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Bush Boosts Budget For Science & Tech, But Skeptics Abound

BY KEN JACOBSON

The Bush administration is touting its proposed budget for fiscal year 2007 as the first step in a 10-year plan to "increase investments in R&D, strengthen education, and encourage entrepreneurship and innovation" to the tune of $136 billion under its American Competitiveness Initiative (ACI).

The ACI's "centerpiece," is the president's proposal to "double, over 10 years, priority basic research in the physical sciences and engineering," says the Bush administration. To this end, its $137.2 billion in R&D funding for next year includes a combined increase of $910 million, or 9.3 percent, for the National Science Foundation (NSF), the Department of Energy's Office of Science and the laboratories of the National Institute of Standards and Technology (NIST).

The administration's critics, however, claim that its upbeat posture masks what is in fact a proposed decrease of 1 percent in the overall federal science and technology budget for next year. "The large proposed increases for physical sciences and engineering research are not enough to keep the federal investment in basic and applied research (excluding development) from declining for the third year in a row after peaking in 2004," states a report by the American Association for the Advancement of Science (AAAS).

In short, welcome to another federal budget season, in which no number will escape analysis and no claim will go unchallenged. Here are some of the issues being debated, as seen from clashing perspectives:

ACI Funding Increase. The administration says that

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Panel Calls For Overhaul Of Defense Acquisition

The way in which the Department of Defense buys weapons needs a "radical" overhaul, according to a major new review of the current acquisition system. The recently released "Defense Acquisition Performance Assessment," which received little attention, aims to be as important as the "Packard Commission" study that set the stage for acquisition reform back in the mid-1980s.

A lot has changed since that report, says the new assessment, including a growing sense of distrust with the acquisition system among members of Congress and the Defense Department's senior leadership. Fueling this distrust is the escalating cost of weapons, delayed delivery and the globalization of industry. What hasn't changed over the past 20 years is "the system that we use to design, develop and deliver the necessary systems,"

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House Democrats Continue Quest For Outsourcing Report

Democrats on the House Science Committee are planning to introduce a Resolution of Inquiry asking Secretary of Commerce Carlos Gutierrez to send the committee the original draft of a controversial report produced by the Commerce Department's Technology Administration (TA) on the offshoring of U.S. high-tech jobs.

The Democrats decided to introduce the resolution after committee Chairman Sherwood Boehlert (R-N.Y.) and Rep. Vernon Ehlers (R-Mich.), who heads the Science Subcommittee on Environment, Technology & Standards, refused to join Democratic colleagues on the panel in officially requesting that Commerce deliver the document.

The Democrats are skeptical that the 12-page

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Who Is To Blame For Loss Of Candy Production Industry?

The loss of the U.S. candy industry cannot be blamed on the high cost of sugar, argues the American Sugar Alliance. Candy companies are "fleeing U.S. workers not U.S. sugar prices," says the trade group.

But the U.S. Commerce Department doesn't believe that's the case. High sugar prices are a "major factor" in the loss of 10,000 jobs in sugar-consuming companies, the agency said in a report released on February 14. "We are seeing U.S. jobs move to countries that don't have the competitive disadvantage of high sugar prices that we face in the United States," says Under Secretary for Trade Franklin Lavin.

The sugar industry says that's bunk. U.S.-based candy manufacturers have rallied "around a single scapegoat,: America's sugar policy, which is, coincidentally, the only major U.S. commodity program to operate at no cost to U.S. taxpayers," says the sugar association. "They don't talk about foreign countries' lax government regulations, negligible employee benefits, reduced energy costs, lower taxes and cheaper operating costs."

The price of sugar is little different in Mexico ($0.28 per pound) and Canada ($0.18 per pound), than it is in the United States ($0.23 per pound), claims the Sugar Alliance. "Many food manufacturers seeking to eliminate U.S. sugar policy have for decades lobbied Congress on the unfounded notion that U.S. sugar prices are forcing some companies to flee," states the alliance. "The facts are undeniable. Candy companies are fleeing American wages, not American sugar prices, and any savings that these companies may realize because of outsourcing are pocketed instead of being passed along to shoppers in America's grocery stores."

The Commerce Department study refutes that claim. It says the world price of sugar is $0.10 per pound and that for every job saved in the sugar growing and harvesting industry, three jobs are lost in manufacturing.

"Many U.S. sugar-containing products manufacturers have closed or relocated to locations where sugar prices are less than half of the U.S. price," says the agency. Imports of sugar-containing products have skyrocketed , from $10.2 billion in 1997 to $18.7 billion in 2004. "Foreign manufacturers' access to low-priced sugar contributes to increased imports and hinders U.S. manufacturers' ability to compete both here and abroad," says the Commerce Department.

The sugar producers say the price of labor is what's driving the industry out of the United States. The average wage for a candy maker in Mexico is $0.56 per hour, as compared to $14.04 in the United States. The annual health care cost of a Mexican worker is $360, compared to $2,400 for an American worker. Rent per square foot is $4 in Mexico, compared to $10 in the United States. The tax percentage rate is 9 percent in Mexico versus 42 percent in the U.S.

"When Brach's Confections announced that it would leave Chicago in favor of Mexico in 2001, the company was quick to blame sugar prices," says the Sugar Alliance. "Many national news outlets took the bait, criticizing America's sugar farmers and ignoring the fact that other manufacturers like Levi Strauss & Company and Black & Decker left the country around the same time."

The Commerce Department doesn't buy it. "One large candy company recently stated that labor represents only 3 to 6 percent of the total cost to make a piece of candy, while sugar represents 30 to 70 percent," it says. "Cost comparison data are useful on a factor-by-factor basis, but say little about the importance of one cost factor relative to other factors," the agency said, citing an analysis done for the Sugar Alliance by Buzzanell and Associates. "For example, according to the 2002 Economic Census, sugar accounts for 18 to 33 percent of raw material costs, compared to a 16 percent share of total costs for labor. There is no substitute for sugar for many confectionery products such as hard candies, which explains the relative high cost share of sugar for these products. The lack of comparable data across all sugar consuming products for both sugar and labor costs makes it difficult to systematically examine the relative importance of sugar and labor, thus preventing any broad sugar-containing products industry-wide conclusions."

