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NIST SENIOR ECONOMIST GREGORY TASSEY:

U.S. Economic Prosperity Is Being Hijacked By 'Apostles Of Denial'

U.S. policy makers are beholden to "apostles of denial," and are not addressing the realities of a U.S. economy that is in long-term decline due to the loss of leadership in technology, according to the chief economist at the National Institute of Standards and Technology.

"Unfortunately, while trends indicating declining competitive positions have been identified and proclaimed by an increasing number of analysts, they nevertheless continue to be rejected or minimized by an even larger number of other analysts or policy makers," writes NIST senior economist Gregory Tassey in a book entitled, "The Technology Imperative."

The apostles of denial are "befuddling" the debate and are blocking an effective U.S. response to the growing competitive challenge. They successfully argue that the federal government has little or no role in the development of industrial and generic technologies that generate wealth and jobs. They cite economic indicators such as productivity growth rates that are no longer valid. They have not acknowledged basic economic facts pointing to economic decline, such as the growing and massive U.S. trade imbalance in the important advanced technology sector. They

competitiveness is recognized, refusal to act is rampant," writes Tassey. "Those with a stake in the status quo and their defenders in government argue for old models of competitive strategy and economic growth. Specifically, factions with vested interests in economic assets such as physical and intellectual capital, existing labor skills, or simply a fear of the trauma and the

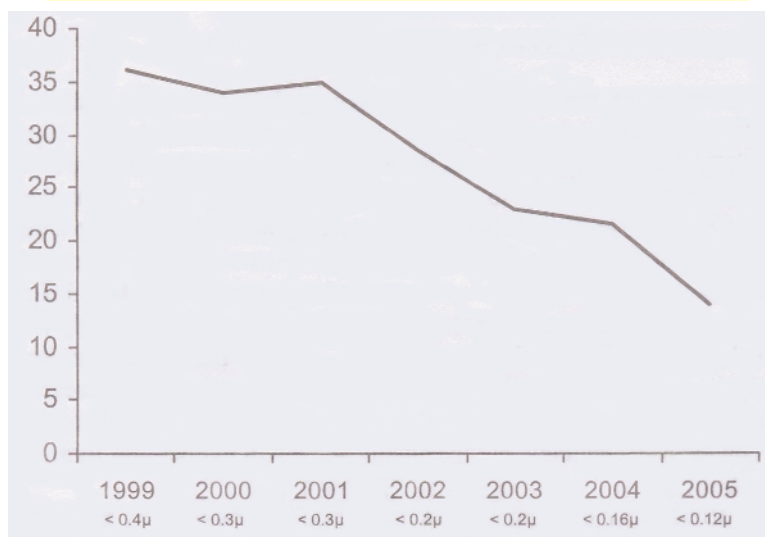
BY RICHARD McCORMACK

propagate a vacuous debate over "corporate welfare" and "picking winners and losers" and have led the country into a painful economic era.

"To the degree that the decline in

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U.S. Shares Of Leading-Edge Semiconductor Capacity



(Source: SICAS/Semiconductor Industry Association — Measures in Microns)

U.S. Must Prepare For Its Day Of Reckoning

Asian leaders that dupe American leaders and take advantage of the country's free trade policies with their predatory trade policies are draining the United States of its economic wealth. The communist Chinese leaders take offense to our superpower status and show hostility to our naval fleet in oceans bordering their shores.

China does not have to fight a war to have the fleet go home. It is much easier and less costly to mislead and deceive U.S. government officials into making decisions that have and are continuing to destroy our wealth-producing manufacturing capacity. Cheap labor, the visions of large markets and the greed for profits have seduced our transnational corporate owners and managers.

They outsource labor, capital, technology, R&D, manufacturing know-how and trade secrets. They have and are continuing to dismantle our wealth-producing industries. These owners and managers have no loyalty or allegiance to the United States. As our economic strength declines, so will our Navy's presence in the Pacific and our ability to defend our country.

The Chinese have already accomplished so much economic damage. It is dangerous and frightening.

We had a total trade deficit of \$764 billion in 2006 — a new record. With China, the trade deficit was \$233 billion — the largest ever with a single country. For the last five years, the U.S. trade deficit with China has increased by 20 percent each year.

Trade is necessary for America to prosper but it must be balanced trade. Our total national debt is \$9 trillion: \$5 trillion of that is owed to foreign countries and \$1.3 trillion of that to China. These numbers are pointing to an economic crisis.

Both the trade deficit and the debt owed to foreign countries show the United States is living beyond its means. A \$764-billion-a-year trade deficit equals \$2 billion of the country's wealth leaving every day. We are borrowing \$2 billion dollars a day from foreign countries to

BY JACK DAVIS
CEO, I SQUARED R ELEMENT CO.

maintain our standard of living.

If you have a successful career but lose your job you still may have credit available on credit cards and ownership in your home and car. Thus you can continue to maintain your standard of living — for a while — by increasing debt on your credit card or refinancing or selling your home and car.

