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Power Shift: What Happens If Democrats Win The House

The House of Representatives has a good chance of changing hands this November, flipping from Republican to Democratic control. If Democrats become the majority, they will assume leadership of every committee. They will schedule hearings, select witnesses and determine which bills get debated on the House floor. On many committees, Democratic staffs would double in size. Current Republican staff levels could decline by half or more. The change would be profound.

BY RICHARD McCORMACK

Talking to a dozen or so Washington lobbyists, policy analysts, congressional staffers and members of Congress, there is widespread agreement that a Democratic controlled House means one function of Congress will be restored: oversight of the Executive Branch. Up until a month ago, there has been little or no oversight of federal operations. No Republican committee chairman was going to take a Republican political appointee to the carpet on any program. That would change, and it would change dramatically.

Government oversight, audits and investigations would be paramount to the Democrat's agenda because they must cut non-performing programs to free up funds for programs they favor, says Rep. Tim Ryan (D-Ohio). "We have to squeeze this huge, huge monster, where the government loses $9 billion in Iraq and nobody blinks an eye," he says. "There are billions of dollars in the Pentagon that go unaccounted for. Programs aren't working. There is going to be a lot of accountability because Democrats have learned a hard lesson: just writing a bigger check doesn't solve the problem. The old Democratic Party of big government is just not going to happen."

Finding savings will be required in order to free up resources for student aid, health care reform, alternative energy research, manufacturing extension and other Democratic priorities. "We need an honest and thorough review of what's going right and wrong in all of these different programs to lead to a transformation of government," says Ryan.

If the Democrats win, Rep. John Dingell (D-Mich.) would head the Energy and Commerce Committee, returning to his perch after a 12-year hiatus. His staff is ready to fire off "Dingellgrams" to every corner of the federal enterprise. Given Dingell's base in job-battered Michigan, manufacturing and trade issues could be a

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Product Delays Take A Bite Out Of The Bottom Line

Companies that have stumbled in introducing new products have suffered financially with decreased profitability, reduced revenues and increased costs, according to research conducted by Vinod Singhal, professor of operations management at the Georgia Institute of Technology. The impact on companies of delayed product introduction can be substantial.

"Although many have stressed the importance of shorter time to market, much of the evidence that is offered is in the form of anecdotes and/or case studies," says Singhal in a research paper on the issue. "People tend to look at anecdotes and then forget about them, thinking, 'It's only an anecdote.' But now we have a very systematic and scientifically rigorous study" that links product delays to financial trouble.

Numerous studies have found that product delays have an immediate

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Manufacturers' Letters To The Editor

With regards to the story "Trade Imbalances Could Cause Financial Upheaval" (*MTN* Sept. 5, 2006), I thought you might be interested in a personal report from the trenches.

We lost an order to China this week for a molded rubber part. That in itself is nothing new, we have been losing orders to China for years. What is new is the quantity of parts at which we lost the order: not millions, not hundreds of thousands, not tens of thousands, not even thousands. No, we are talking about a measly 250 pieces!

If we can't even have low-volume production in our own country, then there really isn't anything left for us to have. We might as well close our doors.

This is how the figures shook out. Our principal quoted $7,360 for the mold; the Chinese quoted $6,800 for the mold. Our principal quoted $8.83 each for the parts; the Chinese quoted $5.56 each for the parts.

The parts go into a product that sells for between $25,000 and $35,000, so it's not like a few dollars would make or break the customer.

Judas betrayed Jesus for 30 pieces of silver. It seems that Americans these days will betray their fellow citizens for not much more than that out of pure gain.

The Chinese didn't swoop down on to this all by themselves. No, they had a local agent helping them. The local agent solicits the business, runs the prototypes, then sends the production to China. If the Chinese, with the help of local agents, are willing to gobble up a few hundred pieces of an under-ten-buck part, and if Americans won't hesitate go to China to save a few bucks, Lord help us!

The Chinese, guided by local agents, have become like a huge plague of locusts, devouring all of our industry wherever they land. So far the response by the federal government has been to tell those displaced to get retrained. Retrained for what? How many applicants for sales clerk or greeter positions can Wal-Mart absorb?

China is waging nothing less than economic war against America, a war they are winning with the considerable aid of local agents, who are really little more than home grown economic traitors.

If the federal government continues to do nothing about this while America burns, it will be only a matter of time, perhaps in as little as a decade, before there will not be any manufacturing whatsoever in our country.

We will import everything. We will be a Third World country!

— Mike Hoff
Mike Hoff is an independent manufacturer's representative who has been marketing to Original Equipment Manufacturers in Southern California since 1977.

Finally the issue of "cheap China goods" has been put out for all to see ("Domestic Manufacturers Force NAM's Big Members To Take A Stand On China," *MTN* July 7, 2006). As a Canadian machinery manufacturer, our customers are North American manufacturers of consumer goods who share common markets, regulations and employment standards with Canadian, U.S. and Mexican competitors. It's in our interest to make our customers as competitive and efficient as we can in order to sustain everyone's jobs and market, including our own domestic competitors.

We've seen the issue of the multinational manufacturers becoming Chinese distributors simmering for some time, but as a manufacturer operating in the 51st State, we've had little voice in this very fundamental matter. We've witnessed our own branch plant members of the Canadian Manufacturers & Exporters Association, Canada's version of NAM, sit silently as their plants get gutted and their jobs get exported to low-cost countries, with the decision to do so made at the U.S. HQ, so we, too, have a similar "big versus small" manufacturing schism.

The reason NAFTA works is that there is general parity of labor regulations, rates, product standards, and we have legal mechanisms that work when the market mechanism doesn't — witness softwood lumber. This is not the case with China or other developing manufacturing countries, especially when it's in the consuming nation's government's interest to moderate their inflation and currency by promoting the importation of low-cost goods, and especially when energy inflation sets new records.

I believe that until there is some significant balance in environmental and labor standards that some form of protectionism or offset will be required, otherwise North America runs the risk of gutting its manufacturing industry, leaving only the protected defense industry to ward off a total meltdown.

Ultimately, the U.S. government will have to decide whether that's what it wishes to do, on behalf of all of North American manufacturing.