The Department of Commerce analysis "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices" is located at http://ita.doc.gov/media/Publications/pdf/sugar06.pdf. The Sugar Alliance's analysis is located at http://www.sugaralliance.org/files/docs/Issue_Brief_1_Candy_Companies.pdf.

Justice Dept. To Conduct Survey On Cyber Crimes

The Department of Justice will conduct its first ever survey to measure the prevalence and impact of cybercrimes on businesses in the United States. The agency will estimate the number of cyber attacks, frauds and thefts of information and the resulting losses. The survey to be conducted this year "will provide critical information for businesses, industry and government to make more informed decisions about how to target resources to fight cybercrime," says the Justice Department's Bureau of Justice Statistics. The survey will "enable the federal government to assess what needs to be done to reduce computer security vulnerabilities." A pilot survey found that 64 percent of businesses were impacted by computer viruses; 25 percent from "denial of service" incidents; and 19 percent from vandalism or sabotage . "Among the companies that detected a computer virus, less than 6 percent notified a law enforcement agency," says the agency. For more information about the survey, go to http://www.ojp.usdoj.gov/

This Might Be The Year For Earmark Reform

A group of nine senators led by John McCain (R-Ariz.) has introduced legislation to bring an end to the rampant abuse of congressional pork barrel projects. The "Pork Barrel Reduction Act" would require that members of Congress be given notice of all earmarks and the name of their sponsors in appropriations bills at least 48 hours prior to floor consideration. Congress would be able to strike earmarks from legislation without killing a bill.

Unauthorized earmarks are generally tucked into a bill's "report" language, which is not an official part of the law. Agencies are not required to spend the money, but if they don't provide the funds for Congress's pet projects, "the appropriators will kick their ass," says one Capitol Hill aide. Because they are not included in the legislative language they also cannot be targeted by the president using the line-item veto.

The number of unauthorized earmarks has grown by more than 300 percent since Republicans took control of the House of Representatives in 1994. Last year, more than 15,000 earmarks accounted for $47.4 billion in spending.

The McCain bill would create a new procedure that would allow a 60-vote "point of order" be raised against provisions that contain unauthorized appropriations as well as unauthorized policy changes in appropriations bills and conference reports. "Successful points of order would not kill a conference report, but the targeted provisions would be removed from the conference report, and the measure would be sent back for concurrence by the House," says McCain.

McCain's bill would prohibit the consideration of a conference report "if it includes items outside the scope of that particular conference." This year, for instance, the National Institute of Standards and Technology is directed to spend $127 million on earmarks, many of which have nothing to do with technical standards. One earmark in the NIST budget is for a $20 million biomedical research center at the University of Alabama; another $8 million is directed to the "Tuscaloosa Downtown Revitalization Project."

The proposed rules change, if adopted, "would allow any member to raise a point of order in an effort to extract objectionable unauthorized provisions from the appropriations process," McCain told the Senate Rules Committee on Feb. 8. "Our goal is to reform the current system by empowering all members with a tool to rid appropriations bills of unauthorized funds, pork barrel projects and legislative policy riders, and to provide greater public disclosure of the legislative process. This bill also prohibits federal agencies from obliging funds for appropriations earmarks included only in congressional reports, which are not amendable by the Senate." This provision requires that all earmarks and spending items be in bill text, allowing for amendment and debate.

The bill would also require that recipients of earmarks disclose the amount of money they spend on registered lobbyists. "This provision reduces the likelihood that taxpayers will unknowingly fund lobbyists who are promoting wasteful earmarks and working against the interest of hard-working taxpayers," says Sen. Tom Coburn (R-Okla.), one of the co-sponsors of the bill. Other co-sponsors include Sens. Jon Kyle (R-Ariz), Russ Feingold (D-Wisc.), Evan Bayh (D-Ind.), John Ensign (R-N.Y.), Lindsey Graham (R-S.C.), John Sununu (R-N.H.) and Jim DeMint (R-S.C.).

Meanwhile, at a Feb. 16 hearing of the Senate Commerce Science and Transportation Committee, National Oceanographic and Atmospheric Administration administrator Conrad Lautenbacher said the 2,600 earmarks in NOAA's budget are impacting the agency's ability to "keep the current services going." Sen. DeMint told him that federal agencies are under no legal obligation to spend earmarked funds. "This discretion gives federal agencies 'virtual' line-item veto authority, as they can decide to direct funds away from wasteful projects to essential services," DeMint told Lautenbacher, to which Lautenbacher responded: "I agree that it's not legally required, but [spending earmarked funds on their intended beneficiaries] is in fact a practice that has been in place for many, many years."

DeMint said that maybe it's time for President Bush to step in and tell agencies they don't have to spend earmarked funds on their intended recipients. "The President has asked for a line-item veto," DeMint pointed out. "The ultimate line-item veto is for him to give you the directive, and you have the legal authority to strike those items that are not consistent with your priorities."

General Aviation Industry Throttles Upward

The general aviation industry had a record year in 2005. Shipments of aircraft were up 21 percent over 2004, to 3,580 units, and billings totaled $15.1 billion, a 27.2 percent increase over 2004, according to the General Aviation Manufacturers Association. "The outstanding 2005 shipment and billing figures demonstrate that general aviation is one of the brightest and most promising sectors of manufacturing," says GAMA president Peter Bunce. All sectors of the industry did well last year. Piston airplane shipments increased 20 percent, from 2,051 airplanes in 2004 to 2,465 airplanes in 2005. Shipments of turboprops increased by 14 percent, from 321 units in 2004 to 365 units in 2005. Business jet shipments increased by 159 units to 750 airplanes, a 27 percent increase in shipments over 2004.

Is The Science Budget Up Or Down?

(Continued from page one)

doubling the budgets of NSF, DOE's Office of Science and the NIST labs in the next decade will mean "$50 billion in new investments in high-leverage innovation-enabling research that will underpin and complement shorter-term R&D performed by the private sector."