But just as a person cannot continually increase debt, neither can a nation. The key difference between a nation and a person is that a nation can print money and delay the day of reckoning. Eventually, foreign countries will not accept pieces of paper with pictures of past American presidents on them of decreasing value for their products or in payment of debt.

The U.S. dollar in the last seven years has lost more than 50 percent of its value in relation to the euro, and it will continue to decline in value. At some point, the U.S. dollar as the world's reserve currency will be replaced.

In addition to the \$5 trillion we owe foreign countries, foreigners also own or control over 8,000 U.S.

companies with a value of over \$8 trillion. Many of these companies were bought with the intent of gaining global control of key technologies and raw materials needed to produce advanced weapons: airplanes, computers, satellites and intercontinental ballistic missiles.

Most Americans believe the United States is a superpower. It is only our military that is a superpower. Our economy is Second- or Third-World class.

Most Americans don't see or understand the emerging economic disaster. Our government officials continue to encourage companies to offshore research and development, engineering and manufacturing.

The Wall Street Journal reported on December 20 that the U.S. Treasury Department once again declined to designate China a currency manipulator. All the numbers indicate that the Chinese yuan is 20 percent to 50 percent lower than its true market value when compared to the dollar. This is no accident. The Chinese are currency manipulators. Their cheap currency provides exports from China with a large price advantage when

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Textile Industry Suffers Deep Downturn

The U.S. textile industry is in trouble. Output from U.S. mills fell by 12.1 percent last year, "the largest since the U.S. government began publishing output data on the topic in 1972," according to the American Manufacturing Trade Action Coalition. Since 1997, U.S. textile production has declined by 45 percent. Apparel output was also down last year, by 2.5 percent. Since 1994, U.S. apparel production had declined by 60 percent.

"A flood of subsidized imports especially those from China, is crippling the U.S. textile industry," says AMTAC executive director Auggie Tantillo. "The decline in U.S. output directly is tied to the loss of market share and the loss of market share then directly is tied to the loss of hundreds of thousands of textile and apparel manufacturing jobs."

The textile industry is not labor intensive, Tantillo points out. Textile production is heavily automated, capital intensive and engineering driven. "That is why subsidy schemes and illegal trade practices are the main reasons why China and other predatory exporters are able to take away market share from highly efficient and productive U.S. textile producers."

China and other "predatory" exporters are providing their home-based companies with \$428 billion in advantages through the use of subsidies, value-added tax rebates and currency manipulation. AMTAC says the Border Tax Equity Act, introduced by Reps. Bill Pascrell (D-N.J.), Duncan Hunter (R-Calif.), Michael Michaud (D-Maine) and Walter Jones (R-N.C.), needs to pass Congress. Since 2001, the U.S. textile and apparel industries have lost 364,100 jobs, a decline of 41 percent, to 522,800.

NAM Files Suit To Protect Its Membership From Disclosure

The National Association of Manufacturers doesn't want to disclose the names of its largest members. NAM has filed suit in federal court challenging a provision in the recently passed "Honest Leadership and Open Government Act of 2007" that requires associations to release the names of members that pay more than \$5,000 for lobbying activities. "NAM vs. Taylor" was filed in the U.S. District Court for the District of Columbia on Feb. 6.

"The vague, over-broad and burdensome provision compromises First Amendment rights," says NAM. Adds NAM president John Engler: "This pernicious law should be seen as a potentially lethal threat to trade associations....It is safe to assume that as businesses become aware of the serious implications of this law, many of them will curtail their membership in trade associations. The effect will be to compromise their First Amendment right to express their opinions in the legislative process, and also undermine trade associations which play a critical role in the development of public policy by government.

"The NAM's lobbying activities often touch on hot-button topics such as global warming, nuclear power or labor relations that provoke responses beyond civil debate," said Engler. "For example, anti-globalization forces are increasingly resorting to violent means to oppose both political leaders and officials in the private sector who support trans-national economic development. Similar consequences can result from being identified as actively opposing the core positions of organized labor. Taking policy positions that are unpopular with other groups may lead to boycotts, political pressure, shareholder suits or other forms of harassment. Some areas of advocacy could even make member companies the target of litigation."

NAM members could be unfairly targeted. With a large, diverse membership "a company could very easily find itself being pilloried because of an NAM position that it does not actually support, and in fact may have opposed," said Engler.

No other trade association joined NAM in the suit.

NAM's brief is available at www.nam.org/litigation.

National Science Board Issues Warning On Future Of Science & Technology

The National Science Board is alarmed over negative trends in research and development and the shift of high-tech manufacturing and research overseas. In a statement accompanying the bi-annual "Science and Technology Indicators" report, the board said these issues call for "serious national attention."