Everyone can appreciate the global market, and all North American manufacturers need to come to terms with how we wish to behave as importers, exporters and manufacturers while not gutting our own markets. It's much like tearing out a massive orchard: rarely do farmers replant. And if that's the choice, then what's the plan? If governments can't prevent multinationals from the exportation of jobs and the technology to create them, then will the government at least create a manufacturing environment competitive with these powerhouses?

— Robert Hattin
President, Edson Packaging Machinery
Hamilton, Canada

Agricultural Biotechnology Industry Success Depends On A Vibrant & Transparent Global Regulatory Framework, Says Advisory Panel

The agricultural biotechnology industry faces a number of growing challenges in the next decade, but many opportunities, according to the Advisory Committee on Biotechnology & 21st Century Agriculture, a group created by the United States Department of Agriculture. "U.S. regulations are evolving slowly and many governing statutes were written before modern agricultural biotechnology was developed," according to the committee. "That system may not be optimal to meet the needs of producers and consumers."

Consumers could be spooked by genetically engineered crops and food products.

Consumers must be assured by regulatory bodies that their food supply is safe and that bio-engineered foods are environmentally benign. The regulatory process must engender public trust, and it must do so on an international level. But accomplishing this will not be "an easy endeavor," says the committee in an assessment entitled "The Decade Ahead." Current international efforts to standardize regulations face an "uncertain" fate, says the advisory committee. "There is no clear, comprehensive federal regulatory system to assess the environmental and food safety of transgenic animals before they are commercialized."

If the Food and Drug Administration's new animal drug regulatory process is used to regulate transgenic animals, "there are concerns about the lack of transparency and public participation in the process," says the committee. "There are also concerns about whether FDA has adequate legal authority to assess and address the full range of environmental risks that could arise....As research involving transgentic animals [such as salmon] moves toward commercialization, a credible, appropriate and transparent federal regulatory framework applicable to genetically engineered food and non-food animals is increasingly important."

The industry has come a long way in the past 10 years, notes the advisory group. In 2005, 52 percent of corn, 87 percent of soybeans and 79 percent of the cotton planted in the United States was genetically engineered. Worldwide, transgenic crops were planted on 222 million acres, or 5.8 percent of the 3.8 billion acres of cropland. "Transgenic varieties thus far in the marketplace have been beneficial to farmers and the environment, but have not provided marketing advantages to food retailers or improved nutrition or taste to attract consumers," says the advisory committee. "Food processors and retailers have been reluctant to introduce food products developed from transgenic crops in markets where there is a requirement for mandatory labeling of food products and/or perceived consumer resistance to genetic engineering technology."

The USDA advisory committee predicts the development of a number of new genetically engineered crops over the coming decade, including plant varieties that have improved nutrition such as soybeans enriched with omega-3 fatty acids; new animal feeds with higher concentrations of amino acids; crops resistant to drought, pests and diseases; crops that are engineered to produce pharmaceuticals; and crops engineered for industrial applications, such as increased starch content, enzymes that can be used for industrial processes and increased oils for use as renewable fuels. These new non-food applications of biotechnology have "tremendous implications for U.S. agricultural systems," says the committee.

In coming years, media coverage and debates over ethics could be intense, with a potentially profound impact on the industry's development. Dozens of other issues are being raised by the genetic manipulation of the food supply, including labeling, testing, legislative moratoriums, consumer education, protection of intellectual property, generation of data and peer reviewed analysis.

"As new transgenic organisms are developed in the United States and enter the international marketplace, U.S. embassy staff [overseas] will be approached with questions about the safety of those organisms and how they are regulated in the United States," says the committee. "But U.S. officials with appropriate expertise are not always available at embassies to answer questions about the safety of those organisms and the U.S. regulatory system."

A Big Year for Auto Industry Layoffs

The U.S. automotive industry has announced the layoff of almost 90,000 workers so far this year, and this year's total could top the 110,000 announced layoffs made last year, according to Challenger Gray & Christmas. "Suppliers may be the next source for major workforce reductions as they adjust to the new reality of smaller American automakers," says the outplacement firm. "Plant closings by Ford and General Motors will also ripple through the economy possibly resulting in job cuts throughout a variety of industries as communities struggle with higher unemployment."

Last year at this time about 83,000 layoffs had been announced in the automotive sector. This year's job cut announcements of 87,000 already exceeds the total number of layoff announcements made in 2004 (77,174) and 2003 (74,506). The highest number of layoff announcements made over the past 10 years in the auto sector occurred in 2001 at 133,686.

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impact on stock prices, with some finding a decrease in shareholder value ranging from 5.2 percent to 11.4 percent over the first two days from the time of the announcement. This is a large reaction when compared to other corporate events. But the loss of shareholder value is justified when considering what happens to a company's financial performance over the longer term. Stock price declines associated with product delays "are consistent with deterioration in operating performance," says Singhal.

Singhal analyzed 479 product delay announcements that appeared in the Wall Street Journal and the Dow Jones New Service from 1987 to 2003. He looked at the financial numbers of these companies 18 months prior to the delay announcement and 18 months after the announcement.

Over that three-year span, the firms announcing product delays "experienced negative abnormal performance in return on assets, return on sales and sales over assets," writes Singhal. Nearly 59 percent of the firms experienced negative changes in return on assets. The median change in sales over assets was negative 11 percent with nearly 64 percent of the firms experiencing negative changes in sales over assets.

"The evidence also indicates that over this period, total costs over sales increased," according to Singhal. "The median (mean) change in return on sales is negative 16.65 percent with nearly 57 percent of the sample firms experiencing a decline in their return on sales. Overall, these results provide very strong evidence that delays in product introduction negatively affect operating performance. Our evidence provides support for the conjectures and claims made by many academics and practitioners about the value of time-based competition and the call for timely introduction of new products."

The lesson learned from this research: senior executives in companies need to identify the major products that drive profitability and keep very close tabs on their development. "Part of the reason they don't pay attention to this is they don't know what the consequences are," says Singhal. "When bad things happen, people try to wish it away, but here are the hard facts — here is the financial impact that you will see."