Skeptics counter that, to name one example, the NIST labs' projected $72 million increase this year, an 18.6 percent jump, is more than offset by the proposed reduction of $137.3 million in funding for two NIST-managed programs, the Manufacturing Extension Partnership (MEP) and the Advanced Technology Program (ATP). Argues Rob Atkinson of the Progressive Policy Institute (PPI): "This is a budget that robs Peter of two dollars to pay one dollar to Paul."

Secondly, filling the gap between the $50 billion cited above and the ACI's $137 billion total is the sum of $86.4 billion that, according to projections by the Office of Management & Budget, would be yielded between 2007 and 2016 by making the Research & Engineering Tax Credit permanent. Critics suggest that, since Congress has renewed the credit consistently over the past two decades, counting the $86 billion as new investment under ACI is something of a stretch.

The FY2007 budget. The administration presents its proposed R&D budget of $137.2 billion as "a record" and says it represents "an increase of $3.4 billion over this year's (2006) R&D funding level."

While acknowledging the increase, AAAS notes that "in a repeat of past budgets, the continuing administration priorities of weapons development and space vehicles development would take up the entire increase and more." As a result, it adds, "the federal investment in basic and applied research (excluding development and R&D facilities) would decline 3.4 percent" under the 2007 budget — before correcting for inflation.

Earmarks. "If you account for the earmarks," Presidential Science Adviser John Marburger said at a budget briefing last week, "then the federal science & technology budget is not down but up."

Administration officials point to such egregious examples as the $127 million in earmarks Congress inserted into the 2006 NIST account for construction of research facilities in arguing that the budget's direction should be ascertained by comparing the president's requests from year to year rather than by comparing a given year's request to the previous year's budget as enacted by Congress.

But when Congress restores budget cuts proposed by the administration, the difference is considered by the White House to be an earmark, critics contend. Charging that it treats earmarks "hypocritically," the House Science Committee Democrats' budget analysis declares: "When it suits the administration to count earmarks (e.g., when calculating budget increases from 2001-2007), they do so. When it doesn't suit them to count earmarks (e.g., when claiming that one of their budget cuts isn't a real cut when the earmarks are left off), they don't."

Additionally, as PPI's Atkinson contends, "even 'traditional earmarks' — such as funding to a particular university in a member's district to create a nano center — cannot be counted as worthless, which is what the administration is implying. Maybe that funding would be better spent if it went through the regular peer-reviewed process, but earmarked S&T funding still produces important innovation benefits for the economy."

The specifics of federal funding will now be subjected to months of wrangling among congressional appropriators. Indications are that, when it comes to science and technology items, the "budget process" will go forward in an atmosphere of marked ambivalence.

The unveiling of the ACI and 2007 budget request has elicited excitement in some quarters. "Congress is now energized and ready to act to correct nearly 30 years of flat or declining funding in the physical sciences and engineering," said Mary Good, chairman of the Alliance for Science & Technology Research in America (ASTRA).

But, while declaring that "things appear to be turning around in a very positive way," she cautioned that "there will be many disappointments." She noted that budgets other than those of NSF, DOE's Office of Science and NIST — which are directly targeted by ACI — remain "unclear."

Even members of the House Science Committee's majority, though enthusiastic, are holding back a bit. "It's a rare thing to think of a budget hearing as a time of celebration, but I think that that's how we should view this morning's proceedings," stated the committee's chairman, Rep. Sherwood Boehlert (R-N.Y.), on February 15.

"For a long time," he added, "many of us have been calling for a renewed emphasis on research in the physical sciences — a commitment that would be demonstrated not with rhetorical feints, but with genuine investments."

Nonetheless, Boehlert admitted concern over what he called "inadequate funding for education programs" at NSF. On that subject, Rep. Vernon Ehlers (R-Mich.), chairman of the Subcommittee on Environment, Technology & Standards, added: "These budget choices seriously undercut the ACI's goals to improve math and science education and to ensure that America has an educated workforce capable of competing in the global economy." Additionally, Republicans on the panel expressed reservations over proposed cuts to the Manufacturing Extension Partnership program.

Commerce Dept. Tech Shop Is Slated For Oblivion

The Commerce Department's Technology Administration (TA), which White House budget documents called as recently as two years ago "the principal civilian technology agency working with industry to improve U.S. industrial competitiveness," will suffer 75 percent decreases in both funding and personnel if the president's budget request for fiscal year 2007 is approved.

BY KEN JACOBSON

TA, which includes the Office of the Under Secretary for Technology and the Office of Technology Policy, comes in for a cut to $1.49 million for 2007, down from $5.9 million in the current fiscal year. If enacted, the budget request would reduce the staff from 20 full-time equivalent employees down to five.

Asked by *Manufacturing & Technology News* about the timing of the cuts, which coincide with the launch of the administration's American Competitiveness Initiative, Commerce Secretary Carlos Gutierrez said at a February 9 press conference: "Not all cuts are bad. It's a matter of being more efficient with what we have. Savings can be good if that's what you have to do to ensure we can manage our budget. We believe that with that $1.5 million we can do the technology policy work" expected from TA.

This sentiment, however, generated some head-scratching on the part of former under secretary of Commerce for Technology Mary Good, who headed the Technology Administration during the Clinton administration.

"The million and a half will scarcely pay for the salaries of the under secretary and the deputy, and the assistant secretary and the deputy," Good told *MTN*. If Gutierrez says "he's going to do policy work," she added, "you have to ask who's going to do it."

While it is unclear how the five FTEs to be allotted would be distributed, two already seem accounted for: Dan Caprio is in place as deputy assistant secretary for Technology Policy, and Robert Cresanti appears destined for rapid confirmation to the under secretary's post. Seven policy analysts are currently employed by TA.

Good took issue with the timing of the downsizing as well. "If you consider the competitiveness push that the president and the Congress are making," she observed, "not to have strength in the Technology Administration — where they can look at trends in the growth of new companies, and at how to be sure those new companies get off the ground — is just a huge mistake."