The National Science Board "observes with concern the indicators of stagnation and even decline in some discipline areas in support for U.S. R&D and especially basic research," says the board's statement. "The stagnation in industry support for its own basic research in this century together with the current decrease in support of academic R&D and basic research by the federal government could over time have severe implications for U.S. competitiveness in international markets and for highly skilled and manufacturing jobs at home."

A decline in publications by industry authors in peer reviewed journals "suggests a de-emphasis by U.S. industry on expanding the foundations of basic scientific knowledge," says the letter. Publications from industry researchers have declined significantly over the past decade, while industry support for basic research at universities is also down.

"Likewise, federal government support for academic R&D began falling in 2005 for the first time in a quarter century," writes the National Science Board. "The confluence of these indicators raises important questions about implications for the future of U.S. competitiveness in international markets and for the future existence of highly skilled jobs at home."

The Science Board recommends a "strong national response" to combat the growing economic malaise caused by the country's inability to create new industries spawned by investments in research. At stake is the "nation's ability to create new jobs, improve the standard of living for people and provide sophisticated technology that ensures our national security.

"The rapid changes taking place internationally increase the urgency of understanding and monitoring where our nation stands in its R&D competitiveness, the direction of trends related to competitiveness in high technology, and what critical information may be lacking that would provide more accurate assessments of the nation's standing and outlook."

The NSF's "Science and Technology Indicators" imply "a reduced commitment to the U.S. enterprise by both the federal and industry sectors over the last several years in spite of the growing importance of knowledge-based industries in international trade," according to the Science Board. "The potential impacts of persistent negative trends in R&D support...on the U.S. economy and jobs are indeed troubling."

The letter is located with the Science and Engineering Indicators: <http://www.nsf.gov/statistics/seind08/>.

President Bush's Final Budget Request: More Deficits And More Debt

The Bush administration proposed a federal fiscal year 2009 budget of \$3.1 trillion, with a deficit of \$407 billion, the third largest deficit in history. But the proposed deficit is much smaller than what it actually will be, since the budget does not include the full cost of wars in Iraq and Afghanistan, the cost of fixing the Alternative Minimum Tax, increasing costs of paying interest on the national debt, or the possibility that an economic slowdown will substantially reduce federal tax receipts. Bush requests \$70 billion for the war effort in 2009, but the CBO estimates the wars in Afghanistan and Iraq will cost \$161 billion. Adding in the \$91 billion additional costs of the wars, the federal budget deficit will be at least \$500 billion in 2009. When the Bush administration took office, it projected a surplus for 2009 of \$710 billion. Here are some highlights from Bush's final budget request:

The Department of Defense is requesting \$515 billion for its core programs not related to the cost of the two wars being conducted in Afghanistan and Iraq. The request is 74 percent higher than DOD's \$301 billion budget when President Bush took office in 2001. Defense-related atomic bomb work at the Department of Energy would be \$16.1 billion next year, up from \$15.3 billion in 2008. Total non-war related costs for defense next year would be \$537 billion.

An additional \$70 billion will be requested to pay for the wars in Iraq and Afghanistan, for a total outlay of \$607 billion, but the \$70 billion for Iraq is expected to be less than half of what is required. Through 2008, the two wars will have cost \$800 billion and are projected by the Congressional Budget Office to cost \$1.8 trillion by 2013.

Spending outlays on defense in 2009 will be the highest since World War II, surpassing the peak spending years of both the Vietnam and Korean wars. Bush's budget request indicates that 2009 will be the high-water mark for defense budgets, with total outlays forecast to drop from \$675 billion to \$590 billion in 2010, and \$561 billion in 2011.

Within the DOD account, research, development and demonstration is projected to increase \$3.1 billion (4 percent) to \$79.6 billion in 2009. Procurement is projected to increase \$5.2 billion (5.3 percent) to \$104 billion.

Interest payments on the federal debt continue to grow, accounting for \$244 billion in 2008 and projected to be \$260 billion in 2009, \$280 billion in 2010, \$294 billion in 2011 and \$300 billion in 2012. Over the next five years, Americans will spend \$1.4 trillion on paying interest on the ballooning federal debt. In 2009, interest on the debt will account for 10 percent of total tax payments. When Bush took office, interest payments were projected to be \$58 billion in 2009. If Bush's tax cuts are extended and government domestic programs grow with the size of the economy, then by 2040 two-thirds of total federal revenue will be used to pay the interest on the debt, according to the House Budget Committee.

The National Institute of Standards and Technology's budget would decline from \$724 million

in 2008 to \$638 million in 2009, due to the administration's decision to eliminate both the Manufacturing Extension Partnership and the Technology Innovation Program (TIP). The America "COMPETES" Act signed by President Bush last year authorized \$131.5 million for TIP for 2009. NIST's laboratory budget would increase from \$446 million in 2008 million to \$526 million in 2009. The Baldrige National Quality Award program would receive \$8.5 million.

