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Court Ruling Spotlights Department of Labor's Disregard For Labor

The Department of Labor routinely denies benefits to thousands of workers whose jobs have been lost to free trade, according to a scathing court ruling issued last year that received little notice. The agency's routine denial of benefits and its inability to uphold those denials in court are clear evidence that the Trade Adjustment Assistance (TAA) system "is fundamentally broken," according to a ruling by the United States Court of International Trade. The Labor Department does not represent the interests of labor, but of employers, says the judgment.

"Trade adjustment assistance programs historically have been — and today continue to be — touted as the *quid pro quo* for U.S. national policies of free trade," according to the first sentence in the ruling in the case of "Former Employees of BMC Software Inc. v. the United States Secretary of Labor." But the Labor Department's "reprehensible" mishandling of the program has put that *quid pro quo* in jeopardy, says the court.

"As illustrated by the history of virtually every TAA case filed with the court in recent years, the Labor Department's standard investigative modus operandi appears to be to target whichever element of a TAA claim the agency perceives to be the weakest, and — if the agency finds that that particular element is not satisfied — to deny the claim on that basis, with no investigation or analysis of the other elements of the claim," writes judge Delissa Ridgway in her ruling.

In dozens of recent cases, the Department of Labor was cited as being negligent in all aspects of its administration of the program. The

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Behind The Sound Bites Of Republican Presidential Hopeful Rep. Duncan Hunter

Rep. Duncan Hunter (R-Calif.), a 2008 candidate for President of the United States, sounds like an anti-free trade populist these days. But he's got reason. As former chairman of the House Armed Services Committee he experienced first-hand the difficulties the military is facing when it comes to arming its forces with American-made weaponry. The United States secured the freedom of the world three times during the last century — winning World Wars I and II, and prevailing in the Cold War — because of its "Arsenal of Democracy," he says. The U.S. industrial base was able to turn out an Air Force bomber once every hour. "They could have built the entire bomber force of B-2 aircraft, which numbers 21, in one day and had three hours left over," he says.

But that Arsenal of Democracy is in trouble, and that trouble is being caused largely by the shift of production overseas, particularly to China, and mostly by the large multinational companies that have controlled the trade agenda for the past 20 years. Those multinationals are now, in fact, "Chinese companies," doing the bidding of the Communist Chinese government in setting U.S. policy, which runs counter to the interest of U.S. workers, taxpayers and U.S.-based manufacturers, says Hunter.

There are two "real experiences" that have recently shaken him. The first was when his committee was seeking solutions to the deadly surge of improvised

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Bush Budget Eliminates Technology Administration

The Bush administration has decided to shut down the Department of Commerce's Technology Administration (TA). The agency, which was created with great fanfare and high expectation during the last competitiveness challenge of the late 1980s, is no longer necessary and is well on its way to being phased out of existence. The Bush administration has requested $1.6 million for the office for next year, enough to fund two workers, according to the 2008 budget request.

Some observers close to the agency say the Bush administration is closing the agency partly in retribution for a 2004 report it was forced to release in 2006 on outsourcing in the service sector and the semiconductor and pharmaceutical industries. That report, which was mandated by Congress, was due to be published six months before the 2004 presidential election, but was shelved by political appointees because outsourcing had become an issue in the presidential campaign.

When it was finally released in late 2005 in response to a Freedom of Information Act request submitted by *Manufacturing & Technology News*, the $335,000 report numbered a scant 12 pages. The report was never posted on TA's Web site and was never made available to the public. The 12 pages — at $28,000 per page — had been re-written by Bush political appointees who felt the need to cover for the ideological argument made by administration officials that outsourcing was good for the American economy.

Republicans in control of Congress refused to require the Commerce Department to release the entire report as prepared by TA analysts. Democrats on the House Science Committee submitted their own formal request. The Commerce Department denied it. Eventually, Republicans controlling Congress had to acquiesce and the Commerce Department had to oblige, finally releasing a 336-page report in July, 2006.

That affair was regarded as being in line with the Bush administration's controversial practice of doctoring research to suit its own political purposes.

The Technology Administration, which is tasked with overseeing the operations of the National Institute of Standards and Technology and the National Technical Information Service, as well as to set technology policy for the nation as a whole, "works to improve U.S. technological competitiveness and promote U.S. innovation policy in the Executive Branch, before Congress and in international fora," states the Bush administration's 2008 budget request. "The Undersecretary for Technology serves as one of the principal officials responsible for the administration's technology policy, developing and promoting national policies and initiatives that use technology and foster innovation to build America's strength."

That might sound important, but the next paragraph in the budget request states: "TA's base resources will provide for the orderly shutdown of the Office of the Under Secretary [of Technology Policy], as technology policy activities are elevated to the Secretarial level." One Commerce Department official described the language as "Orwellian."

The Bush administration wants

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New Competition For Tech Grants?

A couple of weeks after the Advanced Technology Program (ATP) at the National Institute of Standards and Technology placed on its Web site an announcement about its intention to run a new competition for grants, the White House said don't count on it. The Office of Management & Budget has asked Congress to rescind funds for the program, which received $79 million this year due to the inability of the previous Congress to pass a budget for domestic programs.

NIST director William Jeffrey told a House Science and Technology subcommittee on Feb. 15 that the agency would run a competition to fund high-risk industrial technologies for which it will seek cost-shared proposals. But Jeffrey has been over-ruled by his bosses at the Office of Management and Budget

In a March 9 letter to House Speaker Nancy Pelosi, OMB director Robert Portman asked Congress to cut $3.1 billion in "lower priority federal programs," including $79 million for ATP, in order to pay for a "funding shortfall for the Department of Defense to implement the recommendations of the 2005 Base Realignment and Closure Commission."

Given the growth of venture capital and other financing sources for high-tech projects, "the program is no longer warranted in today's research and development environment," writes Portman. "Large shares of ATP funding have gone to major corporations, and past Government Accountability Office studies found that projects often have been similar to those conducted by firms not receiving such subsidies."

Other agencies that are targeted for reductions include the Department of Agriculture ($245 million); the Department of Education ($892 million); the Department of Energy's Environmental Management program ($200 million); HUD for its Community Development Block Grant program ($740 million); the Department of Interior ($77 million); the Department of Transportation ($677 million, including $393 million for Amtrak); and the Corps of Engineers ($50 million). To view the ATP "Cancellation Proposal" from the OMB, go to www.whitehouse.gov/omb/budget/amendments/cancellation_3_9_07.pdf.

NIST Director Has A Change Of Mind Over Recompeting Manufacturing Extension Ctrs.

The director of the National Institute of Standards and Technology has decided to cancel plans to hold a re-competition of its Manufacturing Extension Partnership (MEP) centers. NIST director William Jeffrey's Feb. 15 announcement before a House Science and Technology subcommittee of the agency's intention to re-compete the centers was met with an immediate barrage of criticism that grew over the ensuing days.

