

## The Civil War

This may not be the first reference you've seen to a new American Civil War. The Armchair has been quietly making this reference to close friends for a couple of years. Now that others are pondering a similar notion, it seems time to lay things on the table.

America is currently in a civil war. It's not a replay of the 19th century's North against South, although there is a geographic and economic component to the current conflict.

2016 presidential voting data suggests the conflict is an urban-rural America war. Urban America, with shiny new everything everywhere, knows what's best for everyone. Rural America, with an economy in decline, isn't so sure.

Economic data suggests it's an upper class-middle class war. You could say this coincides with the urban-rural conflict since there are very few Masters of the Universe billionaires living in Smallville, USA. The level of income inequality today in the U.S. is close to the all-time-high set right before the Great Depression. Smallville is falling further and further behind.

Then there's the ongoing Republican-Democrat war, or a conservative-progressive war. It's the supposed anti-immigration, anti-abortion, anti-"rules based order," gun toting conservatives against the seemingly wide-open immigration, free education, free health care, "free" trade progressives. This is at least what the "war of the words" media would have you believe.

Some in media say this is a white American versus non-white American war, as if race relations have denigrated materially since the days of the civil rights race riots in the 1960s. And then there's the poorly educated-well educated conflict. It's no surprise that so many well educated live in urban America (home to today's "journalism") and that so many less educated live in rural America (home to today's deplorables).

Where is all of this obvious tension really coming from?

The news media certainly plays a part in it. The more eyeballs, ears and minds the media capture and keep, the more advertising they sell. The more advertising they sell, the more money they personally make. Media's job today is to get you addicted. They do so by pummeling you with crisis, tragedy and sensationalism. This is what gets and maintains people's attention. Control minds, make more money. How's that for a "free market" perversion?

Let's also consider a more general economic perspective. French economist and writer Claude-Frédéric Bastiat (1801-1850) suggested that there is the seen and then there is the unseen.

*In the department of economy, an act, a habit, an institution, a law, gives birth not only to an effect, but to a series of effects. Of these effects, the first only is immediate; it manifests itself simultaneously with its cause — it is seen. The others unfold in succession — they are not seen: it is well for us, if they are*

*foreseen. Between a good and a bad economist this constitutes the whole difference — the one takes account of the visible effect; the other takes account both of the effects which are seen, and also of those which it is necessary to foresee. Now this difference is enormous, for it almost always happens that when the immediate consequence is favourable, the ultimate consequences are fatal, and the converse. Hence it follows that the bad economist pursues a small present good, which will be followed by a great evil to come, while the true economist pursues a great good to come, — at the risk of a small present evil.*

How has the seen and the unseen contributed to our current civil war? Let's first go back to the 1970s.

Two OPEC oil embargoes in the 1970s caused the price of oil to go from around \$3.50 a barrel to around \$35 a barrel in about 8 years. With that price explosion came commodity-induced inflation, and with that inflation came dramatically high interest rates. By 1982 people were buying houses with 30-year mortgages at almost 18%. You read that right—how about a mortgage with an 18% interest rate?

During this period, U.S. manufacturing companies struggled. They had prospered greatly during the 1950s and 1960s building the post WWII world. Now they faced significant cost pressures.

High oil prices drove up raw materials, power and transportation costs. High interest rates made borrowing money more expensive...18% anyone? And labor costs were not just high; because of union growth and collective bargaining, wage and benefit agreements were very sticky. Corporate America felt insecure. It had to find a way to control costs. Globalization was the answer. President Nixon's 1972 visit to China opened the door.

In looking outside the U.S., American companies found not just much cheaper labor but also cheaper manufacturing assets to acquire (factories), more favorable labor laws, fewer environmental regulations and lower taxes. Forty-ish years later, here we are.

The *seen* in this story was better profits for companies and cheaper products for U.S. consumers. The *unseen* was the slow and steady decline of the American Middle Class. The result is today's civil war between the globalists and the nationalists. The globalists want to keep growing their prosperity. The nationalists want to return prosperity to the average citizens in their own countries. This is a significant conflict, but there may be an even more dangerous conflict brewing.

Let's go back to the 1960s. What longer-term pain have we gotten from some short-term gain seen back then? It all starts several years before the pivotal moment.

After the attack on Pearl Harbor on December 7, 1941, President Roosevelt immediately declared war on Japan. Four days later Germany declared war on the United States.

With a less than prepared military force and a significantly depleted navy, America was thrust into fighting two major wars in Europe and the Pacific. Thus began the greatest industrialization

period in human history. America needed to build an enormous amount of military hardware fast. So it did.

Once the war ended, soldiers returned to a highly industrialized America. With a significant amount of Europe and the Far East destroyed, there was then a need to build, make and manufacture huge amounts of hard goods for the world. Post World War II was the golden age of American manufacturing. The world needed stuff, and America was one of the few places ready to make it.

The U.S. had vanquished evil. Veteran soldiers were revered for their sacrifice and patriotism. American companies prospered. The country could do no wrong. This post war boom was a ripe time for labor unions to expand. With great prosperity, there is an increased motivation to share the wealth—at least in America.

Private sector labor union membership exploded after the war, peaking in the late 1950s. In 1962—on the wings of their growth momentum and influence—the union movement was able to get President Kennedy to sign executive order 10988, which established the collective-bargaining right for federal employees. The door was now open for all manner of government employees to unionize and negotiate very favorable employment contracts with government.

The immediate *seen*? Greater wages and benefits for government workers. The *unseen*, 50 or so years later? Federal government public sector workers today earn greater average wages and enjoy greater benefits than private sector workers.

This is today's greatest *unseen* civil war.

This battle is between that which makes economy (the private sector) and that which lives off economy (government and the administrative state, or what is often referred to as “the swamp”). What's the main problem in this war?

Public sector employees have set it up so they can't be fired, can't be demoted and, if there's a recession, don't even have to take a pay cut. They also have guaranteed retirement and health care benefits.

This is NOT the private sector experience.

In the private sector, employment and compensation are always contingent on the broad economic cycle, specific industry business cycles, specific company financial performance, changes in government policy and, of course, globalization. There are many reasons today that labor in the private sector is less secure and earns less than labor in the public sector.

A simple question: how many public sector employees have lost their jobs because of globalization?

Who knew that 50 years ago, the best job to take was going to work for the government?

Today we have numerous civil wars, but maybe the most dangerous is this war between the administrative state—which seeks to maintain its power, its influence, its wages and its benefit—and the private sector, which must constantly adapt to market forces. If the administrative state isn't forced to change, then the private sector will eventually lose its ability to support government.

A fine fix we are in. Bastiat would completely understand.

A handwritten signature in black ink, appearing to read "Doug". The signature is fluid and cursive, with a large initial "D" and a trailing flourish.

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