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Domestic Manufacturers Worry About Loss Of Influence In NAM's Policy-Making Process

The National Association of Manufacturers has overhauled its policy-making process and is getting ready to analyze all of its current policy positions and create new ones in every area in which it works. It has created policy committees and subcommittees to report the new policies to NAM's Executive Committee, which will report the policies to the Board of Directors for final approval.

The changes were the result of a contentious period in which an ardent group of domestic manufacturers successfully pushed for a controversial vote of NAM's International Economy Policy Committee endorsing congressional legislation that would hold China and other nations accountable for currency manipulation. The vote was eventually overturned by NAM's Executive Committee and Board of Directors. The controversy led to a confrontation on January 9, 2007, between NAM president John Engler and a group of NAM's domestic manufacturing members. Some of those companies have subsequently left the organization and one group even started a rival trade association.

The flap became a hot topic in Washington because it highlighted the discord that exists between domestic manufacturers and large multinational companies that have moved production offshore and are seen as benefiting from Chinese protectionism. NAM doesn't want another situation like it to occur, according to members of NAM.

"From time to time, the Policy Committees may create advisory councils with limited membership comprised of Board or non-Board members to provide advice and recommendations on policies to the Policy Committees," says an announcement on the changes in the policy-making process that went out to NAM members on Oct. 9. Fourteen Policy Committees will be comprised of members of NAM's Board of Directors. These committees will review recommendations from their subcommittees, which are open to all members of NAM.

"The role of the subcommittee is to develop recommendations to the Board Policy Committees for continuation, amendment or sunset of each NAM policy position," writes

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Is Manufacturing In The United States Toast?

BY DANIEL LURIA

Since the 2000-2001 recession, manufacturing output has grown much more slowly than in any previous recovery, and even that growth might be over-estimated because government data do a poor job of capturing how much more foreign content there is in "American" products. If so, then U.S. output is barely higher than it was in 2000.

A recent study by the Kalamazoo, Mich.-based W.E. Upjohn Institute for Employment Research shows how output — defined as value added, or sales minus the cost of purchased inputs — could be overstated. A $10-million pump manufacturer that buys $5-million worth of shafts, seals and motors would have value-added of $5 million.

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Patent Office Can't Keep Enough Examiners

The Patent and Trademark Office will have a difficult time whittling away at its patent application backlog because examiners are overworked and are leaving the agency, according to a survey of examiners conducted by the Government Accountability Office. The agency has not changed its requirements on the number of patents an examiner has to process since 1976. Yet patents have become more complex and difficult to analyze, forcing 70 percent of examiners to work overtime without pay to meet their production goals. As a result, over the past five years, one patent examiner has quit his job for every two who have been hired.

"This represents a significant loss to the agency because 70 percent of those who left had been at the agency for less than five years and new patent examiners are primarily responsible for the actions that remove applications from the backlog," says the GAO, The agency hires examiners based on its budget, not on what would be needed to reduce its backlog. As a result, "it is unlikely that the agency will be able to reduce the growing backlog simply through its hiring efforts," says the GAO.

Managers at the Patent and Trademark Office say that most people quit because of personal reasons. But that's not what the survey of 1,420 patent examiners revealed. Sixty-seven percent of examiners said they left because production goals were too difficult to meet. "These production goals are based on the number of applications patent examiners must complete biweekly and have not been adjusted to reflect the complexity of patent applications since 1976," says the GAO in its report "USPTO: Hiring Efforts Are Not Sufficient to Reduce the Patent Application Backlog" (GAO-07-1102), located at www.gao.gov/cgi-bin/getrept/GAO-07-1102.

China Has A Long Way To Go In Innovation

China has a "long way to go" before it is able to capitalize on its substantial investment being made in science and technology, says the Organization for Economic Cooperation and Development (OECD). "China needs a better return on its fast-rising investments in research and development and higher education if it is to meet its goal of becoming an innovation oriented economy by 2020." China is increasing it annual expenditure on research and development by an average annual rate of 19 percent to $30 billion in 2005. But very little of that is focused on basic research, which is the "foundation of long-term innovation," says the OECD.

Most of the funding is going into product upgrades and improvement in equipment and facilities. "More investment is needed in sectors such as services, energy, environmental technology and basic research," says the OECD. The innovation capabilities of China's business sector are weak and regulated. The state-dominated financial sector inhibits investment in innovative companies and startups. Poor intellectual property rights enforcement stagnates innovation.

"China's emergence as a global player in science and innovation should benefit both China and the rest of the world," says OECD in its report "OECD Review of China's National Innovation System."

More Manufacturing Companies Default On Their Pensions

The Pension Benefit Guaranty Corporation (PBGC) is busy guaranteeing the pensions of workers at defunct manufacturing companies.

More than 650 workers and retirees of Best Manufacturing Inc., a Jersey City, N.J.-based maker of uniforms, have fallen under PBGC protection. PBGC stepped in because the company failed to pay more than $1.3 million in pension contributions and because the plan would be abandoned after the company's bankruptcy proceedings. Best Manufacturing's employee retirement plan is about 60 percent funded with $11.8 million in assets to cover $19.8 million in benefit liabilities. The agency will assume responsibility for the $7.9-million shortfall. The PBGC became trustee of the plan on September 19, 2007. Best Manufacturing made textiles and apparel for the hospitality, healthcare, food service and textile rental industries. The company filed for Chapter 11 bankruptcy protection on Aug. 9, 2006, and sold its assets to Dan River Inc. of Danville, Va.

PBGC has assumed responsibility for Union Stamping & Assembly's pensions for 760 workers at its plant in South Charleston, W.V. The company's pension plan for hourly paid employees is 47 percent funded, with a little more than $1.5 million in assets to cover more than $3.2-million in benefit liabilities. The agency will be responsible for the $1.7-million shortfall. Union Stamping, which made hoods, roofs, doors, lift gates and body panel assemblies for major domestic auto makers based in Cleveland, Ohio, went into bankruptcy in Sept. 2006. The company's assets were sold to Cleveland-based Park Corp. for $18 million. The transaction did not include the pension plan.

PBGC has assumed responsibility for the pensions of more than 1,400 workers and retirees of Scovill Fasteners Inc., a button and zipper maker based in Clarkesville, Ga. The company failed to pay out $14.7 million in legally required pension funding contributions. The company's retirement plan for salaried employees is about 30 percent funded with a little more than $10 million in assets to cover $35 million in benefit liabilities. The agency will be responsible for the entire $24.5-million shortfall.