At his press conference, Gutierrez contrasted TA's cuts with the slated $100 million-plus rise under the proposed 2007 budget in funds for laboratories and construction at the National Institute of Standards and Technology (NIST), which is managed by TA.

But Bob White, who served as under secretary for Technology in the George H.W. Bush administration, said on behalf of TA that "it's important to have some place in the government that focuses on the big picture of competitiveness," adding: "That's not something NIST can do or has the people to do."

Similarly, White countered Gutierrez's assertion that, in addition to TA, there are "a number of focal points" at which the Commerce Department interfaces with industry. Among them, the Commerce secretary said, are the Office of Business Liaison, the Economic Development Administration and the department's Commercial Service officers.

"I don't think there's any other place in the government that tries to interface with and be a champion for some of the competitiveness issues that industry faces," White told *MTN*. "When I was there, Andy Grove from Intel was concerned and he came to my office, he didn't go anywhere else. He felt that the place to go that was set up to deal with these kinds of problems was the Technology Administration."

Metrology 'Summit' Set For Gaithersburg

Manufacturing metrology will be the topic of a three-day "summit" aimed at developing a technology roadmap for interoperability standards. The meeting "is truly in the manufacturing technology community's best interests," says conference organizer Bailey Squire of the Dimensional Metrology Standards Association. "Interoperability problems cost hundreds of millions of dollars every year, (or as the automobile industry once published, a billion dollars a year) and will never cease until the user community demands it."

A system of common standards would promote interoperability between metrology components made by numerous vendors. "Component-to-component interoperability reduces training costs, allows best-in-class component choices, and provides a more competitive technology provider environment — reducing costs for OEMs, technology providers, suppliers, and consumers," says Squire. "Some producers promote interoperability problems, thinking it furthers their share of the market. In the long run it hurts them and everybody else. The 'simple' solution — and some are taking this route — is to go with one company with a proprietary solution. But then you are at their mercy forever, forever dependent upon their support, and unable to interface with any other product that may be better, cheaper and faster."

For information on the March 28 - 30 summit to be held at the National Institute of Standards and Technology in Gaithersburg, Md., set your browser to http://www.isd.mel.nist.gov/IMIS2006.

Acquisition Reform...

(From page one)

says the report. "The Department of Defense needs a new, integrated Acquisition System."

Issues that have been left to fester and multiply need to be addressed with fresh and "sweeping" reforms, says the panel, chaired by Ronald Kadish, partner and vice president of the Aerospace Market Group at Booz Allen Hamilton and former Director of the Missile Defense Agency. "We concluded that an effective Acquisition System requires stability and continuity that can only be developed through improving all of the major elements upon which it depends." Each of these elements — the DOD acquisition organization, workforce, budget, requirements and industry — are critical and each needs to be addressed with significant reforms.

"Efforts today to improve the performance of this Acquisition System have focused almost entirely on only one portion of the process, namely 'little a' acquisition," says the assessment. " 'Little a' is the acquisition process that tells us 'how to buy' but does not include requirements and budget, creating competing values and objectives."

The panel recommends that the military services create new "Systems Commands for Acquisition" that report to the service Chiefs of Staff. "These Systems Commands will align the acquisition workforce, including requirements and acquisition budget personnel, by establishing appropriate certification requirements based on formal training, education and practical experience," says the assessment.

It recommends that DOD seek legislation to establish the Service Acquisition Executives as five-year fixed presidential appointments renewable for a second five-year term. "This will add leadership continuity and stability to the Acquisition System," says the report.

DOD should "immediately increase the number of federal employees focused on critical skill areas, such as program management, system engineering and contracting," says the panel. "The cost of this increase should be offset by reductions in funding for contractor support."

The panel says DOD needs to change its acquisition strategy for developmental programs "from delivering 100 percent performance to delivering useful military capability within a constrained period of time, no more than six years from Milestone A," it says. "This makes time a Key Performance Indicator."

It recommends that DOD share its long-range plans with industry, and that the Secretary of Defense host a regular roundtable discussion with industry "to align industry and defense strategic planning." It should also establish a "Blue-Ribbon panel of owners of large and small businesses that are not traditional defense suppliers to create an aggressive set of recommendations accompanying implementation plans to eliminate the barriers for them to do business with the government."

The Defense Acquisition Performance Assessment is located at http://www.acq.osd.mil/dapaproject/index.htm.

Panel members included:

• **Gerald W. Abbott**, Professor and Director Emeritus Industry Studies, Industrial College of the Armed Forces;

• **Frank J. Cappuccio**, Vice President and General Manager of Advanced Development Programs, Lockheed Martin Aeronautics;

• **Richard E. Hawley**, Independent Defense Industry Consultant, Retired U.S. Air Force General and former commander of Air Combat Command;

• **Paul J. Kern**, Executive Advisor and Senior Counselor, The Cohen Group and retired U.S. Army General and former Commanding General of the Army Materiel Command; and

• **Donald R. Kozlowski,** Aerospace Consultant and former President of VisionAire Corporation.

Pew Center Report On Global Warming Raises Ire of Sen. Inhofe

A sweeping plan produced by the Pew Center on Global Climate Change to reduce greenhouse gas emissions came in for scathing criticism by the chairman of the Senate Committee on Environment and Public Works. The plan, which calls for a program to cap emissions from large sources and allow for emissions trading, "is nothing more than a political agenda for failure," said Sen. James Inhofe (R-Okla.). "Pew touts 60 reports they have released on climate change that have had little or no impact and now they're simply crossing their fingers that the 61^{st} is the charm. They certainly have more reports than votes in the Senate."

The report, two years in the making entitled "Agenda for Climate Action," says it takes a "pragmatic course of action across all areas of the economy." It recommends 15 specific proposals that can be implemented in the near-term. Among those joining the Pew Center at the report's release on February 8 were executives from Shell, PG&E, Cinergy Corp. and Whirlpool.