"The proposed competition was intended as a contingency to ensure the strongest network possible regardless of final appropriations," writes Jeffrey in a note posted on the MEP Web site. The Bush administration has requested $46 million for the program for next year, a 58 percent cut.

"Based upon inputs from the centers, Congress, and others, it has become clear that the process of the competition will be disruptive to the current operations," Jeffrey writes. "We have, therefore, decided not to hold this competition....Thank you for your valuable input and obvious passion for this program."

Meanwhile, in the Bush administration's budget request, the MEP program is made to look like a huge success. In 2005, the program, with $104 million in federal funds, assisted 16,448 small- and medium-sized manufacturing companies. As a result of their interaction with their local MEPs, those companies increased sales by $2.84 billion. Capital investment among those companies surged by $2.25 billion. Cost savings in companies receiving assistance was $1.3 billion. The total impact of the federal government's $104 million investment was $6.39 billion. NIST says this equates to an "efficiency measure for client-reported impact per million dollars of federal investment" of 20.9.

These numbers would go down substantially if the Bush administration's budget request of $46 million for next year is adopted by Congress. The Bush budget request notes that with 58 percent less funds, the centers would help about half the number of companies: 8,183. Those companies would only improve sales by a projected $291 million (compared to $2.84 billion); and reduce costs by $199 million (compared to $1.3 billion with "full" funding in 2005). The total projected impact would be one-sixth the amount under full funding: $854 million. The efficiency measure for client-report impact per million dollars of federal investment would drop to 4.0.

An unlikely supporter made the case for additional MEP funding during meetings with Washington legislators on March 8. Scott Gruber, executive vice president of National Penn Bank in Boyertown, Pa., told members of the Pennsylvania congressional delegation that as a banker who oversees loans to manufacturing companies he "can testify to the value the [Pennsylvania-based] Manufacturers Resource Center provides to help increase manufacturing employment, tax dollars and economic health," he said. MEP funding should increase this year to $113 million to "help small manufacturers remain competitive internationally and continue to provide millions of higher-wage, family friendly domestic manufacturing jobs."

Commerce Opens New Office Seeking Foreign Investors

The Department of Commerce has created a new program aimed at attracting foreign investment in the United States. The Invest In America initiative, run by the International Trade Administration, will promote the United States as a destination for foreign investment. Frank Levin, Commerce undersecretary for International Trade, says the initiative will "serve as an ombudsman in Washington, D.C., for the concerns of the international investment community as well as work on policy issues that affect the attractiveness of the United States to foreign investment." It will also support state and local governments with foreign investment promotion programs. A task force will be created within ITA "charged with the responsibility of educating and coordinating the efforts of the 2,300 ITA employees in offices around the world on inward foreign investment," says the ITA, which is responsible for administering U.S. trade laws. For more information, go to http://www.investamerica.gov.

Uncertainty Greets Mexican Truck Decision

The Department of Transportation's decision on Feb. 23 to allow 100 Mexican trucking companies to make deliveries beyond the current 20- to 25-mile commercial zones currently in place in the Southwest border drew immediate negative reaction from members of Congress. "This pilot program not only poses a serious threat to our national security and the safety of American drivers on the road, but endangers American jobs and our economy," wrote Rep. Walter Jones (R-N.C.), in a letter to Michael Chernof, head of the Department of Homeland Security, and Mary Peters, Secretary of the Department of Transportation. "How can our nation allow trucks from Mexico to have unfettered access into our country and onto our highways?" Jones asks. "The Department of Transportation asserts that all trucks will be inspected by U.S. officials in Mexico and at our border, yet less than 10 percent of all Mexican trucks entering the commercial zone are inspected now." Sen. Hillary Clinton (D-N.Y.) said the decision was "deeply troubling."

Washington Coalition Will Push For Export Control Reforms

A new coalition of eight major trade associations has been created to pressure the U.S. government to reform its export control system. The Coalition for Security and Competitiveness has called on President Bush to make major changes to the way the U.S. government handles the export of military-sensitive technologies.

"We strongly believe that export control modernization is needed and that the opportunity is now," the associations said in a letter to Bush. The group wants a system that is more efficient, predictable and transparent.

Currently, the Department of Commerce is receiving 18,000 applications a year from companies wanting to export "dual-use" civilian-military technologies. The State Department is processing more than 65,000 licenses each year, a figure that has been increasing about 8 percent annually.

The State Department had a 10,000-case backlog last year "that is still being whittled down," says the group. It normally takes two months for an application to be approved. Delays are costing U.S. companies business to overseas competitors.

Both agencies need to hire more licensing officers to ease processing delays "and develop new types of authorizations for export," says the coalition.

In addition, the export control system needs to more accurately identify sensitive military technologies; be structured to enhance U.S. industrial competitiveness; facilitate defense trade and technological exchange between allies; support a strong technology industrial base and a highly skilled workforce; and promote greater multilateral cooperation with allies on export controls.

Members of the coalition include the Aerospace Industries Association, the Association for Manufacturing Technology, Coalition for Employment through Exports, Electronic Industries Alliance, Information Technology Industry Council, National Association of Manufacturers, National Foreign Trade Council and the United States Chamber of Commerce.

For more information, to go http://www.securityandcompetitiveness.org.

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to "modernize" the Commerce Department's approach to technology policy by creating a "Department-wide Technology Council" that will coordinate technology policy activities distributed across the Department. A new senior technology advisor position will be created in the Department's Office of Policy and Strategic Planning. The budget for next year provides the Technology Administration with $176,000 "for anticipated severance payments, which will continue into FY 2009," says the budget request.

"I have a significant concern with this proposal," said Andrew Reamer, a fellow with the Brookings Institution, at a March 6 hearing of the House Appropriations subcommittee on Commerce, Justice, Science and Related Agencies. "While Congress intended for the Under Secretary for Technology and the Office of Technology Policy to perform a number of detailed analytic and coordinating functions for the purposes of U.S. competitiveness, the Department has not indicated how the mandated functions will be performed and by whom after TA and OTP are eliminated. The Technology Administration was the only place in the federal government that looked at competitiveness issues from across the entire federal government. There is no indication that a new council will assume this role. Instead, as the budget document states, it will coordinate technology policy activities distributed only across agencies that are part of the Commerce Department."

Others note that the research and technology policies of the federal government were created for a different era, when U.S. companies were considered to be part of the solution to the competitiveness challenge. Today, that may not be the case, and the benefits of federal funding of R&D may not be accruing to U.S. taxpayers, instead finding application overseas. There is no organization within the government addressing this fundamental change in circumstance, they say.

"My concern is that the administration seems intent not on relocating or rejuvenating, but destroying an information asset of potential valuable use in competitiveness assessment," said Reamer. The TA's staff has been composed of professional, non-political analysts, whereas the proposed Technology Council "will be comprised of political appointees or their designees; each will be concerned only with representing its agency's interest and responsibilities. No member will have a mandate to look at the nation's technology policies broadly and deeply, including the senior adviser, whose concern would be Department policy. While the senior advisor could serve as a point of contact for industry, that person cannot replace an office of 30 analysts."