How Much Money Does The Army Need To Refurbish Its Worn Out Weapons?

The U.S. Army is spending nearly $13 billion per year to refurbish and replace equipment being worn out in Iraq and Afghanistan, but that amount might be more than what is needed, says the Congressional Budget Office (CBO). "In general, CBO's estimates of the annual funding needed to replace and repair the Army's helicopters, combat vehicles and trucks are lower than the [Bush] administration's corresponding funding requests," says CBO in an assessment of Army "reset" accounts.

About 20 percent of the Army's equipment is currently stationed in Iraq and Afghanistan. Most of that equipment was built during the Cold War and is operating at rates "below those for which they were designed and, with few exceptions, should be capable of sustaining those rates for many years," says CBO.

Forty percent of the $13 billion is not being used to replace lost equipment or fixing returned systems, says CBO. The Army is using that extra money to upgrade systems and buy new equipment aimed at eliminating shortfalls in the Army's inventories, "some of which are long-standing," says CBO. "The administration's annual funding requests for the Army's reset program have grown over the 2005-2007 period. CBO cannot determine all of the reasons for the increases on the basis of the data that the Army has provided."

Shortages of key pieces of equipment were not caused by the Iraq War. "These shortages had been evident before the start of operations in Iraq," says CBO. "Inventories of most types of the Army's modern trucks were insufficient before the war. As a result, those fleets are too small to support operations in Iraq and Afghanistan and at the same time fully equip units at their home stations."

The Army has about $30 billion of equipment in Iraq and Afghanistan, one-third of which remains there permanently, the other two-thirds being redeployed with units returning home. Helicopters and combat vehicles return with their units, but many of the Army's trucks are left in the theater to be used by arriving forces. "That policy has intensified long-standing shortages of the service's more modern trucks, particularly among units in the reserve component (the Army National Guard and Army Reserve) because of the Army's practice of equipping units in the active-duty Army first," says CBO.

"Consequently, even fewer of the Army's most modern trucks are available to re-equip reserve-component units in the United States. At the end of 2006, according to CBO's calculations, the Army faced potential shortfalls in equipping its units in the United States and Europe of as many as 13,000 modern high-mobility multipurpose wheeled vehicles (HMMWVs); 32,000 family of medium tactical vehicles (FMTV) trucks; and 7,600 heavy trucks. Those inventory shortages were not all due to ongoing operations in Southwest Asia; some would have existed even without those operations as a result of the creation of the Army's new modular units and the service's long-standing underfunding of its truck programs."

Beyond the reset program, the Bush administration requested $25 billion in 2007 to procure additional Army equipment. Since 2005, the Army has received $49 billion in supplemental appropriations, an amount that is "more than enough to purchase replacements for all of the service's equipment deployed at any given time to support operations in Iraq and Afghanistan," says CBO.

Equipment in Iraq is not being used to its maximum design capacity. The Bradley fighting vehicles are being driven at a high of 290 miles per month, far less than the 2,500 miles per month envisioned when they were designed

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		Systems Typically in the Theater		Number of Systems for Units at Home Stations		
	Total Inventory	Number	Percentage of Total Inventory	Requirement	Available	Surplus or Deficit (-)
Helicopters	3,150	530	17	2,500	2,510	10
Combat Vehicles	30,100	2,890	10	13,880	24,200	10,320
Trucks						
Modern trucks	181,400	35,340	19	174,360	132,800	-41,560
Older trucks	53,000	3,100	6	12,300	49,400	37,100
Total, Trucks	234,400	38,440	16	186,660	182,200	-4,460

NAM Policies...

(From page one)

NAM in its notice entitled "How NAM Member Companies Shape Public Policy Positions."

Every four years, all of NAM's policies will automatically sunset and will have to be re-approved, revoked or amended by NAM's board of directors "at which time the policy will be in effect for four additional years," says the NAM directive. "The Executive Committee may refer any existing public policy position to the appropriate Policy Committee or Subcommittee, which will review the policy and recommend to the Board of Directors any changes or modifications that might be appropriate. The Executive Committee has the authority to resolve any conflicts in policy."

The subcommittees will be comprised of any NAM member wanting to get involved. "Each NAM member has one vote; no individual may represent more than one NAM member," says the directive. "There is no proxy voting."

Agenda items that will be discussed at scheduled meetings of the policy subcommittees will be sent out 10 days in advance. "Consensus on issues is desirable; but in some circumstances a vote may be taken," says NAM. "In lieu of consensus, a majority vote of a Subcommittee is required to recommend a policy position to a Committee, which will then consider whether Board action is necessary. Only the Board may adopt policy.

"A Subcommittee may also take positions on specific legislative or regulatory vehicles, consistent with public policy positions already adopted by the Board," the directive continues. "If the Subcommittee Chair is in doubt as to the whether said position is consistent with Board approved policy, he or she may seek guidance from the Executive Committee of the Board."

NAM encourages small- and medium-sized manufacturers to get involved in the policy committees and subcommittees. Its SMM Steering Committee "may review any policy proposal prior to action by the Board of Directors or the Executive Committee and may make recommendations as it deems necessary to the Executive Committee."

The new process is overly complex and is partly the result of a substantial turnover in the staff at NAM, taking policy advocacy away from specialists who worked at the association for decades, say those familiar with the deliberations.

Others involved in NAM's ad-hoc Domestic Manufacturing Group (DMG) say it might be good for small- and medium-sized domestic manufacturers to overwhelm the new subcommittees with members concerned about fair trade issues. "The worst case scenario for NAM is to have all the small companies get involved in the trade committees," said one NAM member. "They'll say, uh-oh, that wasn't the idea here."

Another executive with a small company NAM member involved in the trade policy debates said small NAM members will not have much say in making policy. Many small companies do not have a full-time Washington representative and do not have the time to attend meetings, so the perspective of the domestic manufacturers could be marginalized. "This is going to be a whole new ballgame because they've gone through what they went through with us and they are sure they want to prevent us from continuing to function as powerfully and effectively as we have," he said. With all the layers of process required to get any policy approved, "they will be holding meetings and doing it in such a way to make them non events."