But that didn't impress Inhofe. "Pew Charitable Trusts has a long history of partisan political activism that unfortunately receives little attention," he said. "In September 2004, our committee released a report showing Pew's involvement with and financial support for activist organizations such as the NRDC, Environmental Defense and Clear the Air Campaign, all groups that actively campaigned against President Bush's reelection in support of a broader liberal agenda."

The Pew Center's "Agenda for Action" should be "dismissed," said Inhofe, because it "will only hurt disadvantaged Americans and those who live on fixed incomes who will be unfairly punished by the mandatory controls Pew and their political allies promote. We must take into account the costs associated with efforts to reduce carbon dioxide emissions because we should never force parents to choose between heating their home in the winter and feeding their children." The report is located at http://www.pewclimate.org.

Record Trade Deficit Leads To Lots Of Fuming In Washington

BY RICHARD McCORMACK

The trade figures released by the U.S. Census Bureau on Friday, February 10, raised a ruckus among politicians worried about the downward spiral. The trade deficit increased by 20 percent in one year to $726 billion. The growth in the deficit was almost six times greater than growth in GDP. The trade deficit has more than doubled in only three years. In 2002, it stood at $358.3 billion. (For goods, the deficit was $782.1 billion in 2005, the highest on record. For services, the surplus was $56.3 billion in 2005, up from $47.8 billion in 2004.)

The deficit — 5.8 percent of GDP — is a indication of the country's failed trade policies, said dozens of politicians, most of whom were Democrats, upon release of the figures. But the White House Council of Economic Advisors disagrees with that assessment, saying in its annual report released on Feb. 16 that the trade deficit reflects, more than anything else, the strength of the U.S. economy. The "Economic Report of the President" says what is needed to close the trade gap is for the United States to raise its domestic savings rate. "Europe and Japan should improve their growth performance and become more attractive investment destinations. Greater exchange rate flexibility in Asia, including China, and financial sector reforms could increase the role of domestic demand in promoting that region's future growth."

The Commerce and Treasury Secretaries, both quick to issue press releases on positive economic news, did not issue statements on the trade deficit figures, leading to plenty of hand-wringing: "How long will it be before we put a foreclosure sign on our U.S. Department of the Treasury," fumed Rep. Marcy Kaptur (D-Ohio). "What an embarrassment for a nation founded on independence."

Sen. Debbie Stabenow (D-Mich.) blasted the Bush team for ignoring the problem "while American manufacturers have suffered and Michigan workers have lost their jobs," she said. "It is time for the administration to start fighting for American businesses and workers."

Sen. Byron Dorgan (D-N.D.) said "if these new trade numbers don't finally wake up the President and Congress, nothing will. We've reached a tipping point. Despite all the assurances that our trade policies are working, this is pretty damning evidence that they are not.'"

The United States Trade Representative has been listening. On Feb. 14, which it described as being "an important day for USTR," it issued a "Top-To-Bottom Review" of U.S. trade policies with China. A "New Phase of Greater Accountability and Enforcement" — the title of the top-down review — has begun, the USTR declared. China must now begin to adhere to a rules-based trade relationship, said USTR Rob Portman. "Overall, our U.S.-China trade relationship today lacks equity, durability and balance in the opportunities it provides. China should be held accountable for its actions and required to live up to its responsibilities, including enforcing intellectual property rights, allowing market forces to drive economic development and opening its markets. We will use all options available to meet this challenge."

Moreover, *Bloomberg* reported on Feb. 15 that Department of Treasury Undersecretary Tim Adams is laying the groundwork for labeling China as being a "currency manipulator" in an upcoming April report on exchange rates. "By talking to Wall Street firms before the report is completed, the Treasury is trying to minimize any disruption in currency, equity and bond markets," according to *Bloomberg*. "Treasury hasn't determined whether China is manipulating its currency. The administration may still balk at the description."

Meanwhile, members of Congress are introducing legislation. Rep. Sherrod Brown (D-Ohio) said the trade deficit requires an overhaul of trade agreements. He has introduced the "Fair Trade for Our Future

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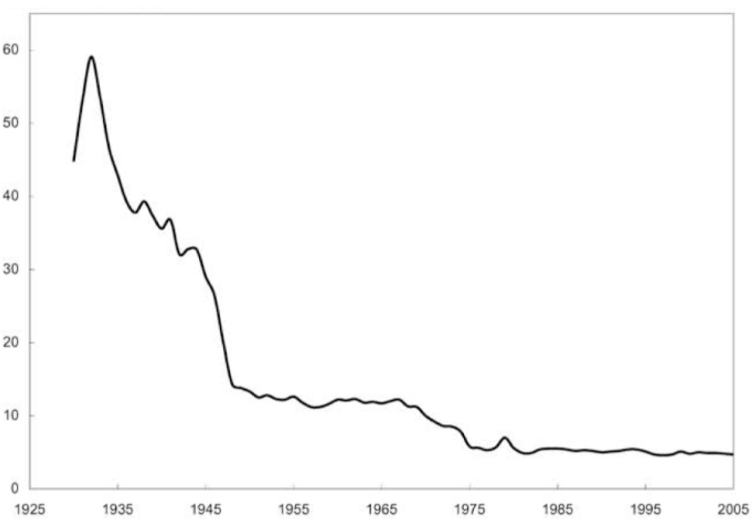
Average Percentage Of U.S. Tariff On Durable Goods 1930 - 2005



(Source: "2006 Economic Report of The President")

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February 8, 2006

The Honorable Vernon J. Ehlers
Chairman
Subcommittee on Environment, Technology & Standards
House Committee on Science
1714 Longworth HOB
Washington, DC 20515

Dear Chairman Ehlers,

We want to draw your attention to an issue that the Subcommittee should actively investigate. The Department of Commerce Technology Administration (TA) was directed by the FY 2004 Commerce, Justice, State Conference Report to undertake an "assessment of the extent and implications of workforce globalization in knowledge-based industries such as life sciences, information technology, semiconductors and financial services. The conferees expect the assessment to focus on U.S. firms' business strategies and practices, as well as the education and training programs in countries such as Japan, China, and India."