The National Science Foundation would receive \$7 billion in 2009, an \$821-million increase (13.3 percent) over 2008, but still short of the \$7.33 billion authorized in the America COMPETES Act.

The Department of Energy's Office of Science would see an increase of \$749 million, up 19 percent to \$4.7 billion. The solar energy budget would decline 7 percent, or by \$12 million to \$156 million. Hydrogen and vehicle technologies would decrease by \$57 million (13.4 percent) to \$367 million. Fossil energy research would increase \$11 million (1.5 percent) to \$754 million. Nuclear energy research would decrease \$183 million (17.7 percent) to \$854 million. DOE's Industrial Technologies program, aimed at improving the efficiency and competitiveness of basic industries, would decrease from \$64 million to \$62 million.

The president's budget provides \$400 million for the "first installment" of a three-year \$2-billion U.S. commitment to an international clean energy technology fund "that will increase and accelerate the deployment of clean technologies in developing nations to help confront climate change," says the Office of Management and Budget. Another \$242 million will be directed at the Nuclear Power 2010 program to promote the licensing of nuclear plants through an industry cost-shared effort. The request calls for \$302 million for a nuclear Advanced Fuel Cycle Initiative research and development program; and \$648 million for advanced coal technologies, "the largest amount requested for DOE's coal program in more than 25 years," says the president.

Homeland Security spending jumps by \$6.7 billion to
(Continued on next page)

Bush Budget...*(Continued from page four)*

\$68.5 billion, a 10.8 percent increase. The Customs and Border Protection agency's budget would increase by \$1.6 billion (20.6 percent) to \$9.5 billion. The Transportation Security Agency's budget would increase by 1.7 percent to \$6.4 billion. The FBI's budget would increase by \$600 million (9.2 percent) to \$7.1 billion.

The Consumer Product Safety Commission's budget would stay the same for 2009: \$80 million.

Trade Adjustment Assistance for companies losing business to unfair foreign competition would hold steady at \$14 million.

Employment training programs would be reduced by \$1.1 billion, a 28.5 percent cut.

The legislative branch of the federal government (Congress) would receive \$4.1 billion, an increase of \$608 million over 2008. Funding includes support for the GAO, the Library of Congress and the Congressional Budget Office.

The Executive Office of the President would receive

\$356 million, an increase of \$19 million over 2008.

The Economic Development Administration at the Commerce Department would see its budget get slashed from \$274 million in 2008 to \$133 million in 2009. The International Trade Administration's budget would increase from \$405 million to \$420 million in 2009. The Bureau of Industry and Security, also at the Commerce Department, would see its budget increase from \$75 million to \$84 million.

The Environmental Protection Agency's budget would decline 4.4 percent (a cut of \$330 million) to \$7.1 billion.

NASA's budget would increase by \$497 million (2.9 percent) to \$17.6 billion. Aeronautics research would see a budget cut of \$65 million (13 percent) to \$446 million.

The Department of Transportation's budget declines by \$5.4 billion to \$75.3 billion in 2009. Amtrak's budget would be cut by \$525 million, or 40 percent, to \$800 million. The Coast Guard's funding would increase by \$403 million (5.4 percent) to \$7.8 billion.

The National Institute of Health would see its budget frozen at \$29.3 billion. To keep pace with inflation, NIH's budget would need to increase by \$630 million.

Jack Davis...*(Continued from page two)*

competing with U.S. companies. This causes many U.S. companies to fail or be so weakened it permits foreign companies to buy them at a large discount.

China also promotes exports and discourages imports. They keep wages low, rebate value-added taxes on their exports and charge value-added taxes on imports. They counterfeit and steal copyrights, trademarks and patents. They provide domestic industries with local tax incentives, offer special financing and charge tariffs on imports. They target specific industries to monopolize.

No U.S. company can compete with these predatory practices, all of which violate World Trade Organization regulations. Yet, the U.S. Departments of Treasury and Commerce fail to take action against China.

American politicians made a terrible mistake in 1996 when they voted to join the WTO. Joining the WTO gave Third World country bureaucrats control over U.S. international commerce. It is very difficult for the United States to win a case at the WTO. Most foreign country bureaucrats dislike the United States. Also, many are as corruptible as the bureaucrats at the United Nations have proven to be. The chances of the U.S. getting fair treatment at the WTO are remote.

The U.S. Constitution states; "Congress shall have the power to regulate commerce with foreign nations." But Congress gave control of foreign commerce to the WTO. Congress must do what the people elected them to do, and what they were sworn to do: "regulate commerce with foreign nations."

Congress must immediately cancel U.S. membership in the WTO. If it does not, Asian countries will continue their predatory trade practices, continue destroying or

buying U.S. companies, continue financing our debt and continue buying our country. They will do this until we have nothing left to sell — no industries, no real estate and no natural resources.

The U.S. government will then have additional trillions of dollars of debt and go bankrupt. Social Security, Medicare and pensions will be without funds. All of our wealth-producing industries, mines and farms will be foreign-owned. The government's ability to tax will be significantly reduced along with its ability to defend our country.