CFOs and CEOs of companies need to be constantly asking their operations people about the progress of their products. "Once you get their attention, you see products come out in time because people are aware of the consequences," says Singhal. "One of the things I want to achieve is a wakeup call. Executives have to be involved in this stuff. The same thing happened with supply chain. Supply chain disruptions make a major impact and it's only recently that CFOs have woken up and said, 'We have to be aware of that.' "

For a copy of the study, "The Effect of Product Introduction Delays on Operating Performance," contact Vinod at vinod.singhal@mgt.gatech.edu or by calling him at 404-894-4908.

Democrat's Election Playbook Stresses 'Ordinary' Citizens' Pocketbook Issues

Democratic candidates in five industrialized states should pay attention to economic issues that will drive voters to the polls this November, according to a survey conducted for the International Association of Machinists and Aerospace Workers (IAM). Day-to-day pocketbook issues in five states with both gubernatorial and U.S. Senate races this fall show that "populist messages persist as powerful campaign themes," says the summary of the survey of 625 likely voters in Ohio, Wisconsin, Maryland, Michigan and Pennsylvania.

The machinists union survey found that between 83 percent and 85 percent of voters "would be more inclined to support a candidate who pressed for jobs initiatives that included a 'Buy American' policy committing state and local governments to buying American-made products, and tax policies that discouraged the outsourcing of American jobs to foreign countries," says an analysis of the results.

Seventy-four percent of respondents agreed with the statement that, "If candidates would stand up and fight to protect American jobs from being outsourced or undercut by cheap foreign imports, I would be more inclined to vote for them."

The survey found that the Democratic Party is still considered to be more credible on economic issues related to jobs, utility and oil company regulation, insurance rates, commuter woes and educational equality. "It is clear that — based on several decades of survey findings in this regard — a considerable amount of Democratic strength is inherited," says the survey, conducted for the IAM by Fingerhut Granados Opinion Research in Arlington, Va. "Voters clearly want Democrats to be stronger, more decisive and more supportive of the economic interests of ordinary working people. Democratic campaigns depart from focus on these issues at their own risk."

When asked if Democrats or Republicans would handle the economy in a way that is "sensitive" to the needs of ordinary Americans, 59 percent of the likely voters said Democrats while 31 percent said Republicans. Asked which party would protect workers from loss of jobs due to outsourcing and imports of foreign goods, 57 percent said Democrats and 26 percent said Republicans.

"While there is little belief that the Republicans stand up for ordinary working folks (by a 64-34 percent margin), voters agreed that 'the Republicans are too closely tied to big business and that's a good reason to vote against them.' "

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Guest Editorial:

Can Universities Help Save The U.S. Industrial Belt?

Countless observers have suggested that the role of higher education in a knowledge-driven economy has never been more critical as innovation and human capital are seen as keys to future economic growth. For mature regions such as the Midwest, it could be argued that colleges and universities might play an even larger role. The region is not likely to see rapid population growth and is home to many mature industries, placing a relatively high premium on innovation for transforming the economy. For the Midwest, it appears that outsized productivity growth will be needed if the region is to hold its own against competing regions. The question is: Can the university system in the region foster these opportunities?

BY RICHARD MATTOON

Not all observers agree that higher education and economic growth are obvious or necessary bedfellows. On the one hand, prominent studies have reported on the direct and indirect economic impacts of universities on their local communities and regions. However, work by Richard Vedder, professor of economics at Ohio University, has questioned whether spending more on higher education necessarily provides larger returns for the local economy. Vedder's work ("Going Broke By Degree: Why College Costs Too Much," AEI Press, Washington, D.C.) has found that states with higher spending on colleges and universities fail to have faster growth than states with lower spending, even after controlling for differences in other key variables.

While Vedder does not question whether higher education is an important ingredient in promoting economic growth, he does suggest that the returns to public investment in higher education may be limited.

Some of this controversy comes about because of the difficulty of measuring the exact contribution of colleges and universities to economic growth. Standard economic analysis can do a good job of accounting for payroll, spending and employment contributions of a university to a community, but it relies on estimates of economic multipliers to determine the secondary benefit of university activities.

Studies have produced a range of multipliers ranging from 1.0 to 3.1, and estimates of economic benefits are highly sensitive to the choice of multiplier. Perhaps most problematic is that these studies cannot provide any estimate of whether this is the best use of economic assets for a given region. If the university were not in the community, the same land and resources would undoubtedly have been used for some other activity and may have produced a similar or higher level of economic growth.

Other studies focus on the influence of universities' outputs of human capital and technology. These studies examine the role of higher wages received by college graduates in the local economy as reflected in higher tax revenues, consumer spending and personal savings. For college towns to capture such benefits, graduates need to stay in the communities where they were educated.

So where does that leave us? The Massachusetts Institute of Technology, in conjunction with the University of Cambridge in the UK, has developed an international research consortium to examine how universities can contribute to local innovation. At the core of the work is the belief that local economies succeed when firms are able to respond to changing market conditions by producing new products, services and production methods.

The role of the university in promoting these can take many forms. Most visible are technology transfer programs. Often such programs allow universities to commercialize cutting-edge research. This can provide benefits to a local economy through the spinoff of new businesses, but often significant benefits accrue simply by creating a place where talented people in a similar field can meet and discuss their research.

As the MIT project has revealed ("Universities, Innovation and the Competitiveness of Local Economies," http://www.mit.edu/lis/papers/LIS05-101.pdf), the role of universities as a public forum for discussing ideas and as a platform for creating opportunities for firms to apply new technologies to their business can be significant. The work has also pointed to the role of universities in education and workforce development. To date, the MIT project has found that universities are most successful in influencing economic growth when they are attuned to the economic structure of their local economies. The nature of the industrial transformation in the local economy in large part defines what the best role is for the university to help contribute to change.

Richard Lester, the director of the MIT project, suggests that much of the focus on the role of universities in economic development, particularly technology transfer, has been fueled by a handful of regional transformations, such as Silicon Valley, the North Carolina Research Triangle and the Boston area, where universities have had highly visible roles in changing local economies. This model envisions cutting-edge research leading to the development of patents and licenses, which in turn lead to new technology companies.

However, while this model has produced some notable successes, it is difficult to replicate and often fails to produce large-scale success. For example, new university-based

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business formation represents only 2 percent to 3 percent of all new U.S. business starts, and university patents contribute only 3,700 of 150,000 total U.S. patents in a year.