During a Feb. 7, 2006, Senate confirmation hearing for current Technology Administration head Robert Cresanti, Sen. Daniel Inouye (D-Hawaii) asked why President Bush would close TA when he had just made statements citing the importance of competitiveness and technology. "You're not wiping out the office, are you?" Inouye asked Cresanti. "No, I surely hope not," said Cresanti, who described the office as being "essential."

Council On Competitiveness Defends Its Competitiveness Index, But Commentator Paul Craig Roberts Strikes Back

BY DEBORAH WINCE-SMITH
President, Council On Competitiveness

In a recent essay in *Manufacturing & Technology News*, (Feb. 6, 2007), Paul Craig Roberts takes issue with our new report, "Competitiveness Index: Where America Stands," which the Council on Competitiveness produced in collaboration with Prof. Michael Porter of the Harvard Business School. The report benchmarks the United States against more than 30 other major economies on over 100 metrics, covering the period from 1986 to 2006.

Ultimately, Roberts does not question the accuracy of our data. Rather he disagrees with our assertion that the United States remains one of the most competitive economies in the world and our optimism that America can continue to prosper in a rapidly changing global economy. Our opposing perspectives reflect fundamentally different understandings of the foundations of U.S. prosperity, and their implications for U.S. policy are profound.

Twenty years ago, when the Council on Competitiveness was founded, the rapid rise of Japan and Germany as industrial powers challenged America's economic dominance. Many warned that the days of American economic leadership were over and that we were destined to become a nation of low-wage service workers. Looking back, it is clear that we overcame these challenges better than anyone expected. U.S. GDP has nearly doubled since 1986. The U.S. economy averaged 3.1 percent annual growth over this period, the highest rate of any major developed nation. Real GDP per capita increased by nearly 50 percent and remains the highest among major nations. The U.S. workforce has grown by 48 percent since 1986, adding more than 43.8 million net jobs — more than the entire workforce of Germany in 2005. All of this happened despite the fact that imports as a percentage of GDP nearly doubled, the current account deficit ballooned and U.S.-based corporations expanded rapidly overseas.

Roberts dismisses these successes as irrelevant, pointing to a number of disturbing trends that have become apparent or worsened since 2001 including the dramatic loss of manufacturing jobs, overall weak job creation, declining median household income, growing income inequality, rising levels of debt and rapidly growing trade deficits. These trends are real and troubling, and all of them are analyzed in our Index. But while Roberts seems to see in them an inescapable death spiral that will turn the United States into a third world country, we see a painful adjustment to a new global environment that must be met by efforts to improve our competitiveness — not attempts to roll back the realities of the global economy.

Many of Roberts' arguments, like much of the current hysteria about offshoring, are based on a number of widespread myths:

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BY PAUL CRAIG ROBERTS

It is the Council on Competitiveness that deals in myth.

The myth is that Americans benefit from corporations offshoring American jobs.

The Americans who benefit, as income data make clear, are the top executives and shareholders of the corporations. They benefit, because profits, bonuses and share prices go up when labor costs go down. Everyone else loses the incomes associated with the production of the goods and services that they consume.

The Competitiveness Council's response to my factual presentation of evidence is based on misconceptions. The reemergence of Japan and Germany after World War II as industrial economies has nothing in common with the offshoring of production of goods and services for U.S. markets. The revival of Japan and Germany was due in part to U.S. Cold War strategy to create bulwarks to the spread of communism, but it was not achieved by U.S firms moving capital, technology and business know-how to those countries in order to produce abroad for U.S. markets and boost share prices by lowering labor costs.

The U.S. and German populations are of different magnitudes. A comparison of the growth in the number of U.S. jobs over 20 years with the size of the German work force means nothing. Moreover, 21st century economic growth in the U.S. is due to the expansion of debt and to the collapse of the U.S. saving rate. Growth measures need to be rethought when their rise is not accompanied with a corresponding rise in the economic security of the population.

The Competitiveness Council's bare bones reply to my detailed critique of their misleading report consists of an assertion that my critique relies on three myths. In fact, my critique relies on correct economic analysis of official government data. The three myths alleged by the Competitiveness Council are nothing but straw men. I will address each in turn.

"Myth: American manufacturing is dying as companies move their production offshore." The Council "exposes" this myth by acknowledging that "it is manufacturing employment that has declined dramatically," not manufacturing per se! "The United States remains the largest manufacturer in the world."

It proves nothing if the United States remains the largest manufacturer in the world. This fact is consistent with enormous relative decline. The geographical size and population of the United States, World War II, and various forms of socialism that suppressed output in most of the world for decades prior to about 1990 are reasons for America's large share of global output. This share is declining. The Competitiveness Council acknowledges that China, until recently a third world country, "is on track to overtake us very soon" as "the

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Dept. Of Labor...

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way in which the agency is ignoring information provided to it from workers "as well as its pattern of turning a blind eye to obvious inconsistencies and discrepancies in the record before it — is beginning to verge on contempt for administrative and judicial process and does a grave disservice to the hardworking men and women of this country," Ridgway writes in her decision.

The Department of Labor rarely considers information associated with job losses provided to it from newly unemployed workers, instead relying almost exclusively on specious claims from employers that workers' jobs were not shifted overseas or that the workers themselves were not producing "products" that would enable them to be covered by the statute.

Ridgway's 86-page ruling is a stinging condemnation of a program that free trade advocates have used to justify the past 20 years of trade policies promoted by corporations, think tanks, Presidents and Congress. Its mishandling of the program should be considered in the upcoming debate over renewing Trade Promotion Authority for the President, writes the judge.

"The very purpose of the TAA program is to provide retraining and other employment assistance to U.S. workers whose jobs have been sacrificed — in the national interest and for the greater good of the country — on the altar of free trade," she writes. "As one scholar [Prof. Robert LaLonde of the University of Chicago] recently put it, 'Trade is a little bit like war....Fighting World War II [was] a good thing. It [was] good for the world, and...good for the United States. But for the people who got killed, it was clearly bad. That's what trade is like.'

"The analogy is an apt one. And, much as Congress has charged the U.S. Department of Veterans Affairs with caring for those who have risked life and limb for our freedom, so too Congress has entrusted the Labor Department the responsibility for providing training and other re-employment assistance to those who have paid for our place in the global economy with their jobs."

In reviewing the case brought by former workers of BMC Software of Houston, Judge Ridgway cites dozens of cases — like the one she was hearing — in which the Department of Labor denied benefits after having done little investigation of the circumstances surrounding the layoffs. "This case is troubling enough viewed in isolation," she writes on page 55 of her decision. "But it is even more disturbing when it is viewed in the context of other TAA cases appealed to the court in recent years."

In an analysis of the 45 TAA cases brought against the Labor Department before the court between 2002 and 2005, Ridgway found that the Labor Department was forced to certify workers in all but four of the cases. "And, even in those four cases, the denials were sustained only *after* the agency had the benefit of one or more remands to bolster the investigative record," she writes. "Thus, at least during the four-year period of review, the Labor Department *not even once* successfully defended a denial of TAA certification solely on the strength of the agency's initial investigation. Those statistics alone are sobering enough. But there is even more here than meets the eye. The fact is that the TAA cases filed with this court almost certainly are just the tip of the iceberg."