The career politicians we sent to Washington still don't see or understand the coming economic crisis. None of the leading presidential candidates from either party seem to be aware of the coming economic crisis.

Wake up America, our day of reckoning is coming.

Jack Davis: With age, I am 75, comes understanding, knowledge, experience and wisdom. I have 53 years experience in manufacturing and foreign commerce. I have worked for Fuller Brush, Westinghouse Electric, Ford Motor, Chevrolet and Carborundum in production, sales, engineering and management. I served in the Marine Corp and U.S. Coast Guard as a commissioned deck officer. I am a graduate engineer, entrepreneur and founder in 1964 of the I Squared R Element Company which I still own and manage. I Squared R is a successful company based in Akron, N.Y. that manufactures silicon carbide and molybdenum disilicide heating elements used in high-temperature electric furnaces. We are the largest U.S. manufacturer and ship heating elements to all the major industrialized nations of the world. I remember the depression and poverty. I remember the surprise vicious attack on Pearl Harbor. I remember the fear of possibly losing World War II. History repeats itself.

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Apostles Of Denial...

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cost of change, resist adaptation. This is the installed-base effect and it is widespread."

Countries, rather than private companies, "are the growing factor in determining the basis for competitive advantage," writes Tassey. "Because this principle is not yet accepted in the United States, studying, understanding and formulating strategies and policies to address long-term needs of a large, technology-based economy are being short-changed."

The apostles of denial have failed to recognize the negative economic impact caused by the loss of high tech supply chains and chronic under investment in R&D. "History shows that resistance to adapt to changing economic conditions is built into the very factors that led to success," writes Tassey. "Thus, most former economic leaders experience sustained periods of inferior economic performance which persist until economic conditions become bad enough to force a change."

U.S economic performance is struggling with two fundamental problems that portend serious constraints on future economic growth. "First, the U.S economy has lost its perspective on what drives growth," writes Tassey. "Excessive consumption fueled by accumulation of enormous debt precludes sufficient aggregate investment. Second, what investment is occurring suffers from serious compositional inadequacies, in particular, inadequate rates of investment in technology, especially breakthrough technologies — the ones that create new industries and thereby provide a large number of high-paying jobs."

In an interview, Tassey says: "If you care about the U.S. economy and its future, you have to worry about what we are not doing," which is investing in the technological infrastructure of the country. This lack of investment is occurring at a time of a major technology transition, as exemplified by the semiconductor industry where there is a transformational shift to nanotechnology. "Every time you go through a major technology cycle shift, the role of the technology infrastructure changes and it requires new investment strategies," Tassey explains. "The industry is aware of this — they have their roadmaps — but the investment has to be done in the world of global competition — it has to be done consciously and aggressively."

But that is not happening in the United States, which has steadily lost share in the global semiconductor market. "Governments are now more important in determining where investment capital flows," says Tassey. "We are at a critical time for semiconductors as we make this transition to a new technology cycle. If we don't step up during this transition, then we're going to lose the semiconductor industry."

Global competitors have embraced a public-private technology-based growth paradigm. "No single economy has to surpass the leader to cause erosion of that leader's position," writes Tassey. "Rather, the determination of multiple pursuers to catch up to the United States is collectively taking significant chunks of the U.S. share of one technology-based market after another. This piranha effect, in which each competing economy bites off a piece

of the leader's domain until collective convergence has occurred, eventually leaves the leader at best as one of several competitors in markets it once dominated."

A majority of U.S. policymakers believe that the United States is in a leadership position and that investment strategies that worked in the past will continue working forever. "When you have this 'installed-base effect,' it can take decades to admit that you have structural problems that need to be changed," says Tassey. "Look at the Europeans. They are slowly beginning to change, but it's painful for them, and we're going to have to go through the same process. Unfortunately, we don't have the internal policy mechanisms to generate the analysis of the challenge. Industry and academic groups have argued for new strategies and policies but these proposals are based at best on limited analysis and data and at worst on anecdotes and assertions."

There are occasional studies, like the Council on Competitiveness's "Innovate America" project, which are useful. "But the problem with these ad-hoc exercises is when they are done there is no follow through," says Tassey. "That is what worries me. There is no process."

In the 1980s when the United States had to confront a competitiveness challenge posed by Japan, the Department of Defense stepped in to fund Sematech and create large private-public technology and process innovation programs aimed at commercializing technologies. At the time, the defense sector controlled the direction of technology, but DOD has shifted its model to buying commercial technology. "That system no longer exists," says Tassey.