Another member of the DMG contacted by *MTN* was also skeptical. "The new leadership at NAM at the staff and board level are saying we need to cut our losses with these clowns," he said. "Let's just let them know indirectly but clearly, nicely, but clearly, that they aren't going to have the influence that they thought they were going to start to have, and if they get mad

(Continued on next page)

Below are the subcommittee meetings scheduled by NAM to review the association's policy positions. The names of the Board Policy Committees are in parenthesis:

- Regulatory Improvement, Oct. 18, 2007
(Infrastructure, Legal and Regulatory Policy)
- Education and Workforce, Oct. 23, 2007
(Human Resources Policy)
- Health Care, Oct. 23, 2007
(Human Resources Policy)
- Employment and Labor, Oct. 23, 2007
(Human Resources Policy)
- Export Controls, Oct. 24, 2007
(International Economic Policy)
- Transportation and Infrastructure, Oct. 30, 2007
(Infrastructure, Legal and Regulatory Policy)
- Energy and Natural Resources, Nov. 1, 2007
(Energy and Resources Policy)
- Technology Policy, Nov. 7, 2007
(Tax, Technology and Domestic Economic Policy)
- Corporate Finance and Management, Nov. 13, 2007
(Tax, Technology and Domestic Economic Policy)
- Environmental Quality, Nov. 14, 2007
(Energy and Resources Policy)
- Legal Issues, Nov. 19, 2007
(Infrastructure, Legal and Regulatory Policy)
- Tax and Budget, Nov. 19, 2007
(Tax, Technology and Domestic Economic Policy)
- International Trade, Dec. 12, 2007
(International Economic Policy)
- International Investment & Finance, Dec. 12, 2007
(International Economic Policy)

NAM Policies... (From four)

and call us all kinds of names and leave, so we lose a couple of hundred members. We can go on with our business."

NAM spokesman Hank Cox says the purpose of the changes was to create more transparency in the policy-making process. "The new procedures were developed by a board-level constitutional review committee, not by the staff," he said. "There is no longer any question about how policy is made. There were people who thought that if they were on a working group of an advisory panel that approved something, that was it. But as the changes make clear, the final policy has to be approved by the board of directors."

There is a sense among the DMG members that the big companies still do not want to be beholden to the policy needs of domestic manufacturers. "If we passed Ryan-Hunter [currency bill] and if we fixed the border tax [VAT] and addressed the Chinese subsidy issue, I doubt it would hurt companies like Caterpillar at all," said one executive with a small NAM member company. "They would adjust their international business plan to find another financial advantage and make just as much money in a different fashion. For those of us who don't want to move our manufacturing offshore, we'd be able to make money also. It would be a win-win. They don't have to lose, they just have to change. But they're the big guys and they want it all. They like it the way it is even if it is killing domestic manufacturing. They think we should just go ahead and die. They're not going to lift a finger to help. If NAM gets rid of us it's going to be by wearing us down gradually by attrition."

There are still good reasons for the small companies to be involved in NAM, said the domestic NAM member. "We're getting political mileage out of this on Capitol Hill. We can go into a congressman's office and say, 'Let me tell you what happened at the NAM board meeting last week. Here's what they did and here's our side of the story and here's why they don't speak for us.' That is having a huge impact."

Cox says NAM can understand the frustration of the small- and medium-sized domestic manufacturers. "But we urge them to keep in mind that we are the only big organization in this town to take on the China trade problem and confront them and to pressure the Bush administration to brand China a currency violator." NAM is doing everything it can "short of calling for a disruption of international trade" to require China to play by the rules, said Cox. "We love small manufacturers and it is because of our concern for small manufacturers that we have made China a priority. We have board policies saying that China's currency policy is totally unacceptable."

GAO Scolds EPA Over Toxic Release Disclosure

The Environmental Protection Agency ignored the advice of the Government Accountability Office in 2005 to not change rules requiring companies to disclose the release of toxic chemicals, according to the GAO. Instead, EPA did not follow its own guidelines when determining in January 2007, that companies would instead only report releases if they exceeded 2,000 pounds per year.

Under its Toxic Release Inventory program, EPA's new regulatory requirement "will reduce the amount of information about toxic chemical releases without providing significant savings to facilities," says the GAO. "EPA did not follow guidelines to ensure that scientific, economic and policy issues are addressed at appropriate stages of rule development. For example, EPA asserted that the rule would not have environment justice impacts; however, it did not support this assertion with adequate analysis. The omission is significant because many TRI facilities that no longer have to submit Form R reports (describing toxic releases up to 2,000 pounds) are located in minority and low-income communities; and the reduction in toxic chemical information could disproportionately affect them."

The GAO report "Environmental Right-To-Know: EPA's Recent Rule Could Reduce Availability of Toxic Chemical Information Used to Assess Environmental Justice" (GAO-08-115T) is located at http://www.gao.gov.

Army Reset Budget... (From page three)

during the Cold War. The same is true for Army trucks that are similar to commercial tractor-trailers used for hauling equipment and supplies. While the Army is putting twice the amount of miles on them than during peacetime, "they are still operating at rates below those expected of them during the Cold War," says CBO.

The Army has deployed 57,400 trucks to Iraq and Afghanistan, less than 20 percent of its 300,000 trucks and trailers that it has to support operations there. It has 550 Abrams tanks in Iraq, or about 9 percent of its tank inventory of 5,900. Between 15 percent and 20 percent of the Army's helicopters are in Iraq and Afghanistan. "Overall, the proportion of the Army's equipment that is now in Southwest Asia — about 20 percent of all types — corresponds roughly to the share of its [deployable] forces" or approximately 150,000 Army personnel, says CBO in its report "Replacing and Repairing Equipment Used in Iraq and Afghanistan: The Army's Reset Program" (Pub. No. 2809).

Quotable:

"If we're going to survive, the rubric is 'innovate, automate, or evaporate.' You can't believe the massive state-of-the-art manufacturing going into South Korea with $2-an-hour labor. Almost every existing industry will be ultimately captured by developing nations — microwave ovens, VCRs, TVs, semiconductors."