Most of the workers who get laid off due to trade have no idea that they even qualify for TAA benefits, and those who are denied benefits lack access to legal representation. "In TAA cases, there generally are no lawyers separating the wheat from the chaff, advising petitioning workers to pursue in court only those cases with the greatest likelihood of success," Ridgway writes. "It is, therefore, reasonable to assume that the TAA petitions which are *denied but not appealed* to the court are — on the whole — no less meritorious than the denied petitions which *are* challenged here. Extrapolating workers' roughly 90 percent 'rate of success' before the court to the hundreds of TAA petitions that are denied but not appealed every year suggests that the Labor Department's failure to properly investigate petitions is routinely depriving thousands of U.S. workers of the TAA benefits to which they are legally entitled. The Labor Department should be haunted by that fact."

> *"The Labor Department's failure to properly investigate petitions is routinely depriving thousands of U.S. workers of the TAA benefits to which they are legally entitled. The Labor Department should be haunted by that fact."*

The Labor Department routinely "doctors" the record when its denials are appealed to the judiciary, and it uses that appeal as a means to "beef up the administrative record before the agency's determination is subjected to judicial review," writes the judge. The agency is using "the procedural vehicle of voluntary remands to sweep much of the worst of its dirt under the rug."

The manner in which the Labor Department investigated claims by the petitioners in the BMC case were particularly galling. Having been laid off in August, 2003, and filing a petition for benefits with the Labor Department, it wasn't until January, 2004, that the Labor Department contacted BMC management concerning that petition. It asked the company's Vice President of Human Resources what the workers' produced, and was provided with a verbatim "marketing pitch" — a "soundbite plucked" from BMC's Web site about the company's business, according to the ruling. "With no further inquiry, the Labor Department denied the workers' TAA petition on January 20, 2004 — although the Federal Register notice of the initiation of the investigation wasn't published till three weeks thereafter," writes the judge. "In effect, the agency's Federal Register notice of the initiation of the investigation invited the workers to seek a hearing on a petition that the agency had already denied." Moreover, in its denial letter, it did not mention to the workers that

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Department of Labor...

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its decision could be challenged in the U.S. Court of International Trade.

The Department of Labor determined that the workers could not receive benefits because they developed "software solutions" and did "not produce an article within the meaning of the TAA statute." This was later proved false.

When the workers appealed the ruling, the Department of Labor went back to the same company official who "stated flatly that 'no products are manufactured' by the company." The agency staff member "did nothing to confront the BMC official with any of the information provided by the workers....Based on nothing more than its phone conversation with BMC's Senior Manager for Human Resources, the Labor Department denied the workers' request for reconsideration, ruling once again that they were 'not considered to have been engaged in production.' ...Adding insult to injury, the agency's investigation conducted in response to the workers' request for reconsideration was little more than a rubber-stamp of its initial denial. The Labor Department's reconsideration consisted — in toto — of a single phone conversation with BMC's Senior Manager for Human Resources (the same company official who had responded to the agency's initial questions)....In effect, the agency sought to delegate to BMC's Senior Manager for Human Resources the power to decide the workers' TAA petition."

All the Department of Labor had to do to determine if the workers' were correct in their claim that they were producing "products" was to click a few buttons on the BMC Web site or read the company's 10-k form. If it had done so, it would have found that the company's SIC code (7372) is for "prepackaged software," and that it described the work done at the Houston facility as "manufacturing."

"By regulation, the Labor Department is required 'to marshal all relevant facts to make a determination' on TAA petitions," the judge notes. "In light of that obligation, the agency's failure to avail itself of resources such as the company Web site and Form 10-Ks in cases such as this is utterly incomprehensible."

The judge cited similar findings in other cases brought against the Department of Labor, including with workers from Ericsson, Ameriphone, Chevron, and Marathon Ashland Pipe Line. In the case of BMC, the agency "never once contacted the workers to attempt to reconcile the discrepancies [made by the human resources manager] or to solicit information from them....It is difficult to fathom why Labor Department investigators continue to rely so heavily on employers, virtually to the exclusion of petitioning workers. In those rare cases where Labor Department investigators actually have contacted petitioning workers, it has generally been only after an initial negative determination has been rendered and the workers have sought reconsideration or have filed a challenge in court."

Relying on company statements is "simplistic and naïve, at best," said the judge, because many employers have reason to lie, such as in the case of Tyco Toys. Other companies — as was found in the Bell Helicopter case — withhold information because of the potential for negative publicity and the fact that a "full-blown TAA investigation (and possible eventual certification) may be exploited by competitors or may negatively affect their stock prices or financial ratings or may have an adverse impact on their relationship with their suppliers or their 'downstream' finishers, by signaling that they may be having financial difficulties.

"In short, there is something fundamentally wrong with the administration of the nation's trade adjustment assistance programs if, as a practical matter, workers often must appeal their cases to the courts to secure the thorough investigation that the Labor Department is obligated to conduct by law."

The decision (Slip Op. 06-132) is located at the U.S. Court of International Trade.

Another Year, Another Fair Currency Bill

The currency manipulation bills that went nowhere in the last Congress has been introduced again in both the House and the Senate. The "Fair Currency Act of 2007" (HR-782), sponsored by Reps. Tim Ryan (D-Ohio) and Duncan Hunter (R-Calif.) in the House and by Sens. Jim Bunning (R-Ky.) and Debbie Stabinow (D-Mich.) in the Senate, should have a better chance of passing Congress this year, say the sponsors.

"The signals I'm getting [from the House leadership] are pretty good," says Ryan. Talks with Reps. Charles Rangel (D-N.Y.), chairman of the Ways and Means Committee and Sander Levin (D-Mich.), chairman of its subcommittee on trade, make Ryan feel "very excited" about the bill's prospects in the House.

Joining a Capitol Hill press conference to promote the bill was Rep. Don Manzullo (R-Ill.), who proclaimed that as an ardent free-trader he was also an ardent supporter of "forcing governments to stop cooking their currencies to give their companies an unfair competitive advantage over American manufacturers. All free traders should support this bill," he said.

It's not clear if the National Association of Manufacturers will do so. At a meeting of the organization's board in Orlando, the group did not discuss China or currency manipulation. "They tabled the whole thing," said Richard Wilkey, CEO of Fisher-Barton, Inc., and a member of NAM's U.S.-China Business Relations Task Force. "The bottom line is most of the big guys do not want legislation to push this through. I know a lot of these guys. They all seem to say we need to do something on currency manipulation, but they do not want to push it. I don't understand that, frankly. I don't get it at all."

Rep. Betty Sutton (D-Ohio) said the Hunter-Ryan bill "is really, really important to the people I represent. We need action from this Congress." Rep. Hunter said: "Now is the time to pass this legislation. As President of the United States, I will sign this legislation." Hunter is running for president.