Even from the universities' perspective, licensing revenues often disappoint. In 2003, only 4 percent of total research and development funds at universities came from licensing revenues, and most of this was highly concentrated in a handful of universities.

Lester suggests that technology transfer does have less tangible benefits, such as creating an entrepreneurial culture in the university, but that it may have less of a role in economic development than other university functions that provide human capital and enhance the social capital of a region.

In the MIT model, the focus is on the local firms' capacity and the local industry structure. The university's role goes beyond creating new industries and can focus on the ability of local firms to take up and apply new knowledge to their existing businesses. The measure of success is the ability of local firms to adapt and successfully compete in an ever-changing market.

At issue is to what degree the local university is actively engaged in helping with this industrial transformation, whether it is through products, services or the production process.

The MIT project has focused on 23 separate locations with industries ranging from mature manufacturing (machinery and automotive) to emerging fields (bioinformatics and optoelectronics). These locations include high-tech regions, such as Boston and less favored mature regions, such as Youngstown, Ohio, and Allentown, Penn. In each case, a different model of economic growth emerged based on a local industry structure. The MIT project identified four basic types of industrial transformation.

Indigenous Creation: This is the case of a new industry emerging that has no prior antecedent in the region. This is often directly related to a spinoff of a technology from a university. While this sort of development can receive a great deal of attention, it is relatively rare.

Transplantation: In this case, an industry is new to a region, but it primarily develops through transplanting an existing industry to a new location, e.g., the development of the auto industry in the South.

Diversification Into Related Industries: In this case, an existing industry goes into decline, but a related industry emerges that can take advantage of the mature industry's core technology. An example is the emergence of the polymer engineering and manufacturing industry in Akron, Ohio. As the tire industry disappeared, a new industry was able to capitalize on the understanding of polymers that is key to synthetic rubber tire production.

Upgrading An Existing Industry: This entails the application of new production technology that can also lead to the development of new products or services. A study from the MIT project described the revitalization of the industrial machinery business in Tempere, Finland, as an example of the integration of electronics, control and communications technologies into a traditional product that benefited the forestry, paper and transportation industries.

In each of these cases, universities played different roles and provided varying levels of support. Usually, the transformation was driven by the individual firm and its interest in remaining competitive. Ideas on how best to compete were gleaned not only from the local university, but also from suppliers, competitors and internal sources.

Often the university was instrumental in providing or enhancing local human capital at either the undergraduate, master's, doctoral, mid-career, or executive level. Universities also increased the local capacity for problem solving. This can include everything from contract research, faculty consulting and technology licensing to setting up incubators and providing specialized equipment or instruments.

An often overlooked function of universities is their simply providing public space and hosting meetings and forums that can bring investors, companies and academics together. Finally, universities can be a source of codified knowledge, providing comprehensive references on technical standards, patents and other criteria.

One of the key finds of this project is that no single

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University Tech Transfer Offices Provide Big Dividends

University investment in licensing and technology transfer has a big payoff, according to the Milken Institute. "For each dollar invested in an office of technology transfer (OTT) staff, the university receives more than $6 in licensing income," according to an analysis of university research and tech transfer activities. "For each additional year that an office of technology transfer is in operation, $228,000 of incremental licensing income is generated for the university."

U.S. universities still dominate the top ranking in commercialization activities when measured for published research, patents issued and licensing income, according to the study entitled "Mind to Market: A Global Analysis of University Biotechnology Transfer and Commercialization."

The study ranks universities at their ability to take research and turn it into licensing income and business startups. The top five are the Massachusetts Institute of Technology, the University of California system, California Institute of Technology, Stanford and the University of Florida.

"Research activity has a high rate of return," says the study. "Each 10-point increase in the Institute's score for published research contributes an additional $1.7 million to a university's annual licensing income."

Complete rankings and the full report are located at http://www.milkeninstitute.org.

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strategy of university engagement is the panacea for aiding economic growth everywhere. What works is largely determined by the type of industrial transformation that is being attempted. In the case of the creation of a new industry, the key activities support various aspects of new business formation. The university is often a broker between the university's researchers and local entrepreneurs. In the case of transplanted industries, a key university function is producing manpower for the firm and often creating a curriculum and a continuing education program that support the firm's growth. For cases involving the diversification of existing firms, the university can often serve to link firms together, allowing them to consider how the technology might be applied to their business. When local firms are attempting to upgrade their technology base, universities can often serve as problem solvers, offering consulting and contract research services

How does this apply to the Midwest? In some ways, the Midwest matches up quite favorably to the model of university-aided economic development. In the five states that include Iowa and most of Wisconsin, Illinois, Indiana and Michigan there are 513 colleges and universities ranging from internationally renowned research universities to locally focused community colleges. This variety suggests that various higher education institutions are available to help meet the needs of a wide range of firms and economic development goals. For this model of development to work, it is important to recognize that higher education institutions have different roles and capacities, and it would be unrealistic to expect individual colleges or universities to fulfill all roles. For example, the University of Chicago would be unlikely to focus on meeting the local manpower needs of firms through vocational training; however, through its executive and evening MBA programs, it is able to enhance the management skills available at many local companies. Local community colleges are unlikely to provide the science and engineering know-how that could create new industries, but they are often excellent sources of local labor skills training and can provide meeting spaces and forums for local firms. Diversity among institutions of higher learning is undoubtedly a strength.

Considering the MIT model, it appears that the most immediate needs for a mature industrial region focus on diversifying old industries into related new industries and upgrading existing industries. In both cases, the role of the university is one of facilitator and technical expert, creating linkages across sectors in the economy and providing the expertise and workforce to meet firms' needs.

Work by Sean Safford in 2004 ("Searching for Silicon Valley in the Rust Belt" http://web.mit.edu/lis/papers/LIS04-002.pdf), examines the role of universities in helping two mature industrial sectors — Akron, Ohio, and Rochester, N.Y., — manage structural economic change. In the case of Akron, Safford found that the University of Akron was able to build on its reputation in polymer research to help local firms develop polymer-based industries to help cushion the decline of the tire industry. In Rochester, the University of Rochester and the Rochester Institute of Technology were able to help with the development of higher technology optoelectronic devices such as lasers, semiconductors and photonics.