The conferees directed that a summary of findings be reported back to the Committees on Appropriations within six months of enactment and set aside $335,000 to fund the study. By the time of the FY2005 Appropriation bill, the Appropriations Committee was directing the TA to continue with its work with a final report to be provided to the Committee no later than June 30, 2004.

We finally wrote to Commerce Secretary Gutierrez on August 3, 2005 asking where this report was because it had yet to be reported back or released to the public. The report was finally released on September 15, 2005.

Two years and $335,000 later, what was released is just 12 pages in length. The report contains no substantive analysis of the issues that the Congress charged the Department with investigating. However, we have received several confidential reports (and some public) that the public version of the report is very, very different from the draft actually done by the TA. We believe that the original version produced at TA was perhaps a hundred pages long or longer. It contained detailed assessments of jobs being off-shored in the fields listed in the Conference Report. It contained numbers on relative pay and productivity and information on business conditions. The original report was a dense analytical document.

At a time when we are trying to find ways to work together to address off-shoring of American jobs and carve a path forward to create high quality jobs in America, we are denied access to the best analysis by agency experts on what is happening with high tech jobs. We can think of no legitimate reason why the Science Committee would not want access to the most expert information the Executive branch can produce on the important question of off-shoring jobs, and the draft analytical report done by the professional staff at the Technology Administration likely represents the very best thinking on the subject.

As the Subcommittee of jurisdiction over the Technology Administration, and the principle Subcommittee to work on carrying through the recommendations that would come out of the Augustine Commission's report, we deserve access to this information. We believe the Subcommittee has an obligation to get this information. This duty is rooted in our Constitutional obligation to conduct oversight of the Department of Commerce and the pressing need to inform our legislative work as we try to build programs that enhance innovation and create new jobs for working Americans.

What happened to the report drafted by the expert staff of the Technology Administration? It went through an Administration "Approval Process." The report went to the Secretary's office and from there, reportedly, to the White House where presumably Office of Science and Technology Policy, the National Economic Coun[ci]l and the Office of Management and Budget all had a role in reviewing it. We believe the report was substantially edited or entirely written in the precincts of the White House. We believe this effort was done without participation by TA staff. We cannot confirm the allegations because the Department of Commerce will not substantively respond to a letter from a Minority member of the Committee. Our request for further information was met with a polite explanation that under the Freedom of Information Act, they don't have to tell [us] anything. Note that we did not file a FOIA request, though you wouldn't know it by their response.

When staff met with the outgoing Acting Undersecretary for Technology at Commerce about the process for reviewing and approving this report, he would only answer their questions with a, "we used the standard review process." Every effort to elicit more information simply brought forth a permutation of this evasive response.

This is outrageous. First, the Administration takes an analytical report by technical experts at an office under our jurisdiction and completely scrubs it of content. Then, when a Member of the Committee asks about the process by which a Technology Administration report came to be completely rewritten by people outside of TA, the Department refuses to

(Continued on next page)

Democrats' Quest...(From page one)

version of the report that has been publicly released under the title "Six-Month Assessment of Workforce Globalization In Certain Knowledge-Based Industries" accurately reflects the work of the TA analysts who compiled it.

"We believe the report was substantially edited or entirely written in the precincts of the White House," they stated in near-identical letters to Boehlert and Ehlers dated January 26 and February 8, respectively. "We believe this effort was done without participation by TA staff."

An earlier draft of the TA report, described by Rep. Bart Gordon (D-Tenn.), the Science Committee's ranking minority member, as "approximately 200 pages long," has been transmitted to Rep. Frank Wolf (R-Va.), the chairman of the House Appropriations Subcommittee on Commerce, Justice State and Judiciary. Wolf was responsible for legislative report language ordering up the $335,000 offshoring "assessment."

Pointing to the draft's transmittal to Wolf, and to the refusal by Boehlert and Ehlers to co-sign a letter requesting it of Gutierrez, Gordon told *Manufacturing & Technology News*: "I can't imagine why the chairmen of the committee and subcommittee that has jurisdiction over the matter would not also want to receive this... We simply want to know what it says about American jobs moving offshore, and what we might do about it — and how the response could go from 200 pages down to 12."

An earlier request from the Democrats for the draft report and related documents was treated by the Commerce Department under the Freedom of Information Act (FOIA). It was denied on the grounds that the "predecisional" nature of the material exempted it from disclosure. Precedent allows Executive Branch agencies to treat congressional requests for information under the FOIA unless they are endorsed by a committee or subcommittee chairman.

In a Nov. 15, 2005, letter accompanying the transmittal of the draft to Wolf, then-Acting Under Secretary of Commerce for Technology Michelle O'Neill described the document being delivered as "not [having been] subjected to a peer-reviewed, intra-agency and inter-agency clearance process."

She told Wolf: "The Department respectfully requests that the Committee preserve the confidentiality of this document, which is protected from public disclosure, by not allowing access to the document outside of your Committee."

Carl Stern, a media law specialist at George Washington University, indicated that a document so described might indeed qualify for exemption from a FOIA requirement that factual material in a requested document be disclosed even if non-factual material is withheld.

But since various versions of the draft appear to exist, and some may have gone through at least some stages of the "clearance process" alluded to by O'Neill, whether the exemption can legitimately be claimed in this particular case may depend on how early a draft Wolf was sent.

The Democrats' letters to Boehlert and Ehlers called TA's treatment of their request for documents "outrageous." Gordon told *MTN*: "The American taxpayer who's paid for this report, and the American worker who is seeing his job go overseas, deserve to see it — and I'm simply not going to give up."

He acknowledged, however, that he may have a long and rocky road ahead. While expressing hope that the Resolution of Inquiry will occasion "a full discussion" on the offshoring report within the Science Committee, he noted that a negative vote there would successfully keep it from reaching the House floor.