— Bruce Merrified, Under Secretary of Technology, U.S. Department of Commerce, June 29, 1987

CATO'S STUDY ON U.S. MANUFACTURING SUFFERS FROM FATAL FLAWS

BY PAUL CRAIG ROBERTS

On August 28, the Cato Institute in Washington, D.C., published a report, "Thriving in a Global Economy: The Truth about U.S. Manufacturing and Trade." The report confuses a company's offshored products with its import competition and wrongly concludes that U.S. companies with the most import competition are the companies that are thriving.

The Cato report never mentions the practice of U.S. corporations offshoring their production for U.S. markets. Consequently, the report conflates offshored inputs and final goods of U.S. corporations with imports from competitive foreign firms. The report thus confuses corporations or industries that offshore their manufacturing with those most exposed to import competition.

This extraordinary mistake results in an incorrect conclusion. The Cato report finds that revenues, profits and value added rose most for industries most exposed to import competition and mistakenly attributes this result to the beneficial workings of free trade.

In U.S. trade statistics, offshored U.S. production is counted as imports. Offshored production comprises a substantial percentage of manufacturing imports. Let's rewrite Cato's conclusion to take account of these facts: "Revenues, profits, output and value added rose the most for industries that offshored manufacturing, and they rose the least for those industries that produced their output domestically." Obviously, corporations that arbitrage labor and replace their U.S. employees with less expensive foreign labor are going to enjoy greater growth in profits and value added.

The Cato report did not set out to prove the benefits to corporations of offshoring. The goal of the report is to combat protectionist sentiments in Congress that might result in trade restrictions. Thus, a report that attributes the health of U.S. manufacturing to import competition.

In January 2004 in the New York Times and at a televised Brookings Institution conference, Senator Charles Schumer and I attempted to create a new discussion around a new and unrecognized problem. The problem is that the collapse of world socialism and the rise of the high-speed Internet made it possible for domestic corporations to arbitrage labor across national boundaries in pursuit of absolute advantage. In the years since, I have written extensively on this issue. Labor arbitrage is not trade and does not meet the Ricardian conditions for comparative advantage upon which the case for free trade is based.

Few economists have bothered to think about the issue of offshoring, preferring to dismiss concerns about it as manifestations of the old protectionist fallacy. They learned in graduate school that free trade is always mutually beneficial and ceased to think when they passed their exams. This is especially true of "free market economists" who believe that economic freedom, which they identify with the freedom of capital, is always good. Thus, most economists mistakenly believe that offshoring is protected under the authority of free trade doctrine.

However, free trade doctrine is based on the assumption that domestic capital seeks its comparative advantage in its home economy, specializing where its comparative advantage is best and, thereby, increasing the general welfare in the home economy. David Ricardo, who explicated the case for free trade, rules out an economy's capital seeking absolute advantage abroad instead of comparative advantage at home.

Jobs offshoring is not only a problem for displaced U.S. manufacturing employees — displacement that Princeton economist and former Federal Reserve vice chairman Alan Blinder says will also impact 30- to 40-million high-end U.S. service sector jobs as well — but also a problem for economic theory.

Economic theory assumes that capitalists pursuing their individual interests are led to benefit the general welfare of their society by an invisible hand. But offshoring, or the pursuit of absolute advantage, breaks the connection between the profit motive and the general welfare. The beneficiaries of offshoring are the corporations' shareholders and top executives and the foreign country, the GDP of which rises when its labor is substituted for the corporations' home labor. Every time a corporation offshores its production, it converts domestic GDP into imports. The home economy loses GDP to the foreign country which gains it.

Recently, Ralph Gomory, co-author with William Baumol, of "Global Trade and Conflicting National Interests," the most important work in trade theory in 200 years, pointed out that traditional trade theory has broken down because companies are no longer bound to the interests of their home countries. Offshoring has de-coupled the link between a company's motivation for profit and a nation's desire to improve the wealth of its citizens. "Most economists," Gomory observed, "have not acknowledged this fundamental change and its implications for economic theory."

The Cato report shows no awareness of the problem for economic theory when the profit motive becomes disconnected from the general welfare, and the report does not appreciate the restraint placed on traditional protectionist legislation (tariffs and quotas) by manufacturers that offshore. The traditional purpose of trade protection is to shield domestic producers from foreign competition. Neither manufacturers that offshore production nor their trade associations favor any tariffs or quotas that would reduce their profits from offshoring by treating their offshored production as the products of foreign competitors. The Cato report is worried about a protectionist policy for which there is no organized constituency.

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DOD Official States Clearly The U.S. Is Not Becoming Dependent On China For Parts

The rise of China's industrial sector poses little threat to the Department of Defense and its supply chains for weapon systems, says William Greenwalt, Deputy Undersecretary of Defense for Industrial Policy. "The DOD sees little defense industrial vulnerability regarding China for the foreseeable future," Greenwalt told a meeting of the United States-China Economic and Security Review Commission (USCC). "The Department is not aware of any key defense-related U.S. industrial capabilities that have moved substantially or entirely to China."

There are two areas of concern, however. One is over "certain" commercial microelectronics "for which domestic production has largely ceased in favor of foreign production, including production in China," said Greenwalt. "To address risks associated with such overseas production, the Department is developing a comprehensive approach for managing a microelectronic and related electronic hardware risks to assure both material reliability and availability." This initiative is associated with the "Defense Trusted Integration Circuit Strategy," which was quietly produced in October 2003. Part of that initiative was the award of a $600-million contract to IBM for the "trusted" production of integrated circuits used in military and intelligence systems.

"The Department's objective is to align current initiatives and related recommendations into an overarching microelectronic strategy that includes trust, diminishing sources and product assurance," said Greenwalt. The strategy will address "both government and industry risks related to microelectronic supply-chain and life-cycle management."

The other industrial area that might be vulnerable to Chinese dominance is rare-earth magnets used throughout military systems. Domestic production has declined over the past decade but DOD's demand for these magnets is less than 0.5 percent of total world demand. "The Department is able to access the high-performance magnets it requires from domestic sources," Greenwalt told the commission. "The Department is examining whether there is any likely future risk to the domestic high-performance magnet industry that would require DOD action."

DOD is not aware of "any Chinese sources of importance for

(Continued on next page)

Cato Study... *(From previous page)*

Congress and most economists are as confused about the issues as the Cato report. Today, the profit motive causes capitalists to create job opportunities and GDP in low-wage foreign countries instead of their own. Every job that does not require a "hands-on" presence can be offshored.