Deborah Wince-Smith...*(From page five)*

Myth: American manufacturing is dying as companies move their production offshore.

Reality: The United States remains the largest manufacturer in the world, responsible for about one-fifth of global output (approximately the same share as in 1986). America's share of high technology manufacturing value-added is even higher (42.5 percent) and more than twice that of any other country. The United States is the world's second largest exporter (though China is on track to overtake us very soon). Manufacturing in America is still strong — it is manufacturing employment that has declined dramatically.

Myth: American manufacturing workers are losing their jobs primarily because companies are seeking cheaper labor offshore.

Reality: U.S. manufacturing output has increased even as employment has fallen, primarily because dramatic increases in productivity have enabled companies to produce more with fewer workers. Real value added per manufacturing worker more than doubled between 1987 and 2005. While cost savings are an important factor in global expansion, they are not the only or necessarily the most important driver. The rapid expansion of U.S. multinationals in China, for example, has at least as much to do with the rise of middle-class Chinese consumers as with the enormous supply of low-wage Chinese workers. According to the U.S. Bureau of Economic Analysis, 65 percent of the foreign affiliate sales of American multinationals are to the local market, while only 11 percent are exported back to the United States.

Myth: According to Roberts, "The problem in 21st century America is not a lack of educated people, but a lack of jobs for educated people."

Reality: It is true, as Roberts points out, that many highly educated people (particularly in IT and related professions) have lost their jobs since 2001 (though the bursting of the IT bubble is at least as much to blame as offshoring). But this hardly means that education no longer matters. Technological change and global competition are rapidly reshaping jobs, companies and entire industries. They destroy some jobs, but they create others. (In fact, the United States exports more IT and business services than it imports.) And education is one of the best ways to enable workers to succeed in a rapidly changing environment where routine tasks are increasingly commoditized. Innovation is America's most important competitive advantage in the 21st century, and innovation depends on an educated workforce.

Highlighting these myths is not meant to diminish the fact that many American workers and American regions are struggling to succeed in a hyper-competitive environment. The bar for competition is rising, and we certainly face challenges of an unprecedented nature. But blaming all of our problems on rising imports or the global expansion of U.S. multinationals is not only wrong, it is counter-productive. We must respond with a broad range of measures to make America — and American workers — more productive, more competitive, more innovative and, ultimately, more prosperous.

Paul Craig Roberts...*(From page five)*

world's second largest exporter."

"Myth: American manufacturing workers are losing their jobs primarily because companies are seeking cheaper labor offshore." The Competitiveness Council's "reality" is that workers are losing their jobs because their productivity and the value of their marginal product have doubled. In economic analysis, this would be a reason to hire more U.S. labor, not less.

Another problem with the Competitiveness Council's argument is that the firms that move their plants abroad and firms that offshore professional services that can be delivered telephonically or over the high-speed Internet themselves cite lower labor cost as the reason, unlike the U.S. firms that reduce their labor costs by importing foreigners on work visas. These firms claim a shortage of U.S. skills even as they have their U.S. employees train their foreign replacements as a requirement for receiving severance pay.

Despite the evidence, the Competitiveness Council is certain that the lower cost of foreign labor that can be substituted for U.S. labor is not the main reason American "workers are losing their jobs." I would point out that the division of "foreign affiliate sales" of U.S. multinationals between markets abroad and U.S. domestic markets is a misleading measure of the impact on the U.S. economy of offshore production for U.S. markets. The U.S. has a postwar history of producing in Europe for European markets. For some U.S. corporations, their European operations are the main source of their profits. Historically, foreign affiliate sales do not consist of offshored production for U.S. markets. Therefore, the foreign affiliate sales base is large relative to the newer practice of offshoring production for U.S. markets. The Competitiveness Council is making an apples and oranges comparison.

The third "myth" according to the Competitiveness Council is that there is a lack of jobs for educated people. The Competitiveness Council's evidence is that "the United States exports more IT and business services than it imports." Again, this is reliance on a historical dominance achieved in the pre-offshoring past. It is a position that is rapidly deteriorating.

The fact that offshoring has resulted in a lack of jobs for educated Americans is not a myth. The BLS jobs data and 10-year projections of U.S. job growth show that in the 21st century U.S. job growth has consisted almost entirely of jobs in domestic nontradable services such as waitresses, bartenders and health and social services. The projections of future U.S. job growth are primarily in areas that do not require university education.

This is a big change in the structure of U.S. jobs, one that implies the dismantling of the ladders of upward mobility that made the United States a land of opportunity.

There are two large stumbling blocks to awareness of the detrimental impact of offshored production of

(Continued on next page)

And Another View Of The Competitiveness Index

BY NELSON HOFFMAN

I have observed the positions taken by the Council on Competitiveness for 15 years, and believe the organization has done little to significantly change the competitiveness of our nation. The group has watched the elimination of entire industries and has become the front man for multinational corporations. Let's turn to statements made by Prof. Michael Porter of Harvard University in presenting the Council's "Competitiveness Index."

Porter states that "education is perhaps the single biggest threat to future American prosperity." What about the ever-growing debt position of our nation? How about the growing and uncontrolled trade deficit? Is education more of a threat to the nation's prosperity than the transfer of our asset base to Asia and the disregard for the American working man's welfare? All of these weigh as heavily on the scale of threats to America's prosperity as the flaws in the nation's high-school system.

In speaking of who is doing well in this "new" environment, Porter states that "American companies are by far the leaders in prospering in the new global economic order."

Are they? In the automotive industry, America's three traditional manufacturers are in a fight for their existence. Toyota is about to take over the global lead market share from GM. Ford leveraged almost all of its assets for a two-year infusion of cash in a search for ways to make money in vehicles other than SUVs and trucks. DaimlerChrysler seeks to hang onto market share. General Motors spun off one of the world's best supply chains to create Delphi, which is now in bankruptcy. That great strategic move has now created a burden on all Americans. U.S. taxpayers are left with having to pick up the health and retirement benefits earned by Delphi employees. Has the Harvard Business School written a case study on the wisdom of that strategy?

Porter states that China "is performing relatively low value-added manufacturing activities often in high-tech industries." How low-tech is the production of flat-panel plasma displays, liquid crystal displays, cell phones, GPS systems, computers, electronic components, etc., etc.? IBM should better be known as "I can't build Business Machines." The company has found success in software and services. But can you separate software and services from the machines? I'm glad Dr. Porter's creative mind can contest this premise.

Dr. Porter is right that Asian countries began producing at the bottom of the value chain. But they have transitioned up the scale faster than any nation in history. Their brightest youth have attended our great universities and have learned the parlay of technology and the importance of value-added research. As one trained as a scientist, I see that the tendency to measuring the current status of

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Paul Craig Roberts...(From page eight)

goods and services for U.S. markets. One is the self-interests of the corporations that benefit from the practice. The other is the confusion of labor arbitrage with the case for free trade.