Safford finds that the primary impact of universities is often the deepening of social capital. Along this dimension, he finds that Rochester's development has created a stronger local network than that of Akron and may well reap larger rewards.

A final challenge specific to the Midwest is the need for outsized productivity growth to maintain regional health in the face of unfavorable demographics. Studies of U.S. productivity by the McKinsey Global Institute found that from 1995 to 2000, six out of the 59 industries accounted for all of the acceleration in U.S. productivity growth and that the top three contributed more than 66 percent of this total. Interestingly, the top three industries could be characterized more as technology users than technology producers. Wholesaling, retail and securities and commodities trading saw the greatest productivity gains during this period, and this was driven by the application of information management technology developments in supply chain and wholesale management.

A more recent study looking at productivity gains from 2000 to 2003 found productivity growth more evenly distributed, but still concentrated among technology users rather than producers. The sectors include retail trade, finance and insurance, computer and electronic products, wholesale trade and administrative and support services. This finding suggests that for universities in the region to have the greatest impact on productivity, they will need to focus on helping firms in mature and service industries to use technology better. This further suggests a model similar to that of the old agricultural extension system that linked research and best practices developed at land-grant universities to local farmers. Some attempts have been made to extend this model to manufacturing and services and perhaps this might deserve more attention.

In the end, a model based on local conditions and higher education's response seems somewhat amorphous. It fails to provide hard and fast rules on what a "best practice" is when it comes to colleges and universities that want to influence local development. However, it does make clear that higher education's contribution to local economies work best when colleges and universities understand what they have to offer and what is happening to the local industrial structures of their economies.

— Richard Mattoon is a senior economist and economic advisor at the Federal Reserve Bank of Chicago. For more information on this subject, and to learn about the Chicago Fed's Oct. 30, 2006, conference "Can Higher Education Foster Economic Growth?," go to http://www.chicagofed.org/highereducationconference.

What The Democrats Would Do...

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centerpiece of his attacks on Bush administration policies.

"From Dingell's perspective, the administration's refusal to meet with auto executives highlights the administration's total lack of support for basic manufacturing," says one Washington congressional analyst. The Democrats "will use the economy as a wedge to try to highlight deficiencies in the Bush administration, all in preparation of the 2008 presidential campaign."

Dingell is expected to pound the Commerce Department's "manufacturing czar" — Assistant Secretary for Manufacturing in the International Trade Administration Al Frink, who would "get hung up to dry," says one observer. "They'll nail him." Another said angry Democratic House members from the industrial states will "grill the heck out of" Bush administration political appointees. "They will shine a spotlight on the problems of the auto industry and the plant shut downs to blame the administration for virtually everything."

Dingell could also venture into the administration's perceived lax enforcement of trade laws and its inability to force China to float its currency. If Dingell does pursue these topics he would be treading on other committees' turf, but that never stopped him in the past.

Dingell won't be the only committee chairman with a fervor for investigation. As head of the House Armed Services Committee, Rep. Ike Skelton (D-Mo.) said he would make oversight the centerpiece of his reign. As chairman of the Education and Workforce Committee, Rep. George Miller (D-Calif.) would prod the Department of Labor and the Occupational Safety and Health Administration. The House Science Committee under Bart Gordon (D-Tenn.) would investigate the decline of American competitiveness. The indefatigable Henry Waxman (D-Calif.) would take over the Government Reform Committee, applying investigative incisors to all manner of Bush policies and appointees. With John Conyers (D-Mich.) in charge of the House Judiciary Committee, there could be an impeachment inquiry.

This focus on oversight "is going to tie everyone in knots," says one Washington business lobbyist. "It will be all oversight all the time with more oversight hearings about more departments every week. It's all bad and it's all going to move in the wrong direction." Constant investigations will not improve the partisan tone of the institution, despite would-be House Speaker Rep. Nancy Pelosi's (D-Calif.) repeated pledge to run a more collegial House, say others.

There will be some governors placed on the Democrats, the biggest of which is the budget. This year is the first in decades — perhaps ever — that Congress has not even made an attempt to pass a yearly budget. Observers say the Republicans are avoiding having to cut domestic programs during a controversial election cycle. If the Democrats win in November, it is likely they will press for passage of the appropriations bills during the lame-duck session. "They will want to get things out of the way, however bad it is, so they can start with a clean slate," says one House staff member.

The budget will present problems for the Democrats. A change in party control "won't make much difference because money is unbelievably tight," says one congressional aide involved in appropriations battles. "There won't be profligate spending. They won't have the ability to do it." Adds another: "The deep fiscal nightmare problems will only get worse. The Democrats are going to be stuck with the responsibility of cutting a lot of programs that they're going to like." They will be hard pressed to propose the creation of any new program, however important the perceived need may be.

In the area of funding research and development, it's not clear if a change in party control would improve budgets. Rep. Frank Wolf (R-Va.), chairman of the House Appropriations subcommittee that controls a big portion of the federal civilian R&D budget, has been a strong proponent of research funding. The current House Science Committee chairman, moderate Sherwood Boehlert (R-N.Y.), is also a vocal proponent.

In the area of defense, Democrats might be able to pry additional funding for R&D and the university community by cutting missile defense and other Cold War weapons systems, but without current House Armed Services Committee chairman Duncan Hunter (R-Calif.) at the helm, there isn't expected to be much of a push for "Buy American" issues. In some ways, Democrat Ike Skelton "is more of a Republican than are the Republicans," says one House aide. Others note that if you were to close your eyes and listen to members of the House Armed Services Committee, you would be hard pressed to tell the difference between Democrats and Republicans. Democrats would be forced to fund Iraq operations, even if there is a debate over troop withdrawals, and would likely approve modest budget increases for DOD, as a means of buttressing their perceived weakness on security issues, again limiting their options in domestic discretionary accounts.