"Basically, I set out to destroy the 'black box model,' which says technology magically appears and therefore all the government needs to do is fund basic research," says Tassey. "It's okay [for the government] to fund some technology research if there is a social objective, so long as the social objective is anything but economic welfare. What we don't understand is that we can't depend on a few large companies and their research labs the way we did in the days of Bell Labs, GE, Xerox PARC and Sarnoff. Those days are gone and if you look around the world, you see more governments use proof-of-concept research built around the technology cluster model. Policy makers in the United States need to understand that is where the world is going and if we don't pony up we're going to be left behind. Europe took decades of sub par growth to finally wake up, but the jury is still out on us."

"Global competition is not only lowering growth of the standard of living at the national level, but it is creating an increasingly skewed distribution of wealth. This pattern is ominous for two reasons: it reflects the declining competitiveness of the majority of workers and such distributions inevitably lead to social and political unrest. As real incomes become stagnant or even decline, anger rises, people become polarized and adopt 'us versus them' attitudes. This 'good guys and bad guys' mentality results in social and political gridlock, which in turn, prevents consensus solutions to the main problem — sluggish economic growth."

— Greg Tassey, senior economist at NIST, in "The Technology Imperative," published by Edward Elgar Publishing Ltd. 2007 (ISBN 978 1 84542 912 6).

Another Year, Another Proposed Shutdown Of Mfg. Program

President Bush wants to eliminate the only federal program aimed at making small- and medium-sized U.S. manufacturing companies more efficient and competitive. The 2009 budget request asks Congress to eliminate funding for the Manufacturing Extension Partnership (MEP) program from \$89.6 million this year to \$4 million, which would be used to close down the program.

It is the seventh consecutive year Bush had proposed either cutting or eliminating the program. Republican controlled congresses through 2006 did not acquiesce to those requests. The MEP is a cost-shared program with the states and companies being served.

In the "America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education and Sciences" (COMPETES) Act (HR-2272), signed by President Bush late last year, the MEP program was authorized to receive \$122 million in 2009.

"If the President's cut were adopted, private-sector investment in U.S. manufacturing could be reduced by an estimated \$1.5 billion and approximately 37,000 fewer jobs could be created or retained," according to a

budget analysis from the House Committee on the Budget.

President Bush's proposed elimination of the MEP program "is not only irresponsible, but contradicts his stated goals," says Mike Coast, president of the Michigan Manufacturing Technology Center and chairman of the American Small Manufacturers Coalition (ASMC). "A White House communication dated January 28, 2008, summarizing the recent State of the Union address talks of the importance of 'Keeping America Competitive in the 21st Century.' How committed to this goal can the President really be when he proposes to eliminate the one federal program aimed at doing just that? It's just not a good business decision to eliminate a program that yields a 20-to-1 return to its clients for each federal dollar invested."

The national network of MEPs will spend another year lobbying Congress to restore funding. The program took an unexpected hit last year when Congress cut funding by \$20 million to \$86 million, far less than the \$108 million authorized in the America "COMPETES" Act.

House Budget Committee's Estimates Of Impact Of MEP Budget Cuts

	President's Cut From 2008 (adjusted for inflation)	Change in Number of Workers Helped		President's Cut From 2008 (adjusted for inflation)	Change in Number of Workers Helped
Alabama	-\$1,721,000	-538	Missouri	-\$5,059,000	-1,581
Alaska	-\$975,000	-305	Montana	-\$276,000	-86
Arizona	-\$2,074,000	-648	Nebraska	-\$516,000	-161
Arkansas	-\$2,528,000	-790	Nevada	-\$1,541,000	-482
California	-\$33,285,000	-10,401	New Hampshire	-\$463,000	-145
Colorado	-\$1,795,000	-561	New Jersey	-\$4,350,000	-1,359
Connecticut	-\$2,011,000	-629	New Mexico	-\$601,000	-188
Delaware	-\$280,000	-87	New York	-\$11,200,000	-3,500
District of Columbia	-\$823,000	-257	North Carolina	-\$5,559,000	-1,737
Florida	-\$6,780,000	-2,119	Ohio	-\$14,369,000	-4,490
Georgia	-\$4,516,000	-1,411	Oklahoma	-\$1,581,000	-494
Hawaii	-\$319,000	-100	Oregon	-\$3,470,000	-1,084
Idaho	-\$340,000	-106	Pennsylvania	-\$5,454,000	-1,704
Illinois	-\$11,198,000	-3,499	Rhode Island	-\$775,000	-242
Indiana	-\$3,816,000	-1,192	South Carolina	-\$5,978,000	-1,868
Iowa	-\$1,109,000	-346	South Dakota	-\$252,000	-79
Kansas	-\$1,220,000	-381	Tennessee	-\$3,601,000	-1,125
Kentucky	-\$4,410,000	-1,378	Texas	-\$9,886,000	-3,089
Louisiana	-\$2,007,000	-627	Utah	-\$558,000	-174
Maine	-\$724,000	-226	Vermont	-\$281,000	-88
Maryland	-\$2,331,000	-728	Virginia	-\$2,332,000	-729
Massachusetts	-\$4,726,000	-1,477	Washington	-\$3,757,000	-1,174
Michigan	-\$23,430,000	-7,322	West Virginia	-\$814,000	-255
Minnesota	-\$2,623,000	-820	Wisconsin	-\$5,375,000	-1,680
Mississippi	-\$4,547,000	-1,421			

Aviation Groups Complain About Bush Budget

The General Aviation Manufacturers Association isn't happy with President Bush's budget request. The Bush administration, searching for money to fund the government, has proposed an increase in user fees for the aviation community.