The classic case for free trade requires each country's capital to seek its comparative advantage at home so that each country can specialize and share in the gains of trade.

Labor arbitrage is an example of capital seeking absolute advantage in lowest factor cost abroad. The pursuit of absolute advantage does not result in mutually shared gains from trade.

All advocates of offshored production for U.S. markets fail to explain how the United States can balance its trade and current account deficits when its work force is being redirected into domestic nontradable services. The United States has made it thus far, because the U.S. dollar inherited the reserve currency role after WW II. Although less inclined than previously, foreigners are still willing to accept U.S. dollars for real goods and services. This willingness is threatened by large and persistent U.S. trade and budget deficits.

Many Americans worry about energy dependence and the impact of oil imports on the U.S. trade deficit. However, despite the higher price of oil due to the Bush administration's war, the trade deficit in oil or energy is dwarfed by U.S. dependence on imports of manufactured goods. In 2004, for example, the U.S. trade deficit in manufactured goods was 3.4-times larger than the deficit in crude oil and 2.5-times larger than the trade deficit in mineral fuels. The deficit in vehicles plus clothing was 1.4-times the crude oil import bill. In 2005, the U.S. trade deficit in manufactured goods stood at $506 billion, 2.8-times the value of crude oil imports of $182 billion.

Despite the enormous disparity, U.S. policy-makers remain fixated on the energy deficit. Unlike the larger manufacturing trade deficit, from which we are said to be benefiting, Americans are worried about the harm being done them by the smaller energy deficit. As I write this, President Bush is in Brazil talking up ethanol deals.

The inability of U.S. political and professional human resources to focus on real problems is mind-boggling.

— Dr. Roberts is a former Assistant Secretary of the U.S. Treasury. He held the William E. Simon Chair in Political Economy, Center for Strategic and International Studies, Georgetown University and was Senior Research Fellow, Hoover Institution, Stanford University.

Duncan Hunter Interview...

(Continued from page one)

explosive devices in Iraq, and addressed the urgent need to improve armor on the American fleet of tactical vehicles. Hunter sent a team from his committee to find manufacturers that could produce high-grade armored steel as quickly as possible. The team found only one company left in the United States able to respond.

The second involved the well publicized Joint Direct Attack Munition in which a Swiss company refused to provide the crystals needed for the guidance system of the country's most important "smart" bomb. When the committee sought out U.S. sources of the crystal, it found only one company left making this essential technology.

"We're down to one-sies and two-sies on critical aspects of the defense industrial base," says Hunter. "This is a security problem! I have two reasons for wanting to maintain a strong industrial base in this country. Number one, good high-paying jobs for our people and good profits for our businesses so they can continue to make capital investment and, secondly, national security. It could get to the point where it is primarily a national security problem."

Manufacturing & Technology News editor Richard McCormack sat down with Hunter in his Capitol Hill office recently to probe beneath the surface of his sound bites associated with his Presidential campaign related to national and economic security issues. Here is what he has to say:

Q: In the late 1980s, Ronald Reagan said the United States had to ensure both its economic security and national security and that the high-tech industrial base was worth preserving.

Hunter: Ronald Reagan also said there is no such thing as free trade if one side is cheating. What we've done is we have acquiesced to cheating. That was manifested in the split in the National Association of Manufacturers. The big guys said, essentially, we don't mind the one-way street because we're on the other end of the street. We are Chinese corporations for practical purposes. That is the essence of what their conversation was to the domestic manufacturers, and hence the split.

Q: As President, is there anything you could do about this acquiescence to cheating?

Hunter: Right now, China rebates their taxes to their manufacturers. They give a 17-percent subsidy to their products and a 17-percent penalty to our products. Before you even compare labor, component prices and commodity prices, they have a 34-percent advantage before the game even starts. Then they devalue their currency by 40 percent to make sure the American manufacturer doesn't win. That is cheating. We need to have a government that says that is cheating. [Fed Chairman Ben] Bernanke had that in so many words written in his speech that he was going to give in China [in December], but it was changed before he gave it to the Chinese leadership. That is not acceptable.

Another point about Ronald Reagan is that when Ronald Reagan saw a bad arms control deal, he changed it. He didn't acquiesce to it. Presidents have a unique role in putting together security deals and trade deals with other countries. There is no independent businessman who can go make a separate trade deal with a country. A trade deal is a business deal between nations that is essentially put together by the executive.

I am going to put together good trade deals and I'm going to leave bad trade deals. It is in our interest to have deals that give American manufactures that are innovative, smart and well financed a chance to win and you can't do that when the other guy has 74 points on the board before the opening kickoff. This is like having a football team in the NFL where all the other teams have voted that they all get points on the scoreboard before the game starts, except the United States. When we lose a competition, they say: "What's the matter? Can't you play football?"

Q: With the reauthorization of Fast Track coming up will these issues play themselves out, and will you have a role in that debate?

Hunter: I've always had a role in opposing what I consider to be bad deals. NAFTA and CAFTA were bad deals, so I opposed them. When we passed NAFTA, we had a $3-billion trade surplus with Mexico that a lot of

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Duncan Hunter... (Continued from 10)

people said we were going to build on. I predicted that we would go to a trade loss. We promptly went to a $15-billion loss the next year. These are bad deals. The most business-like thing in the world is to make good deals. That is what business is, but our trade negotiators are bad businessmen. They've been finessed into not enforcing the rules, and they have not put together good deals because the multinational corporations have an interest in a one-way street.

Q: There are so many fundamental questions this issue raises about who the federal government represents. Does it represent the interests of U.S. multinationals or does it represent U.S. workers and domestic manufacturers?

Hunter: For practical purposes, many of the multinational corporations have become Chinese corporations. They like the fact that they are subsidized by their new government, which is China, and that they're able to push American products that are made in the United States off the shelves. They have developed an influence in this country that has not been offset by the Arsenal of Democracy, which is the industry base that is left in this country. I intend to energize the industrial base that is left in this country.

Q: A lot of people look at the 2006 mid-term elections and say that the deciding issue was fair trade and that most of the freshmen Democratic members of the House and six new Senators were all against free trade as it is currently practiced. Was free trade the deciding issue in the loss of Republican control of Congress?

Hunter: No, the deciding factor for my Republican colleagues who lost was the tens of millions of dollars spent against them. In the last district I was in in California, $10 million was spent against the Republican incumbent. I saw tons of money going after the Republicans who lost. Trade was not a major issue. But I would say this: certainly while trade may not have been articulated as a major issue in this election, the economic conditions in which good high-paying manufacturing jobs have been lost set the stage for what I would call a suppressed Republican vote.

The classic Republican position that is welded strongly into the middle class of Americans who have traditionally supported the Republican Party is to support our industrial base and support high-paying manufacturing jobs in this country. That is directly contrary to what I consider to be an artificial position that has been taken in Washington, D.C., which is the support of bad trade deals. These bad trade deals are promoted by folks who don't represent the true American interest.

Q: We have followed your Buy American legislation over the past five or six years, only to watch much of it flounder in the Senate.