Economist Charles McMillion and I have pointed out for years that the nonfarm payroll jobs data from the Bureau of Labor Statistics show that the U.S. economy can only create net new jobs in domestic non-tradable services.

The Cato report does not acknowledge that the financial prosperity of U.S. capital is at the expense of U.S. labor. The report does not explain how an $800-billion trade deficit can be closed when domestic corporations face powerful incentives to offshore, and it shows no awareness of Susan Houseman's findings that productivity gains and output growth that result from offshoring, and which occur abroad, are mistakenly being counted as U.S. GDP and productivity growth. This phantom U.S. output and productivity growth would explain the disconnect between rapid productivity growth and U.S. real median family income, which is lagging far behind.

The financial prosperity that U.S. corporations are enjoying from offshoring increases the U.S. trade deficit and makes American consumers increasingly dependent on imports. In 2006 (the most recent annual data) the U.S. trade deficit in manufactured consumer durable and nondurable goods was 3.4 times greater than the U.S. trade deficit with OPEC. The U.S. "superpower" has a massive trade deficit in consumer manufactured goods and even has a deficit in capital goods, including machinery, electric generating machinery, machine tools, computers and telecommunications equipment.

In 2006, the U.S. trade deficit with Europe was $142,538,000,000. With Canada the deficit was $75,085,000,000. With Latin America it was $112,579,000,000 (of which $67,303,000,000 was with Mexico). The deficit with Asia and Pacific was $409,765,000,000 (of which $233,087,000,000 was with China and $90,966,000,000 was with Japan). With the Middle East the deficit was $36,112,000,000, and with Africa the U.S. trade deficit was $62,192,000,000. The trade deficit with OPEC was $106,260,000,000.

The more U.S. corporations prosper by offshoring, the greater the U.S. trade deficit will grow and the more unbearable the pressure will be on the dollar's role as reserve currency.

At some point crisis will force Congress, economists and think tanks to deal with the real issues.

— Paul Craig Roberts has a Ph.D. in economics. He has held a number of academic appointments and contributed to numerous scholarly journals. He is author or co-author of eight books and was Assistant Secretary of the Treasury for Economic Policy.

DOE Funds Bioenergy Centers

The Department of Energy has invested $30 million in three new Bioenergy Research Centers, bringing its total investment in such centers to more than $400 million. DOE will fund new centers at the Oak Ridge National Laboratory in Tennessee, the University of Wisconsin in Madison and the Lawrence Berkeley National Laboratory in California. Its intention is to bring together multidisciplinary teams of scientists to make cellulosic ethanol and other biofuels commercially viable "on a national scale," says the agency. Each center will receive $9.97 million.

The infusion of funds will allow the centers "to get to work immediately on the basic, transformational science needed to make environmentally friendly biofuels cost-effective, increase their use for transportation and help achieve President Bush's goal of reducing gasoline consumption by 20 percent in 10 years," said Raymond Orbach, DOE's Under Secretary for Science.

Permanent Arctic Ice Isn't

NASA scientists have found a 23 percent loss in the Arctic's thick, year-round sea ice during the past two winters. "This drastic reduction of perennial winter sea ice is the primary cause of this summer's fastest-ever sea ice retreat on record and subsequent smallest-ever extent of total Arctic coverage," says NASA. Between the winters of 2005 and 2007, the thicker, perennial ice shrunk by an area the size of Texas and California combined, according to scientists from the Jet Propulsion Lab in Pasadena, Calif. "This severe loss continues a trend of rapid decreases in perennial ice extent in this decade."

Scientists observed less perennial ice cover in March 2007 than ever before. The thick sea ice is now confined to the Arctic Ocean north of Canada, says NASA. "Consequently, the Arctic Ocean was dominated by thinner seasonal ice that melts faster. This ice is more easily compressed and responds more quickly to being pushed out of the Arctic by winds. Those conditions facilitated the ice loss, leading to this year's record low amount of total Arctic sea ice."

The Arctic Ocean's shift from perennial to seasonal ice "is preconditioning the sea ice cover there for more efficient melting and further ice reductions each summer," says NASA. "The shift to seasonal ice decreases the reflectivity of Earth's surface and allows more solar energy to be absorbed in the ice-ocean system." From the 1970s through the 1990s, perennial ice declined by about 193,000 square miles each decade. Since 2000, that rate of decline has nearly tripled.

Greenies Go After Marine Fleet

A coalition of environmental advocates has filed a petition with the Environmental Protection Agency (EPA), asking the agency to create new pollution rules for large, ocean-going cargo vessels and cruise ships. Earthjustice, Oceana, Friends of the Earth, the Center for Biological Diversity and California Attorney General Jerry Brown want EPA to assess ships' contributions to global warming.

They have asked the agency to seek public comment and issue rules to reduce pollution "or explain why it will not act," says Earthjustice. "The April 2007 decision by the U.S. Supreme Court clearly established that the Clean Air Act gives the EPA authority to address global warming. The EPA must act immediately and issue regulations to limit pollution that contributes to global warming. The petitions filed today begin the process of imposing mandatory regulations on the marine transportation sector." The group asked EPA to respond within 180 days.

Housing Decline Hurting Businesses

Business bankruptcies in the United States are projected to increase by 51 percent this year, due to an economic slowdown, lower profits, high gas prices and an adjustment on behalf of business to the changes in the bankruptcy law enacted in 2006, according to Euler Hermes, the world's largest insurer of trade accounts receivables. "We anticipate a return to some 30,000 insolvencies this year," says Daniel North, chief economist of the firm. The slowdown in the housing market is beginning to have a ripple effect in the business sector. "Median prices on existing homes have fallen for several months on a year-over-year basis, which is an unprecedented event since house prices almost always never fall," says North. "They have never fallen for more than two months in a row in the 38 years that records have been kept." To view the company's forecast, go to www.eulerhermes.com/usa/en/news_publications/index.html.

DOD Suppliers...

(From seven)

DOD systems," Greenwalt added. Studies done by his division indicate that foreign sources of defense equipment are extremely low and that there were no Chinese suppliers of any important defense products. "If the Department does become aware of an instance where it is reliant on China for an important defense item or component, it will take steps as necessary to secure another source," he said.