"They do have the option to bury it," Gordon said, adding: "Quite frankly, I'm pessimistic. We've already seen a pattern of stonewalling, and I would expect that to continue, [although] I don't think that would be in the country's best interest. The fact of the matter is, Chairmen Boehlert and Ehlers are both able, good members of Congress. I think they are just being leaned on by the White House not to make this information available, which is a shame. I don't think anyone who is paying attention now doesn't realize that we do have a problem with offshoring. We need to be looking for more ways to solve the offshoring problem, not less."

As for the tussle over the release of the TA draft, he said: "Clearly there's a problem if you take a 200-page draft down to 12 — and if there's not, then it's easy to rectify by just presenting the report."

Should the Resolution of Inquiry fail and the Commerce Department stand fast in withholding further information on the report, Gordon vowed, "we're going to continue to try through whatever front-door and back-door method might be available" to have its contents made public.

cooperate. Apparently, it will take a Chairman's signature to get cooperation. So, by this letter we are asking you to support this investigation. Attached you will find correspondence to Secretary Gutierrez dated August 3 and October 11. Also attached are the Secretary's responses dated September 15, November 22 and December 23, 2005.

Also attached is a draft document request to the department and a series of interrogatories we would ask that you direct the Secretary to answer. We know you care about the future of employment in America and the problems associated with off-shoring jobs —you recently spent a day at the Department of Commerce wrestling with just these kinds of questions.

We hope you will join us in seeking more information regarding this difficult subject. Please indicate by February 13, 2006 if you are willing to move forward together on this investigation.

Sincerely,

(signed)
BART GORDON
Ranking Member
Subcommittee on Environment, Technology & Standards

(signed)
DAVID WU
Ranking Member

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SCIENCE

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TTY: (202) 226-4410
http://www.house.gov/science/welcome.htm

February 9, 2006

The Honorable Carlos Gutierrez
Secretary, Department of Commerce
Room 5421
Fourteenth Street and Constitution Avenue, NW
Washington, DC 20230

Dear Secretary Gutierrez,

Almost two years ago, Congress directed that the Technology Administration within your Department undertake a study of the impact of workforce globalization in knowledge-based industries. We know that staff of the Technology Administration (TA) actually produced quite detailed analytical work and provided that in draft form to your office. We also know that a draft of this report went to the White House for review and approval. We do not know what transpired either in your office or in relationship to the White House, but we do know that almost two years after beginning this report, at a cost of $335,000, the Department issued a report that was just 12 pages in length and contains almost no analysis of labor markets or workforce globalization.

The Subcommittee wants to understand how a very detailed, lengthy analysis by TA became a superficial 12 page document. We ask that you provide the Subcommittee with a copy of the draft report created by the staff of the Technology Administration between January and June 2004.

We also ask that you provide to the Subcommittee copies of all materials that have been transmitted to the National Association of Public Administration (NAPA) to carry on work regarding workforce globalization.

In addition to providing all materials related to this report, we ask that you instruct appropriate staff at Commerce that they should meet with Subcommittee staff to provide answers to the following:

1. Please be prepared to provide a detailed description of the review process that preceded publication of this report. This description should include the offices involved, names of staff who participated and the dates of activity.

2. Please come prepared to specify the dates for any interagency meetings regarding this report. Include details of who called the meeting, who chaired the meeting, attendees and directions that emerged from these meetings.

3. Please be prepared to indicate which review meetings included analysts from the TA to discuss the content and editing of the report.

4. Please be prepared to provide the date and times of meetings with NAPA staff regarding their undertaking studies on workforce globalization and the names of attendees at these meetings.

Please provide materials in response to this request and arrange the requested meeting no later than C.O.B. February 27, 2006. Please provide two identical sets of responses. A copy for the Majority should be directed to Amy Carroll (226-5342). A copy for the Minority should be directed to Dan Pearson (225-4494).

Sincerely,

(not signed)
VERNON J. EHLERS
Chairman
Subcommittee on
Environment, Standards
& Technology

(signed)
BART GORDON
Ranking Member

(signed)
DAVID WU
Ranking Member
Subcommittee on
Environment, Standards
& Technology

Trade Deficit...

(From page seven)

Resolution" (H.Con. Res. 295), which urges the inclusion of environmental, labor, food safety and other standards in trade agreements. Brown says the Fast Track Trade Promotion Authority should be left to expire next year.

Reps. Charles Rangel (D-N.Y.) and Benjamin Cardin (D-Md.) have introduced legislation to create a "Congressional Trade Enforcer," who would "ensure that American workers and businesses are not harmed by trade agreements."

On the Senate side, Sens. Byron Dorgan (D-N.D.) and Lindsey Graham (R-S.C.) have proposed legislation that would repeal Permanent Normal Trade Relations with China. They say that China continues to "cheat," leading to the record trade deficit with that nation of $201.6 billion. (But the goods trade deficit also increased with Europe, from $109.3 billion in 2004 to $122.4 billion in 2005; and with Japan from $75.6 billion in 2004 to $82.7 billion in 2005.)

By repealing PNTR and going to a year-by-year analysis of China's trade policies and an annual decision on what its trade status should be, "we will provide a powerful incentive for China to change its policies and start trading with our country that is fair to American workers, American farmers and American manufacturers," said Dorgan.

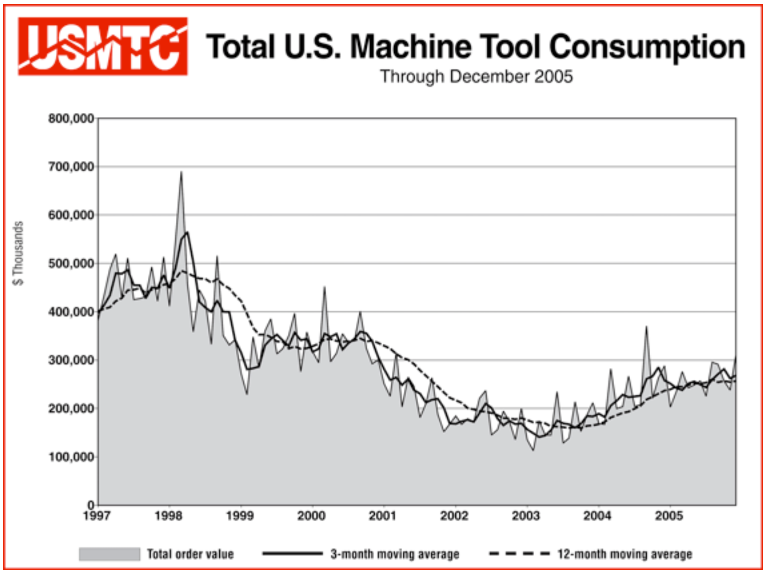
Sens. Orrin Hatch (R-Utah) and Max Baucus (D-Mont.) have introduced legislation to give the U.S. Trade Representative more money and tools "to break down barriers to U.S. exports in markets worldwide," say the two senators. "It is well known in the Senate and in my home state of Utah that I have been a long-time advocate for free trade," said Hatch at a press conference on Feb. 16. "But we absolutely cannot give up our right to govern within our own borders. Our nation and state have laws for a reason and they represent the ideals and values we hold dear in our society."