Hunter: I offered my first bill in 1982, it was HR-5050, the Two-Way Street bill. It put the same taxes on foreign vehicles coming into our country that foreigners put on our vehicles going into their country. It was very simple. It was a mirror.

Hunter: "For practical purposes, many of the multinational corporations have become Chinese corporations."

Q: The Buy-American legislation that you sponsored a few years ago pretty much died at the hands of Sen. John McCain, who is your rival for the presidency. Can you use this to your advantage?

Hunter: We have had significant victories in our position and we have been able to blunt massive attacks on the Buy-American provision coming from the Senate. It's been a battle and we'll let the other candidates explain their position to the American people. I'm going to explain mine.

But there is an equity argument. When the American taxpayer pays for a defense item, for practical purposes it defends the Free World. Over the years, we have passed a lot of things over the objection of the Senate. I passed a preference for American machine tools and prime contracts that is now the law of the United States. In terms of repairing American ships that support our warfighter we passed what we call Repair America. Those people are getting paid by the taxpayers of the United States and they should repair their ships in the United States. We passed that. We maintained the line with respect to the Berry Amendment and we put special teeth into the Berry Amendment to enforce it. We prevented the Senate from allowing the dissipation of the titanium industry and the specialty metals industry. The United States carries the defense burden of the Free World. If we are going to carry that burden then Americans should be able to make the defense platforms that defend the Free World.

Q: Why do you run into headwinds in Congress when these issues are raised?

Hunter: My message resonates with the American people. We'll see who agrees with whom.

Q: Do you think your message will gain traction in the electorate?

Hunter: They understand there is not an advantage to your factory closing where you were making $22 an hour and moving it to China. It's not a good enough answer when the guy stands up and says in the end you're going to go to heaven because Adam Smith wore

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Duncan Hunter Q&A...(From page 11)

a powdered wig in 1772 and said that this would all work to your advantage in the end.

Q: That may not be a good answer, but it sure is promoted by hundreds of prominent economists from conservative think tanks, and, frankly, Republicans who have given voice to this message and are viewed as being representatives of the big multinational interests. You run counter to that.

Hunter: That's why I'm running! We're going to reconnect Main Street and middle-class America with the Republican Party. We're going to reach out and get Reagan Democrats.

But let me just remind you, it was the Clinton administration that passed NAFTA. This idea of bad trade deals has been accepted by the elites across the political spectrum, and it's wrong and it's bad business practice. It doesn't make any sense to give away the biggest market in the world and get nothing in return. The problem with the idea that you're going to receive in consumer benefits what you lose in income is blunted by the facts because in America the consumers are also the workers.

Q: Do you see this as being a Democratic message?

Hunter: No, this is a Republican issue. I see this as a major issue in the Presidential campaign. There are two Republicans on Mount Rushmore. Both of them were against unfettered free trade.

When the other guy has 74 points on the scoreboard before the game, it takes a lot of tax cuts to make up for that.

The problem is under the GATT law that we've agreed to, every one of our trading competitors — every country in the world — has a right to rebate their taxes to their exporters except us. We agreed to that. I've seen the Senate memos when we were putting this together saying this is going to be terrible for us. We're agreeing that everybody gets points on the scoreboard except us, and we signed that.

When the smoke clears and you realize that you're the only team in the NFL that doesn't get points on the scoreboard before the game starts, you say: "What happened?"

And they say: "Well, we took a vote."

And you say: "Well, can we have some points?"

"No."

"Why not? Why can't we deduct our taxes?"

"You've got the wrong kind of tax system. We voted that you have the wrong kind of tax system."

"When can we get points?"

"We'll get back with you. We'll be meeting next year, and then after the Super Bowl, we'll meet again"

Q: Why is there such opposition to your [Hunter-Ryan] currency manipulation bill?

Hunter: China is doing what [Fed Chairman] Ben Bernanke himself says they're doing, which is subsidizing their exports and companies through currency devaluation. That is cheating. That dis-serves all of the innovative effort, all of the streamlining and all of the capital investment that has been made in American products. There is no individual American business that can single-handedly compete against the Treasury of Communist China. The Republican position is not to appease communists. That is what we do when we allow them to continue that operation. It's a real disservice for Bernanke not have called this an illegal subsidy, which is exactly what he called it before he changed his speech.

Q: Have you talked to him about that?

Hunter: No.

Q: Do you think there is any chance for a value-added tax to be considered by Congress?

Hunter: There may be. But distinguishing between our taxes and the taxes the rest of the world have for purposes of allowing them to give tax rebates for their exporters and not allowing us to do the same was totally a matter of smart negotiators on their part and dumb negotiators on our part. The idea that we have to change our entire tax system to try to fit into an unfair provision is not reasonable. We need to do what Ronald Reagan did when he saw a bad arms control deal. We make a new one. Right now, we have a trade deal that dis-serves our country and we need a new one.

Q: As president, what would you do about these trade deals?

Hunter: I would junk CAFTA and NAFTA. I would junk this deal with China. But let's do one thing at a time. Number one, allow our businesses that are being damaged by the illegal subsidy, which is known as their currency devaluation, to go after the cheating. Bring the Chinese to the table and make them understand that we're not going to allow them to have access to the American market unless they do it under the rules. To some degree, it's going to be dependent on them as to whether they want to do it the easy way or the hard way. They're not going to be allowed to have the 74 points on the scoreboard that they currently have before the kickoff. Either we're both going to start at 74 points or we'll both start at zero, but we're not going to start with a 74-percent disparity.

Q: By taking such a hard line, do you risk making the Chinese a military enemy?

Hunter: That was the same question put to Ronald Reagan with respect to arms control deals. If you insist on making new deals and not going with the old ones, do you risk upsetting people? The answer is yes. But on the other hand, they have been more practical in these business deals than our negotiators have been. They would never allow us to have a 74-point advantage over them. I think they have little respect for us. The Chinese perceive that we have been fractured in our trade policy — caused by our multinationals, which now have a substantial investment in China. They are employing the multinationals to neutralize American trade policy and have them do what they did in the National Association of Manufacturers, which is to have them stand up and clearly represent interests other than those of domestic manufacturing.

Energy Department Wants To Streamline Efficiency Standards

The Department of Energy has asked Congress to pass legislation allowing it to significantly speed up the process of creating mandatory energy efficiency standards "and ultimately bring more efficient products to market sooner," says the agency. A streamlined process "would be achieved through a direct final rule — bypassing needless delays when manufacturer, stakeholder and government consensus exists."

An expedited rulemaking authority "would be limited to circumstances in which, in response to an advance notice of proposed rulemaking, representatives of relevant interests including manufacturers, efficiency advocates and state officials negotiate on their own initiative and submit a joint comment to DOE proposing an energy conservation standard for a product," says DOE. "If the Secretary determines that the jointly proposed standard meets the substantive requirements of the law for that product, he would be authorized to publish a notice of direct final rulemaking, incorporating the recommended standard. If there is no objection to the standard, the direct final rule would become effective 120 days after the notice is published. If any person files a significant adverse comment on the notice of proposed rulemaking, the Office of Energy Efficiency and Renewable Energy (EERE) would review that comment. The Secretary would be required to withdraw the direct final rule and move forward under the procedures of existing law, if the comments deemed by EERE were found to be significant and legally relevant."