Democrats will also be facing the difficult task of dealing with President Bush's tax cuts. If those tax cuts are not extended, "they'll have to take the fall for that, which is a big political problem," says one former senior congressional aide. That won't necessarily be a problem, says Rep. Ryan. "We can't be afraid to ask those people who make more than $1 million a year to help us because it comes down to either we ask millionaires and billionaires in our country to help us or we borrow the money from the Chinese government. Right now we're borrowing the money from the Chinese. If we repeal the Bush tax cuts back to the Clinton-era level for millionaires, I think we can make great strides and start balancing the budget."

There also isn't expected to be a big change in U.S. trade policy, at least from the perspective of those who are upset with current policies. Democrats on the House Ways and Means Committee and their staff members are steeped in former Pres. Clinton's free trade ideology. This is due in large part, say observers, to the fact that multinational companies and free trade

(Continued on next page)

Democrats...

(Contniued from page eight)

interests have provided Democratic members of the committee with hundreds of thousands of dollars in financial contributions.

Among those in Washington that are part of the "fair trade" movement, there is deeply felt anger toward the Democrats on trade issues. Members of the House Ways and Means Committee "go through a genetic screening to get there and they've all been funded by the same people for all these years that it's only a matter of style between the two" parties, says one Washington trade lobbyist. Evidence: in the last presidential election between a conservative Republican and a liberal Democrat, there was not much difference between them on trade.

The Democrat that would assume the chairmanship of the House Ways and Means Committee is Charlie Rangel (D-N.Y.), who was quoted last week as saying "no election is going to rise or fall on trade policy." He also said that the proposed legislation in the Senate to place a 27.5 percent tariff on Chinese goods if China does not allow its currency to float (the Schumer-Graham bill) "makes sense for home consumption but not much else." Nevertheless, with Rangel in the chair, any Bush proposal would be met with asperity.

One early trade test would be Democrats' willingness to adopt laws that would allow countervailing duties to be applied to non-market economies such as China. If the Democrats fail to push for such a change "it will be a very early sign that it's business as usual," says one trade expert.

But free traders aren't buying the business-as-usual argument. Free trade agreements, which are getting harder to pass each year, would be a tough sell with Democrats in control. Extending Trade Promotion Authority would happen only after intense debate and if changes are made to the statute. Any free trade agreement would be scrutinized for labor and human rights guarantees and environmental protection requirements. "But by saying that we're not for the Geneva Convention and other international agreements, we're hurting our ability to make progress on the trade deals that we negotiate," says Ryan. "We've opted out of the Geneva Convention and now we want to sign a trade deal and say to another country: 'You need to put human rights laws in there, environmental rights and labor rights.' They're going to say, 'Hey, wait a minute. You're not even living up to the Geneva Convention so why should you come here and talk to us about labor rights on the factory floor?' We're losing our moral authority here."

Under Democrats, traditional business priorities such as repealing the death tax, opening up the outer continental shelf for oil drilling, asbestos reform, lowering corporate taxes and reducing legal costs all get shoved off the agenda. "However hard it is to get things done now, it's going to be worse," says one business lobbyist.

With Democrats in control, Bush's last two years in office could be a lot like those of Bill Clinton's, say others.

Most all observers say the chances are pretty good the Democrats take control of the House, but that the Senate is more difficult. Charlie Cook of the Cook Political Report says there are 35 Republican seats in play with 20 either currently losing or within the margin of error. Right now it looks like a 12- or 18- seat flop. If the Republicans retain control it will be by the slimmest of margins, and on a "landslide" type of election day, Democrats might be able muster a 15-seat majority. On the Senate side, Democrats would likely have to win in Virginia and Tennessee in order to gain control. If Republicans remain in control, they will breathe a colossal sigh of relief.

But from a Democrat's point of view "there may be a tidal wave brewing," says Rep. Ryan. "Our base is so intense right now. They're just frothing at the mouth. They want the election to be tomorrow and that will help us because I don't think the Republican base is as fired up. You never know what could happen in a situation like this. It's unpredictable."

Worthy Washington Events

The federal government's request that technology companies retain individuals' Internet usage data is the subject of a one-day event in Washington, D.C. on Sept. 27, delving into the policy and technology implications of such a mandate. Participants at the Information Technology Association of America's event entitled "Defining the Balance: A Reasoned Approach to Data Retention" at the Hyatt Regency Capitol Hill, will discuss the data that would have to be collected; how long it should be stored; the consequences of such a policy on personal privacy; the costs of data retention; and who should pay them. For information, go to www.itaa.org.

The U.S. Chamber of Commerce will host a two-day summit on the "True Cost of Counterfeiting and Piracy" on Sept. 28 - 29 at its headquarters in Washington, D.C. The event will include presentations from the Secretary of Commerce, USTR, Attorney General and the vice chairman of General Electric, among others. Go to http://www.regonline.com/Checkin.asp?EventId=105810

The Manufacturing Skills Standards Council will launch its program for a nationwide system of certifying production workers on Sept. 25. Speakers at the National Press Club event in Washington, D.C., include John Engler, president of the National Association of Manufacturers; James McCaslin, president and chief operating officer of Harley-Davidson; Leo Reddy, CEO of the Manufacturing Skills Standards Council; John Rauschenberger, manager of personnel research & development at Ford Motor; and Keith Romig, director of national & international programs at the United Steelworkers. The certification program will provide workers with skills they need for manufacturing jobs and help employers easily identify skilled workers. Contact Kat Snodgrass of NAM at 202-637-3094.

WTO Can't Figure Out What A Subsidy Is

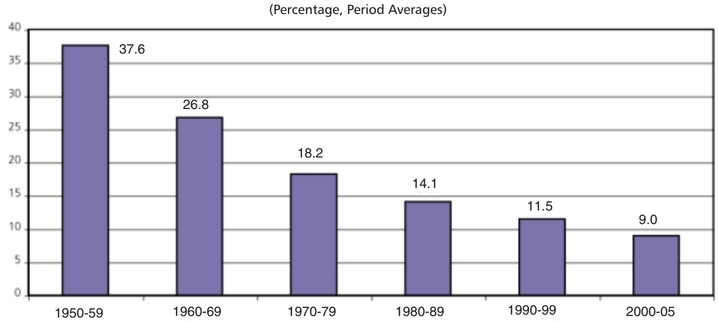
The global growth of merchandize exports last year surged by 11 percent, and exceeded $10 trillion for the first time, according to the World Trade Organization. Nevertheless, the EU, Japan and United States all recorded "a particularly strong slowdown in their import growth," says the WTO. "China's imports expanded far less rapidly than in the previous year, despite a vigorous economy." Countries that export raw materials all experienced sharp increases in imports. Oil and mineral prices increased by an average of 33 percent, while global prices for manufactured goods stayed stagnant.