DOD will increase its use of commercial items "because this will improve its ability to secure increased production when needed," said Greenwalt. DOD faces problems with industrial surge capabilities when it is ordering defense-unique or defense-dominant items. "Production capabilities for these items generally are sized to meet DOD program-of-record requirements and if emerging operational conditions lead to rapid and significantly increased requirements, there can be a lag in expanding industry to meet the new demand," he told the USCC. "The Department is better able to surge production when it can draw from a much larger commercial market that has inherent 'extra capacity.' "

Is Mfg.Toast?... *(From page one)*

But what if some of those shafts, seals and motors get re-sourced from U.S. to offshore factories, and the same inputs now cost $4 million? Magically, the pumpmaker's value-added — which is how government data measure output — rises from $5 million to $6 million. In fact, the value of goods and services that the pumpmaker produced in the United States didn't change.

The Upjohn Institute study estimates that U.S. manufacturing output is probably growing 0.2 percent to 0.5 percent less per year than the government's statistics say it is. That's significant, because even those statistics show a pretty weak recovery: the Federal Reserve Board's index of U.S. industrial production in June was up just 13.4 percent from its 2002 level — barely a 2.5 percent annual improvement after a plunge from 2000 to 2002.

If that 2.5 percent growth rate is really, say, 2.2 percent, then production in 2007 is up just 11.5 percent from 2002, and less than 6 percent from 2000.

In other words, over a period in which U.S. GDP has risen by nearly 25 percent, more than three-quarters of the increase in demand for manufactured goods would have had to have been satisfied by a rise in net imports.

Other pundits tell us that it's somehow inevitable that manufacturing employment must decline, thanks to a combination of rising productivity and the growing share of output made in low-wage nations. A new study by the International Labour Organization (ILO) compiles 1990 and 2005 manufacturing jobs data for every country. On a global scale, productivity is allowing output to grow by about 4 percent a year with no increase in jobs. Interestingly, most countries — the rich ones through policy, the poorer ones through big additions to capacity — have maintained or grown their factory job sector. A relative handful of countries — led by the United States, Britain, Germany and Japan —have borne almost all of the losses. Between 1990 and 2005, Britain lost 43.5 percent of its manufacturing jobs (2.6 million); Germany lost 31 percent of its manufacturing jobs (3.6 million); the United States lost 24 percent (5.09 million); and Japan lost 22 percent of its manufacturing jobs (3.36 million).

The New York Times' Thomas Friedman's best-selling book "The World is Flat" describes globalization as a straight-up blessing, a rising tide that lifts all boats. Apparently not. Not only has the United States shed between four and five million manufacturing jobs (depending on the survey), but there are 35,000 fewer U.S. factories than there were eight years ago. This is not some slow, productivity-driven event like the 85 percent drop in farm jobs from 1900 to 2000, but a largely trade-driven impact. As we will see, only half the problem is that other nation's manufacturers are "beating" ours; the other half is that, in industry after industry, U.S.-based large-firm customers — think GM, GE, Wal-Mart — are telling their American suppliers to increase their "offshore footprint."

Reluctantly or not, many suppliers are listening and sourcing more work offshore. Since 2002 corporate profits have doubled, matching their highest share of GDP ever in 2006. Yet government data show domestic investment growing more slowly than in any previous postwar recovery. Corporations report an 18- to 20-percent annual increase in their total global investments. That means that companies are investing more outside the United States and less here at home. And that, in turn, helps to explain why more than 40 percent of the imports into the United States, which totaled $1.8 trillion (or 13 percent of GDP) in 2006, weren't from "foreign competitors," but from U.S.-based corporations' facilities and contractors offshore.

There are, and will always be, some products that need to be made close to where they are consumed because they are too bulky to ship, or because it is too risky to have long supply lines. Unfortunately, most of the products consumed in North America are easily shippable, and — except for the largest items — air freight is a viable option. Just look at UPS's and FedEx's exploding Asia business. A great July/August 2007 *Atlantic Monthly* article called "China Makes the World Takes" shows how laptops ordered online in the U.S. today will be assembled in China tomorrow and be

(Continued on page 10)

Cost	US Plant	LWC Plant
COGS	$ 7,500,000	$ 5,782,800
SG&A	$ 1,000,000	$ 717,600
Inventory	$ 49,500	$ 76,300
Receivables	$ 61,300	$ 61,300
Own-Country Cost	**$ 8,610,800**	**$ 6,638,000**
Duty & Freight	$ -	$ 531,000
Logistics & Oversight	$ -	$ 166,400
Landed Cost	**$ 8,610,800**	**$ 7,363,400**
Landed Cost Index	116.95	100.00

Initiative	Impact of Initiative	Index
Memo: Baseline		116.95
Reduce Waste 10%	Cuts labor, capital & material cost	116.70
Reduce Material Cost 10%	Cuts material cost (and maybe weight)	112.63
Reduce Pay 10%	Cuts labor cost (but also increases employee turnover & product defects)	113.12
Reduce Fringes 10%		116.27
Increase Productivity 10%	Cuts heads unless output rises more	112.44
Devalue US Dollar 10%	Raises most offshore costs	106.54
Material + Productivity	One preferred "recipe"	108.12
Material + Productivity + US$	Same "recipe" . . . plus some luck	97.71

(Source of Charts: MMTC's Performance Benchmarking Service)

Is Mfg.Toast?... *(From page nine)*

FedEx'd to Long Beach the day after that. A lot is going to China and other low-wage countries.

Unless something is done about this situation, then onshore manufacturing is sure to shrink further — perhaps quite soon and perhaps quite dramatically.

What can be done? One possibility is that many more U.S. manufacturers could contract out more of their work to low-wage country producers. But managing a far-flung supply chain is expensive, and hence probably not practical for smaller companies. Another possibility is for U.S. policy to change. The United States could get much more aggressive with respect to foreign subsidies, currency practices and labor standards, signaling that it will not continue forever to act as the buyer of last resort. The government could move toward more regulation of U.S.-based multinational corporations using the tax code to signal a preference for onshore production and onshore purchasing. These ideas, while still ridiculed as "protectionist" by most economists, have won new respectability in recent months through the work of the Horizon Project (see www.horizonproject.us).

But don't hold your breath.

There's still a strong bipartisan consensus in Washington that it's anti-business to get in the way of "free trade." This means that — unless something drastic changes in American politics — manufacturers are on their own.