The "Trade Competitiveness Act of 2006" would create a Senate-confirmed Chief Trade Enforcement Officer at the USTR whose job would be to investigate and advocate action on trade enforcement issues. "The major premise of this bill is that existing laws and treaty obligations must be enforced," said Hatch, who has not generally spoken on the subject. "It also ensures that the prevention of the loss of Federal and State sovereignty is considered during the negotiation, implementation and enforcement of trade agreements."

To view the "Economic Report of the President," go to http://www.whitehouse.gov/cea/erp06.pdf. The USTR's "Top-Down Review" of trade relations with China "Entering a New Phase of Greater Accountability and Enforcement" is at http://www.ustr.gov.

Machine Tool Consumption Inches Up

U.S. consumption of machine tools rose by 8.4 percent last year to $3.08 billion, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. "Regionally, the health of the Central region's construction and agricultural equipment industries have had a positive effect on machine tool orders while the struggling automotive industry has had the opposite effect in the Midwest," say the two trade associations. For the year, machine tool consumption in the Midwest was down 3.7 percent to $1.06 billion. The Central region's consumption was up 27.6 percent, to $675 million. Overall U.S. consumption has still not recovered to the levels prior to the 2001 recession.



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Donohue From The Chamber Earns $6.8 Million; Sweeney From AFL-CIO: $254,877 Or 27x Less

The presidents of Washington trade associations are making a lot more money than they were in previous years, according to the biennial review of compensation for the CEOs of non-profit trade associations, think tanks, labor unions and public interest groups conducted by the *National Journal*.

"The numbers are eye-popping," says the cover story in the Feb. 11 issue of the publication. The leader of the pack for 2004, the year in which the publication was able to view tax returns, was Jack Valenti of the Motion Picture Association of America, with a compensation package that netted him $11.1 million upon his leaving the group in 2004.

Tom Donohue, head of the U.S. Chamber of Commerce, had a total compensation package of $6.78 million. Jerry Jasinowski, then president of the National Association of Manufacturers, didn't do so poorly himself. Between Jan. 1, 2004 and Sept. 30, the day he handed over the reins of NAM to John Engler, Jasinowski made $899,188 in compensation, benefits and allowances. In the three full months of his employment at NAM, Engler earned $266,666 in salary and $100,000 in benefits.

The presidents of labor unions receive modest pay packages in comparison to those people heading up industry trade groups.

Here is a selection of the total compensation, benefits and allowances that CEOs of non-profit trade groups received in 2004, as researched and reported by the *National Journal*. (The number in parentheses is the total revenue for the organization in 2004.)

- AeA ($17 million), Bill Archey, $614,041
- Aerospace Industries Association ($8.7 million), John Douglass, $603,856
- AFL-CIO ($190 million), John Sweeney, $254,877
- American Chemical Society ($376 million), John Crum, $1,025,665
- American Chemistry Council ($115 million), Gregori Lebedev, $1,185,850
- American Forest and Paper Association ($41 million), W. Henson Moore, $853,464
- American Iron and Steel Institute ($20.3 million), Andrew Sharkey, $708,027
- American Petroleum Institute ($23.4 million), Red Cavaney, $1,358,219
- American Physical Society ($47 million), Judy Franz, $248,338
- American Society of Mechanical Engineers ($66 million), Virgil Carter $458,483
- Brookings Institution ($47 million), Strobe Talbott, 372,220
- Business Roundtable ($24 million), John Castellani, $1,130,006
- Cato Institute ($14.5 million), Edward Crane, $437,000
- Center for Strategic and Intl. Studies ($23 million), John Hamre, $404,428
- Chamber of Commerce ($91 million), Thomas Donohue, $6,784,945
- Council on Competitiveness ($4.2 million), Deborah Wince Smith, $326,736
- Economic Strategy Institute ($952,191), Clyde Prestowitz, $260,000
- Edison Electric Institute ($68 million), Thomas Kuhn $1,331,584
- Electric Power Research Institute ($239 million), Kurt Yeager, $929,775
- Emergency Committee for American Trade ($822,133), Calman Cohen, $388,472
- Heritage Foundation ($52 million), Edwin Feulner, $746,285
- Information Technology Association of America ($5.9 million), Harris Miller, $465,460
- International Association of Machinists and Aerospace Workers ($114 million), Thomas Buffenberger, $225,250
- National Retail Federation ($18.6 million), Tracy Mullin, $595,525
- Natural Resources Defense Council ($57 million), John Adams, $704,796
- Northeast-Midwest Institute ($2 million), Richard Munson, $191,909
- Semiconductor Industry Association ($7.2 million), George Scalise, $505,650
- Society of Plastics Industry ($13 million), Donald Duncan, $773,307
- The Association For Manufacturing Technology ($19.9 million), John Bryd, $293,476
- UAW ($326 million), Ronald Gettelfinger, $153,026
- UNITE ($122 million), Bruce Raynor, $217,580
- United Steelworkers of America ($666 million), Leo Gerard, $136,613
- Worldwatch Institute ($2.6 million), Christopher Flavin, $99,750