Least developed countries accounted for only 0.6 percent of world exports in 2004.

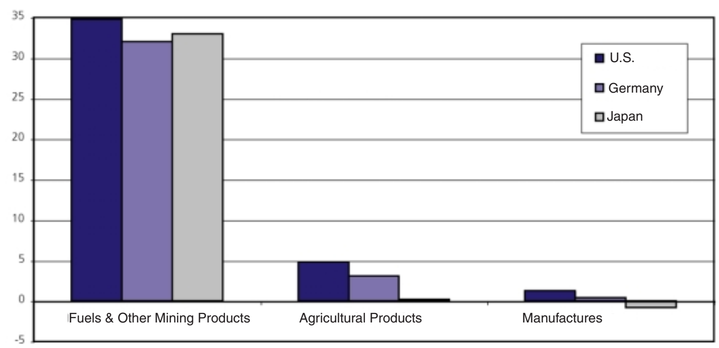
In its annual global assessment of trade, the WTO takes a closer look at subsidies that governments provide industry in order to gain a competitive advantage. But the WTO says defining such subsidies is "notoriously difficult." There is also little evidence that subsidies help countries. "An enormous amount of empirical research on the effect of selective industrial policy," has been conducted since the World Bank released its 1993 report entitled "The East Asian Miracle." But the WTO can't figure out what to make of it all: "One interpretation of the evidence is that on balance the results indicate that industrial policy made a minor contribution to growth in Asia. Another interpretation is that industrial policies have played a role in most non-traditional export success stories in East Asia."

In the textile and clothing sector, the phase out last year of the Agreement on Textiles and Clothing is leading to "long-term structural changes" that will continue to shift production from high-income countries to lower-income countries "in particular China," notes the WTO. High income developing economies in East Asia, as well as countries in Sub-Saharan Africa, Morocco and Bangladesh all saw their exports to the developed world decrease "markedly" last year.

Share of Agricultural Products In World Merchandise Exports, 1950 -2005
(Percentage, Period Averages)



Import Prices of Major Product Groups, in Selected Economies, 2005
(Annual Percentage Change)



Lack Of Global Job Growth Has 'Profound' Implications

The most buoyant global economy in 30 years is producing record profits for companies, but it isn't helping the world's workforce, according to Juan Somvia, director general of the United Nation's International Labor Organization (ILO). Global GDP growth should exceed 4 percent this year and world trade growth should exceed 7 percent, yet this "is not producing enough jobs worldwide," says Somvia. Over the past 10 years, official unemployment figures have increased by more than 20 percent. Almost everywhere in the world "access to decent and productive work has simply failed to keep pace with macroeconomic statistics," he said after the recent annual meetings of the World Bank and IMF.

In most of the world, the bulk of jobs being created are in the "informal" economy, "where working women and men eke out a living at low productivity and low earnings." Employment in this informal economy ranges from 83 percent in India to 78 percent in Indonesia, 72 percent in the Philippines, 51 percent in Thailand and 42 percent in Syria.

The number of working poor living on less than $2 a day per person is at the same level as 10 years ago, representing 50 percent of the global workforce. "All this is creating challenges with profound political and security implications," says the ILO director general.

Somvia says it is imperative for global financial leaders with the World Bank, the IMF and the UN to "address the global jobs crisis" by making job creation the "clear objective of policymaking. This is critical to promoting economic growth that actually translates into the creation of decent jobs and encourages investment and entrepreneurship, skills development, proper labor standards and sustainable livelihoods." There must be a commitment to promoting laws that protect workers' rights, their ability to create unions, and that eliminate forced labor, child labor and discrimination in employment. There must also be more support for institutions that strengthen labor market governance.

"We must acknowledge that growth in the value of production cannot be the only criterion for economic success," says Somvia. "Ignoring employment as a policy objective and hoping that somehow output growth yields all the decent jobs the world needs is a recipe for disaster. On a foundation of sound macroeconomic policies, we must also promote a convergence of investment, education, health, labor market, local development and other policies to meet the challenge of reducing decent work imbalances.

"I invite the leaders of the Bretton Woods institutions to join the ILO and other relevant organizations to address together the widespread democratic demand of individuals, families and communities worldwide for a fair chance at a decent job. No single organization has all the answers but our collective experience can certainly be put to better use than it is today."

U.S. Firms In China Are Profitable And Optimistic About Their Growth

The majority of large U.S. companies operating in China are profitable there, and 97 percent say they are optimistic or somewhat optimistic about prospects for their Chinese business operations over the next five years, according to the members of the U.S.-China Business Council (USCBC). Eighty-one percent of USCBC's approximately 350 members say they are making profits from their Chinese operations, up from only 57 percent of companies reporting profitability in China in a 1999 Department of Commerce survey. More than half of the companies said profitability rates for their Chinese operations meet or exceed their company's global profit margin.

Almost nine out of 10 companies say China is "at or near" the top of their companies' priorities, up from 71 percent last year. Three-quarters say they intend to boost their investment in China in the coming year. Only 2 percent said they are reducing their investment in China.

"Most U.S. investment in China is in 100 percent U.S.-owned enterprises, not joint ventures with Chinese partners," notes the council, adding that its results are "counter to several common misperceptions about U.S. companies operating in China."

Eighty percent of the companies say they expect revenues in China to increase, while only 1 percent say they expect a decrease in revenues. For 69 percent of USCBC members, revenues in China increased in 2005, while 10 percent experienced no increase in revenues and 5 percent experienced a decrease in revenues. (Eleven percent said revenue from China was "not applicable to my company's operation.")

Fifty-seven percent of the USCBC members with operations in China sell mainly to the Chinese market, with 22 percent using China as a platform to export to Asia and the rest of the world and 18 percent investing in China to export products to the United States.