Manufacturers have to figure out whether and how their companies can meet the low prices of low-wage offshore producers and, for products where they can't, decide whether to move the work offshore or exit the business.

Economists at the Michigan Manufacturing Technology Center (MMTC) believe that the data show that much of the work that manufacturers are tempted to move offshore can be performed profitably in the United States. But manufacturers facing this flat new world need to know what it will take to stay, fight and win. Manufacturers need to know:

1. By how much do prices (and therefore costs) have to come down to keep business?
2. Which actions will drive down costs the most to have a better shot at competing against low-wage competition?

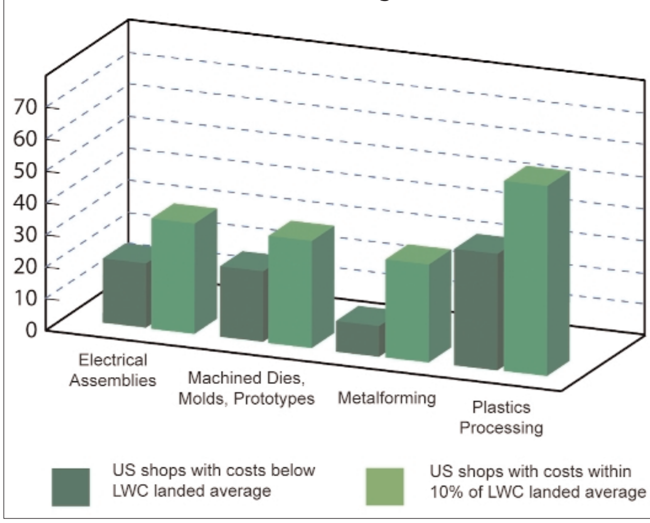
Consulting firms report differences between on- and offshore parts ranging from 30 percent to as much as 50 percent. But at MMTC, we have concluded that the true landed cost advantage of a typical low-wage offshore producer is really more like 17 percent. The two charts on page nine show our analysis, comparing a $10-million U.S. facility to a $10-million low-wage-country (LWC) competitor. But those are just averages. The low-wage country landed cost advantage could be 17 percent, but it can also be 7 percent, 27 percent or 37 percent depending on the type of business.

Just as important: How much of the cost gap could be eliminated by increasing productivity? By reducing inventory? By redesigning products? By a further drop in the value of the U.S. dollar? What will it take to get costs down below the 100.00 index value of that typical low-wage-country producer?

Even though the average U.S. manufacturer's costs are about 17 percent higher than the average low-wage-country manufacturer's landed cost, 20 percent of U.S.-based manufacturers already have lower costs than their low-wage-country competitors (see below). In some industries, 35 percent of U.S. plants are lower-cost. Just as important, another 30 percent of U.S. manufacturers are within striking distance of LWC producers' average landed cost.

— Daniel Luria is Research Director at the Michigan Manufacturing Technology Center

U.S. Manufacturers' Cost Versus LWC Landed Average Cost



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Corrupt Politicians Don't Last Long In Washington

Citizens for Responsibility and Ethics in Washington (CREW) has released its third annual report on the most corrupt members of Congress. The report, called "Beyond DeLay," notes that of the 25 members on last year's list, 10 are no longer in Congress, having lost their seats as a result of unethical behavior, while another eight are under federal investigation.

New to this year's list are Sens. Larry Craig, Pete Domenici, Mitch McConnell, Lisa Murkowski, Ted Stevens and David Vitter, and Reps. Doc Hastings, Duncan Hunter, Tim Murphy, Steve Pearce, Hal Rogers, David Scott, Jerry Weller, Heather Wilson and Don Young. "Of this year's list of 24, at least 11 are under federal investigation. Two, Sens. Craig and Domenici are under investigation by the Senate ethics committee, and Rep. Wilson may be under investigation by the House ethics committee," says CREW.

The biggest ethical offense is members' use of their positions for the financial benefit of themselves, their friends and their families. "Earmarks for large campaign contributors are commonplace and many members have traded legislative assistance for personal favors," says CREW. "Perhaps most striking this year is the number of members who have provided incorrect information or failed to include information on their personal financial disclosure forms. Members would do well to remember that lying on personal financial disclosure forms is a federal crime, punishable by up to five years in jail under 18 U.S.C. § 1001. Although prosecutions have been rare, the Department of Justice and the House and Senate ethics committees should take a stronger stand against members who deliberately provide erroneous information or withhold information on these forms."

Democrats in charge of both the House and Senate haven't done much to change the culture, either. Despite their rhetoric, only tepid reforms were passed and no new enforcement mechanisms were adopted. "The bi-partisan House ethics task force, originally charged with reporting back by May 1, 2007, has yet to issue any recommendations and the ethics committees in both houses remain loathe to consider the unethical conduct of their colleagues unless of course, gay sex is involved," says the report. "Congress is not going to police itself and the evidence continues to demonstrate that it is not. The ethics committees should be disbanded and the charade ended."

The 236-page report, which describes in detail the abuses of each member along with legal citations, can be downloaded at www.beyonddelay.org.

Corrupt Members of the Senate:
Sen. Pete V. Domenici (R-N.M.)
Sen. Mitch McConnell (R-Ky.)
Sen. Lisa Murkowski (R-Alaska)
Sen. Ted Stevens (R-Alaska)

Corrupt Members of House:
Rep. Ken Calvert (R-Calif.)
Rep. John T. Doolittle (R-Calif.)
Rep. Tom Feeney (R-Fla.)
Rep. Doc Hastings (R-Wash.)
Rep. Duncan Hunter (R-Calif.)
Rep. William J. Jefferson (D-La.)
Rep. Jerry Lewis (R-Calif.)
Rep. Gary G. Miller (R-Calif.)
Rep. Alan B. Mollohan (D-W.V.)
Rep. Timothy F. Murphy (R-Penn.)
Rep. John P. Murtha (D-Penn.)
Rep. Steve Pearce (R-N.M.)
Rep. Rick Renzi (R-Ariz.)
Rep. Harold Rogers (R-Ky.)
Rep. David Scott (D-Ga.)
Rep. Don Young (R-Alaska)
Rep. Jerry Weller (R-Ill.)
Rep. Heather A. Wilson (R-N.M.)

Dishonorable Mention:
Sen. Larry Craig (R-Idaho)
Sen. David Vitter (R-La.)