The standards process would impact a wide variety of products: water heaters, central air conditioners, clothes washers, ceiling fans, dehumidifiers, fluorescent and incandescent lights, showerheads, faucets, toilets, commercial furnaces, traffic signals and pedestrian control modules. For more information, go to http://www.eere.energy.gov/buildings/appliance_standards/.

Personnel Changes At NAM

Michael Baroody, the number two man at the National Association of Manufacturers, will be leaving the organization to serve as chairman of the Consumer Product Safety Commission — so long as he's confirmed by the Senate. Baroody joined NAM in 1990 from the Department of Labor, where he was assistant secretary of policy. At NAM, Baroody was vying to become president of the trade group, but was passed over in favor of Mich. Gov. John Engler. Baroody is nominated to serve a seven-year term on the CPSC, but the chairmanship tends to turn over with the change of administration, particularly if there is a change in party in the White House.

NAM's Manufacturing Institute is losing its president. Jerry Jasinowski, former president of NAM, has announced his departure from the institute at the end of March. Jasinowski says his job of reinvigorating the institute has been accomplished. Its programs have been moved "to a higher national level of impact," including those involving workforce research, the "Dream It. Do It." campaign, research into the structural costs of manufacturing and greater media visibility for manufacturing. "While I will take some time to smell the roses, I intend to remain quite active serving on corporate boards, supporting the Institute as a trustee, looking for investment opportunities in manufacturing and speaking out on the economy, manufacturing competitiveness and other topics important to America's future," he writes. "All the best to all of you."

NAM has a new director of technology: Marc-Anthony Signorino, who joins the trade group from his position of director/counsel of technology and environmental policy at the AEA, formerly known as the American Electronics Association. Signorino will fill a spot that has been empty for about five months, with the departure of David Peyton. Signorino has been with AEA for five years and has been in charge of technology policy, an RFID group and AEA's state government affairs program. He says he hopes to help NAM be more aggressive in the technology policy arena by building up his technology team.

NAM has hired a congressional republican staffer to join its policy team. Aric Newhouse, formerly chief of staff for Sen. George Voinovich (R-Ohio), will become NAM's vice president of government relations and deputy director of NAM's policy division. Newhouse spent more than a decade working on Capitol Hill, previously for Rep. Mike Oxley (R-Ohio). Newhouse will be teaming up with Jay Timmons, NAM's senior vice president of policy and government relations. Timmons previously worked for Sen. George Allen (R-Va.). Newhouse has "served the citizens of one of America's great manufacturing states, so he's gained a deep appreciation of the people and the policy issues that shape the manufacturing economy," says Timmons. Newhouse holds a B.A. in political science and a B.S. in secondary education from Miami University Oxford, Ohio, and an M.A. in international affairs from The George Washington University.

China To Adopt Tariffs On Targeted Industries

The Chinese government is expected to raise its income tax rate on foreign companies and lower that paid by Chinese firms, according to a report in the China Daily, the official news service of the Chinese government. Right now, foreign companies receive tax waivers and incentives, allowing them to pay an average income tax of 15 percent, as compared to the 33 percent income tax rate paid by Chinese domestic companies. A draft law will unify all income tax rates for foreign and domestic companies at 25 percent.

The country will also start introducing import and export tariffs aimed at directing foreign investment into industries involved in high-tech and high-end manufacturing, said Li Zhiqun, director of the Commerce Ministry's Foreign Investment Department. Foreign investors are also being encouraged to shift production facilities and research centers from the coastal region to central and western China.

China attracted $69.5 billion in foreign direct investment in 2006, and has become the world's leading destination for multinational investment in research centers, surpassing the United States last year for the first time. But the surge of foreign investment is fostering a "strong debate about whether too many foreign mergers and acquisitions will hurt domestic industries," said China Daily. "M&As by foreign investors are actually seldom seen in China and most of the FDI to China is greenfield investment," added Li. "We hope to avoid foreign investors' monopolies and vicious mergers and keep control of the key sectors to guarantee national economic security."

Lots More $ Needed For Roads

State, federal and local governments are spending a lot more on highways, but there isn't much to show for it, reports the U.S. Department of Transportation. Spending on construction of new roads needs to increase immediately by 87.4 percent in order for Americans to reduce the time they spend in traffic jams, says the agency.

Between 1997 and 2004, the total amount spent on highway and bridge construction and maintenance increased by 44.7 percent to $147.5 billion. Road construction spending increased from $48 billion to $70 billion. But this spending on roads needs to increase to $132 billion (in constant 2004 dollars) in order for the nation's highway system to improve.

Most of the money being spent by state and local governments is being directed toward "system rehabilitation." Between 1997 and 2004, spending on fixing highways and bridges increased by 58 percent, from $23 billion to $36 billion.

The nation's highways are still not in very good shape, however. The percentage of vehicle miles traveled on pavement considered to be of "good" quality has increased from 39 percent in 1997 to 44 percent in 2004. Twenty-seven percent of bridges were considered to be "deficient" in 2004, better than the 30 percent in 1998. "Despite the historic investment in highway infrastructure and improving conditions on many roads and bridges, operational performance — the quality of use of that infrastructure — has continued to deteriorate," says the Transportation Department. "From 1997 to 2004, the estimated percentage of travel occurring under congested conditions has risen from 27.4 percent to 31.6 percent. The average length of congested conditions has risen from 6.2 hours per day in 1997 to 6.6 hours per day."

In order for the country's roads to be adequately maintained the average annual investment must increase to $79 billion (in constant 2004 dollars) and increase by 12 percent each year until 2024.

To view the report, "2006 Status of the Nation's Highways, Bridges and Transit: Conditions and Performance, Report to Congress from the U.S. Department of Transportation's Federal Highway Administration," go to http://www.fhwa.dot.gov/policy/2006cpr/index.htm.

Competitiveness Index Critique...

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any industry, technology, or system as if it was static. But in a rapidly changing world with tsunami-like economic forces at work, it is the rate of change and the acceleration of that change that should be of greater consideration. Look at how quickly China has grown to becoming the world's second largest economy. Professor Porter seems to be looking at the current status, rather than the rate of change. Most observers of global economics see the fastest, largest transfer of technology and economic power from west to east ever seen in history.

Which translates to the attitude expressed in his statement, "The United States is not losing manufacturing it is losing manufacturing jobs." In the current language of global trade, there are so many words to describe the impact on individuals due to global change: "stresses and strains," "insecurities and dislocations that we feel today"; "collateral damage"; and "creative destruction." Such words obfuscate the underlying reality, which is this: the damage to our society is far greater than the localized impact on a relatively few manufacturing workers being displaced by Chinese production. Dr. Porter's words are those of a Harvard elitist.

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