"U.S. companies are building their sales presence in China by implementing newly granted distribution rights — a key market opening measure and top USCBC priority in 2005," notes the Washington, D.C. trade group. "China's WTO-mandated market openings have clearly benefited American companies. Over 80 percent of respondents cite China's WTO entry as meaningful to their business. U.S. exports to China have more than doubled since China's WTO entry in 2001, growing faster than any other U.S. export market."

But members of USCBC have concerns: their largest being a shortage of qualified personnel, particularly in middle management. Intellectual property rights enforcement also remains a top concern along with getting business licenses and approvals. "Companies run into licensing issues as they seek to act on WTO openings in sectors such as construction, financial services, distribution and product licenses," says USCBC.

U.S. companies are also experiencing growing pressure on their margins due to increased competition from Chinese companies that are "investing in excess capacity," notes USCBC. The survey results are located at http://www.uschina.org/public/documents/2006/08/member-priorities-survey.pdf.

'Ordinary' Citizens...

(From page four)

But not everything is rosy for Democrats. Voters, particularly swing voters, believe Republicans are more capable in foreign policy. A plurality of voters who are presently undecided or who might change their votes said Democrats "should spend less time on the war issue and more on what the Democrats were supposed to be good at — defending the economic interests of ordinary working Americans," says the survey. "Some voters, including some of the vital independent voters, believe that the Democrats in recent years have lost some of their enthusiasm and commitment to the pocketbook needs of American working people. If that view becomes more widespread in the electorate, the long-term future of the Democratic Party and its candidates would be devastating."

Nearly 60 percent of the voters indicated that, "if the Democrats stood up more strongly for ordinary American working people, I would not only be more likely to vote for them in the upcoming elections, it might change my attitude as a whole toward the Democrats in a more favorable direction."

It is imperative for Democratic candidates to appeal to swing voters, who constitute between 25 and 30 percent of the electorate, notes the IAM analysis. This group will determine the outcome of contested elections. "It is critical that progressive candidates seeking to run well among the critical swing voter group must present the right issues — the right way — to those swing voters," says the survey analysis. "Pocketbook issues (jobs, healthcare costs, insurance premium costs, etc.) framed in 'working people...and/or working family' terms represent the strongest formulations for Democratic candidates and campaigns. These 'working people' formulations for your speeches, mail and most importantly your TV and radio spots are not simply throwaway lines and usages. The data show they are critical! For example, notice the difference in the swing voters' reaction to two — apparently similar — but slightly differently worded formulations regarding the economy:

" 'Who would do a better job handling the economy?' Democrats, 36 percent; Republicans 27 percent; Neither/Both/Not Sure, 38 percent.'

" 'Who would do a better job handling the economy and economic issues in a way that is sensitive to the needs of ordinary working people in America?' Democrats, 53; Republicans, 17 percent; Neither/Both/Not Sure, 29 percent.

"When a Democratic candidate or media presentation doesn't use this symbolic language of 'working people' they give away 27 points that they would otherwise have had. It's as simple as that."

Companies Shift More R&D To India & China

The majority of big multinational companies locating R&D centers in emerging economies — particularly in India and China — are doing so to be close to a growing market and generally are not shifting R&D resources out of their home markets, according to a survey sponsored by the National Academies of Sciences' Government-University-Industry Research Roundtable.

Multinational companies based in the United States and Europe have already opened research centers throughout the world, and a majority have plans to continue to add research capabilities outside of their home markets. Over 75 percent of the 250 respondents said the R&D facilities under consideration were part of an expansion in R&D, notes the survey. "Less than 30 percent of the sites were characterized as relocation."

The respondents were asked if they anticipated over the next three years if they would shift worldwide distribution of their R&D staff. Thirty-eight percent of the 209 companies that answered said yes, indicating they expected a substantial change. Of those answering yes, 15 (7.2 percent) said they expect to increase technical employment in the United States over the next three years, whereas 23 firms (11 percent) anticipate a decrease. "In contrast, seven firms (3.3 percent) anticipate an increase in technical employment in Western Europe, whereas 35 companies (16.7 percent) anticipate a decrease.

More than 65 firms said they expect to increase technical staff in China, and 40 expect an increase in India. No firm said they expect to decrease technical staffing in China or India.

The multinational firms rank "being close to R&D personnel" as the most important driver in location strategy, followed by being close to customers, R&D collaboration with other firms, close to universities, sponsored research at universities or research institutes, Internet based searches for solutions to technical problems and, in last place, being close to competitors.

Very few companies are opening R&D centers in emerging markets due to tax incentives, the survey found. "Only three of 80 respondents (3.8 percent) either agreed or strongly agreed that they had been offered tax breaks and/or direct government assistance," says the survey. "Thus, one can reasonably reject the argument that tax breaks and or direct government assistance are luring firms to establish R&D facilities in developing or emerging economies."

Companies are also not attracted to the emerging countries due to lower costs. "Costs are lower, but they tend not to be as important or central in location decisions as are other factors," says the survey. Ownership, IP protection, supporting sales, quality of R&D and growth potential are all more important than cost in expanding R&D in emerging markets. "Costs are high in developed sites, but, on average, costs are not considered an important part of the decision for developed countries."

The subject of offshoring of engineering will be the subject of a two-day workshop at the National Academy of Engineering in Washington on Oct. 24-25. Among the speakers are Charles Vest, president emeritus of the Massachusetts Institute of Technology, Robert Galvin, chairman emeritus of Motorola, and Richard Wyndrum, president of the IEEE, among others. To register, go to http://www.nae.edu/registration.

Atomic Bomb Agency Will Seek And Share Technology

The Department of Energy's National Nuclear Security Administration (NNSA) will hold a two-day conference in Washington, D.C. in October to highlight future trends in defense and materials technologies, analysis and enterprise transformation. "It is NNSA's intent to bring people together in an open form where ideas for collaboration and partnership will be spawned and nurtured beyond the normal, daily channels of communication that each of us has," says conference sponsor Elinor Ochoa.

The "Future Technologies Conference" intends to break down "organizational borders" for firms to introduce new technologies into the nuclear bomb complex. For information on the Oct. 11 - 13 event in Washington, D.C., go to http://www.dcslsinc.com/technology/.

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