New Additions To Superfund List

The Environmental Protection Agency is adding seven hazardous waste sites to its list of "Superfund" sites. The sites contain arsenic, barium benzene, beryllium, cadmium, cesium-137, chromium, copper, lead, mercury and a dozen or more other metals. To date, there have been 1,569 sites listed on EPA's National Priority list. Of them, 320 sites have been cleaned up, resulting in 1,249 sites currently on the NPL.

EPA is also proposing to add another 12 sites to the list. There are now 66 proposed sites awaiting final agency action. EPA will start looking for the companies responsible for contamination of the new sites.

The following seven sites have been added to the National Priorities List:
- Halaco Engineering Company, Oxnard, Calif.;
- Eagle Zinc Co. Div. T L Diamond, Hillsboro, Ill.;
- South Minneapolis Residential Soil Contamination, Minneapolis, Minn.;
- Standard Chlorine, Kearny, N.J.;
- Eagle Picher Carefree Battery, Socorro, N.M.;
- Formosa Mine, Douglas County, Ore.;
- Five Points PCE Plume, Woods Cross/Bountiful, Utah

The following 12 sites have been proposed to be added to the National Priorities List:
- Lusher Street Ground Water Contamination, Elkhart, Ind.;
- Plating Inc., Great Bend, Kansas;
- Washington County Lead District, Old Mines, Mo.;
- Washington County Lead District, Potosi, Mo.;
- Washington County Lead District, Richwoods, Mo.;
- East Troy Contaminated Aquifer, Troy, Ohio;
- Chem-Fab, Doylestown, Penn.;
- San German Ground Water Contamination, San German, Puerto Rico;
- Donna Reservoir and Canal System, Donna, Texas;
- Midessa Ground Water Plume, Odessa, Texas;
- San Jacinto River Waste Pits, Houston, Texas
- Hidden Lane Landfill, Sterling, Va.

For information about the proposed and final NPL sites, go to http://www.epa.gov/superfund/sites/npl/current.htm.

Letter To The Editor

I loved the interview with John Ratzenberger ("Made in America Show Host Wants Manufacturing On Political Agenda," *MTN*, Sept. 28, 2007), but of course, some statements are more of a rally cry than fact. What is the definition for American-made? Why are foreign companies successfully manufacturing in the U.S. while U.S.-owned manufacturers are failing? It's a bit more complex than John suggests.

Something I recently discovered is a focus for Korean companies to become the world supplier of small products that slip under the radar. For example, who do you think is the world's manufacturer for straws? Yes, Korea. Now think about all the straws that go into juice boxes, are distributed at fast food restaurants, and on and on. Koreans even make the straws used in the Space Shuttle. So, why can't those be American made? I have no idea. The Koreans have a manufacturing facility in the United States so it isn't about labor.

I believe that the rally cry should not be just for return of manufacturing through tariffs, but it should be also around R&D to discover new technologies and find advanced manufacturing methods to produce better and innovative products. We need more support for small- and medium-sized enterprises, too.

On the Intelligent Manufacturing Systems (IMS) front, we just approved a new initiative called the Manufacturing Technology Platform (MTP) program designed to bring researchers together in an informal way. The five platforms include sustainability, energy efficiency, key technologies, standards and education issues. Already we have two initiatives in the United States: "Model-Based Engineering" that has Rockwell Collins leading; and "Material Off-Shore Sourcing with Bosch, Daimler Chrysler, Ford, GM, Honda of America, U.S. Customs and Border Protection and NIST. There is also a November workshop being held in Switzerland sponsored by the EU to focus on the education initiative. This is a new program that emerged from the IMS Vision Forum held last year. We will hold a workshop in Switzerland in April for at least three of these initiative groups to meet.

The IMS Chair is moving from Korea to Switzerland on November 1, and Dr. Kwan Rim from Samsung is handing the program over to Prof. Claudio Boër from CTI International in Switzerland. We had a very good run here.

Dr. Choi and I just produced a new book "Global Solutions to Challenges in Manufacturing — Project Outcomes from the International IMS Program." It is a compilation of all the completed research in the IMS program to date. It's a hard-bound desktop reference.

— Dan Nagy
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Foreign Purchases Of U.S. Companies

The United States economy is being "hollowed out at a near record pace," with foreign firms spending $129 billion through August 2007 buying 785 U.S. companies, according to the group "Economy in Crisis. The numbers "are shocking," says the group, which runs the EconomyInCrisis.org Web site. "These sales represent an unsustainable reality facing the U.S. economy: domestic profits and opportunity are being sent abroad. If we do not raise awareness about these issues to our friends, family and politicians, then our children will never forgive us for leaving them a future ridden with debt and fewer American-owned companies to employ them."

The $129 billion spent on U.S. companies through August is more than double the total from the same period last year, when 780 acquisitions were made totaling $58 billion. The highest number recorded for the first eight months of the year was in 2000, when 839 acquisitions were made totaling $153 billion.

The largest acquisitions so far this year include Saudi Arabia-based SABIC's purchase of GE Plastics for $11.6 billion; Canada-based Great-West Lifeco's purchase of Putnam Investments for $3.9 billion; Australia-based Redford Holdco's purchase of Spirit Finance Corp. for $3.5 billion; UK-based Rexam's purchase of Ol Plastic Products FTS for $1.8 billion; and Netherlands-based Koninklijke Philips Electronic's purchase of Color Kinetics for $815 million.

"Japan and China regard their companies as sacred wealth producing facilities," says Economy In Crisis. "We are foolishly allowing all our companies to be stripped from us and are quietly receding from being a productive economic superpower to an unproductive consumer-driven service (servant) economy. We are now developing the profile of a third-world country living on imports, debt and in a state of dependency, no longer capable of supporting or defending ourselves.

"As Americans, we should not allow our best wealth-producing companies to send their profits and technological know-how abroad. This is sacrificing our economic future through the senseless liquidation of our best companies to foreign interests. These were companies that took generations to build and were taken from us in an instant with the stroke of a CEO's signature. These are companies that were the source of our wealth and the means by which we were able to maintain a high standard of living and win WWI. Now, without these companies, we are becoming extremely vulnerable and increasingly defenseless, forced to live on imports and debt while deluding ourselves and continue to masquerade as a super-power."