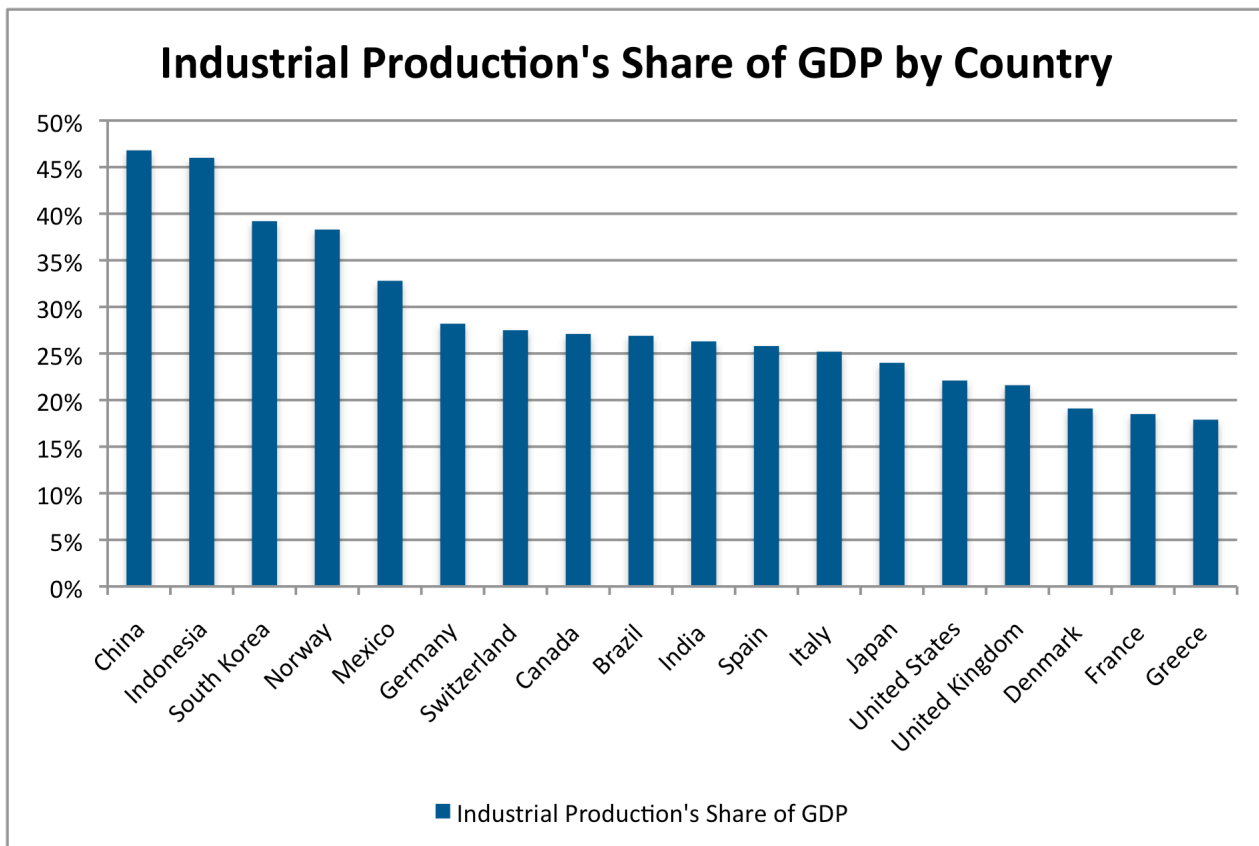
Just as there is no production without destruction and no consumption without waste, there is also no action without reaction. One of the more significant reactions to ever tightening environmental-based industrial policy has been the exporting of American industrial production to other parts of the world. As those operations left America, so too did jobs.

Since 1970, the number of manufacturing jobs in America has declined from nearly 18 million to just over 11 million. Given population growth since then, the number of manufacturing jobs as a percentage of population has decreased even more dramatically. Many perceive this as a positive indication that America has moved past heavy industrial activity to much cleaner and safer services. But is that really a good thing?

As the Armchair wrote a while ago, the growth of America's service economy has come at a dramatic cost – higher overall debt in the economy.

Contrary to the desired outcome of many people, a sustainable economy can't be based upon services serving services that are serving other services. In order to afford services, there must be a master to serve, a master that's going to pay the bill for services. At the end of the day, that master must either be production, or some foreign customer. And if you don't have enough masters to pay for services, then you can only afford more services by borrowing more money. This is exactly what has happened in the U.S. and Europe, as services overtook production as economic leader.

Just look at some stats from the CIA Factbook about industrial production's current share of GDP in various countries:



Can anyone spot the healthy economies above? How about the ones currently sitting on the brink of economic implosion? It appears that in order to have a healthy economy, a significant amount of it must be based upon industrial production.

Armchair Economic Perspective
The Carbon Quandary
August 2012

For the U.S. and Europe, one primary reason for the demise of their respective industrial economies is obvious: Policy. Environmental policy has so overtaken industrial policy that these economies are being choked off. Are we trying to save the Earth at the expense of destroying our own economies?

Let's look at this challenge from another angle...

According to the Bureau of Labor Statistics (BLS), the average hourly total compensation for service jobs is \$14.03, while for natural resources, construction and industrial maintenance jobs it's \$32.43. Gee, growing jobs in which sectors would best help our economy? But which sectors are projected to see the fastest job growth from 2010 to 2020 according to the BLS?

Registered Nurses
Retail Salespersons
Home Health Aides
Personal Care Aides
Office Clerks, General
Food Preparation Workers
Customer Service Reps
Heavy Truck/Trailer Drivers
Freight and Material Handlers
Postsecondary Teachers
Nurses Aides
Childcare Workers
Bookkeeping and Accounting Clerks
Cashiers
Elementary School Teaches

After these, we get janitors, landscaping and grounds keeping workers and sales reps. Finally down at number 18, we find a job involved in making something – construction workers. Just looking at this list, and considering how technology is working to make shopping, education and the office environment ever more productive, what might happen to many of these expected growth jobs?

What's wrong with our economy? One of the biggest problems is industrial policy. We have an industrial policy that is overly focused on permission. Regulation has overtaken growth as the priority. Government has become more important than industry. We are choking off our economy at the very moment when we desperately need to let it go, let it grow.

Environmentalism is a worthy movement. But as the last two to three decades have shown, we can't survive with a services based economy. Only by growing our industrial production might we have any chance of righting our economic ship. Unleash our industrial economy, and it will alleviate some of our economic challenges. Continue to constrain industrial activity, and we fall deeper and deeper into economic abyss. There is idealism and there is pragmatism. It is time we developed a more common sense industrial policy.

Armchair Economic Perspective
The Carbon Quandary
August 2012

A handwritten signature in black ink, appearing to read 'Doug', with a large, sweeping flourish at the end.

Douglas A. Leyendecker
713-862-3030
doug@armchaireco.com