"They have once again launched an effort to complete a FAA reauthorization bill by proposing the exact same failed plan," says GAMA president and CEO Pete Bunce. "GAMA continues to categorically oppose user fees of all types on any segment of the aviation community. We will continue our efforts with Congress to complete action this year on a FAA reauthorization bill, but quite frankly, the administration pushing a financing scheme the Congress has already rejected makes our job tougher. It is pretty hard to believe the administration is serious about increasing capacity when they again cut the Airport Improvement Program funding by nearly 22 percent."

Bush's 2009 budget request for the FAA is \$14.6 billion, a decline of \$273 million (1.8 percent) from 2008. Bush requests \$2.75 billion for the Airport Improvement Program, a cut of \$765 million from 2008 and more than \$1.1 billion below the \$3.9 billion level proposed in the FAA reauthorization bill before Congress.

"With delays and congestion at an all-time high, and a record one billion passengers expected in the skies by 2015, airports need to act now to improve capacity and their ability to handle ever-increasing numbers of air travelers," says Greg Principato, president of the Airports Council International North America. "With the proposed cuts to next year's budget, the administration is virtually guaranteeing more congestion and delays to a system already stretched to its limit."

Bush also proposed raising the Transportation Security Administration (TSA) fee, which is collected at the time an airline passenger purchases a ticket from \$2.50 for a one-way trip to \$3.00. The fee increase would raise \$426 million in 2009 and be used to buy explosive detection equipment to screen checked baggage.

Phyllis Eisen Says Bye-Bye To NAM

Phyllis Eisen, a leading advocate for creating a new generation of skilled manufacturing workers, has decided to leave her position at the National Association of Manufacturers. Eisen, founder and director of NAM's Center for Workforce Success and the Dream It! Do It! manufacturing workforce publicity campaign, is a 20-year veteran of NAM and will be leaving in March. She has not yet decided what to do, but has received offers from around the country. "I'm not going to go and sit behind a computer and do policy analysis," she says.

Eisen, one of Washington's great personalities, worked for many years at NAM as a lobbyist on immigration policies and tort reform before realizing in the 1990s that companies were facing a skilled workforce crisis. "Because I believed that education and workforce were seminal issues that would shape the 21st century politics of work and the productivity of work, I felt that I had to leave lobbying and focus on the policies and strategies to build a skilled workforce," says Eisen.

She did it with former NAM president Jerry Jasinowski's approbation, with the help of NAM members and with an indefatigable supply of passion. "I received an extraordinary reception around the country from educators, other business organizations, MEPs and economic developers," she says. "The issue has gone from whining to early screeching and now it's at a full throttle yell."

Eisen is being replaced by Emily Stover DeRocco, who was hired recently by NAM president John Engler from her Bush administration political appointee job at the Department of Labor.

Eisen says she is most proud of bringing the skilled workforce issue to the NAM. "It got to the top of our agenda and it has stayed there and it has put us at the national table on this issue," she says. "It has been institutionalized at the NAM. I did everything I was supposed to do. Time to go."

Executive Order On Earmarks

President Bush has issued an executive order (No 13457) that prohibits federal agencies from spending money provided by Congress in the form of pork barrel projects. The January 29, 2008, order "makes clear that future earmarks included in report language will be ignored," according to Bush's 2009 budget request. Most congressional earmarks are inserted in the reports that accompany appropriations bills, and are therefore never voted upon by Congress. "The President's unprecedented action on earmarks will bring more transparency and accountability to the budget process," says the budget document. "This prospective policy will remain in effect unless the Executive Order is repealed by a future President. To put this status in context, over 80 percent of the Executive Orders from 1993 to 2000 remain in place today."

Most Young Men Don't Go To College

Many young American men in their early 20s are not on a trajectory for success in a rewarding career. Only 38 percent of men aged 20 were attending college last year, compared to 47 percent of women, according to the Bureau of Labor Statistics. Men are also more likely than women to drop out of college.

Twenty-one percent of all males aged 20 were high-school dropouts, compared to 16 percent of women. Of the 20-year-old males that dropped out of high school 44 percent of them were either not in the workforce or were unemployed last year. Only 55 percent of them had jobs. The 11-page report "America's Youth at 20: School Enrollment, Training and Employment Transitions Between Ages 19 and 20" (USDL 08-0089), is located at <http://www.bls.gov/nls/>.

Reporter's Notebook: President Bush's 2008 State Of The Union

BY RICHARD McCORMACK

I attended President George W. Bush's final State of the Union Address on Monday, January 28, standing 20 feet directly above and behind the president, who looked like he was a former X-Game athlete. George W. had energy, verve, poise. He was feisty — amorously buffing Texas Republican Rep. Louie Gohmert's bald head on his way into the chamber — merrily shaking hands; tanned and perfectly fit in a suit. He looked ready to hit a frontside 540 on his snowboard down the halfpipe. Except, in reality, his role is now about that of an actor in an advertisement on the Winter X-Games show currently running on ESPN-2.

The press gets a great seat during the State of the Union. While the president reads his speech to the world, there isn't a single member of the media in the daily press gallery able to see his face. The press listens to his words and watches the reaction of those sitting in attendance.

It is like being at a sold-out rock concert, having a floor seat and turning around in the middle of the show when the lights are bright and marveling at the audience's faces. When you do this at a concert, you feel self-conscious, studying the collective countenance of people lost in trance; gauging the age, gender and racial makeup of the audience.

At the State of the Union, the press is a sanctioned voyeur. Its place is to watch the audience watch the president. Rarely do any of the policymakers on the floor look up at the predominantly young almost entirely white scribes staring down intently at them. The television lights brilliantly illuminate every face in the House Chamber. You can read their facial expressions, their body language, their split-second jump-up-and-clap-all-in-a-group response to whatever is being said.

If I didn't know any better, being in the House Chamber listening to Bush's last State of the Union Address I'd have thought he has a full term in front of him. He implored Congress to pass legislation for dozens of programs. The Republican members of Congress would jump out of their seats with rancorous "woo-hoo" hoots. The entire affair sounded distinctly as if Republicans control the government — that they are the dominant party — and that they are going to be the purveyors of massive change in wiretapping laws, extending the Bush tax cuts, providing \$30 billion extra in aid for AIDS and on and on and on.

The Republicans reminded me of a flying flock of Canada geese, encouraging their leader with their honking "woo-hooos" and "hoo-haaas." For the most part, the Democrats provided Bush with perfunctory applause, many of them slumping in their seats with expressionless stares. When the speech ended, most of them bolted out of there through side doors.

At times, the State of the Union seems like a sporting event — who is going to out-clap whom? Up and down the members go. What deserves a standing O? The troops always get a standing O. An oblique reference to "the great city of New Orleans" — gets a standing O. A ban on the cloning of human life: standing O. Help for

families whose homes have been foreclosed and assistance for workers losing their jobs to trade — no standing O.

This year's State of the Union address wasn't about Bush. It was about Sens. Hillary Clinton and Barack Obama. Bush's speech started nine minutes late, largely because Obama and Clinton created a traffic jam among the senators behind them as they entered the chamber. They had to shake everybody's hand, get a pat on the back, a hug or a kiss. Big smiles. They were the only two presidential candidates in the room only a few feet from President Bush as he gave a laundry-list speech, each wondering, hoping, praying: "Is that where I'm going to be at this time next year?"

And there sat Sen. John Kerry thinking, "How in the world did I ever lose to a guy who can't pronounce the word 'administration?'"

After the speech, in the long narrow room behind the press gallery dozens of reporters on deadline were batting out stories on their laptops. Photographers downloaded pictures off tiny memory sticks taken from their massive digital cameras, working them speedily in Photoshop, talking to their editors on cell phones about their shots. Most all of the pictures were of Hillary and Barack, the prize of the night being the moment that Hillary leaned over to shake Ted Kennedy's hand — and Obama turning his back.

When you're in the press gallery during the State of the Union, you can't help but think about the fact that these are all the people who run our government — the president, vice president, the secretaries of all the federal agencies, every member of Congress and Supreme Court justices: and they can't get anything done. They can't balance a budget. They can't solve any of the nation's problems. They only make them worse. There is something wrong here.

Bush excoriated Congress over its addiction to earmarks, warning veto of any bill that had earmarks in it. The Republicans in the chamber rancorously shot out of their seats, woo-hooing. Ironic, since there are plenty of Republican pork projects in the latest omnibus budget. Why is Bush suddenly concerned about earmarks? During Republican control of Congress, they increased four-fold from 4,000 in 1994 to 16,000 the year they lost their majority in 2006. While Bush lectured Congress about earmarks, you could see the collective enmity of Democrats as they leaned over in their seats to talk to their neighbors, and you could hear their muffled muttering above Bush's oration.

When Bush said: "Six years ago, we came together to pass the No Child Left Behind Act, and today no one can deny its results," there was laughter from the Democrats. When he said, "Our enemies in Iraq are not yet defeated," I imagined him standing below the "Mission Accomplished" sign on the USS Abraham Lincoln. When he said al Qaeda's top commander in Iraq "declared that they will not rest until they have attacked us here in Washington," I expected him to declare: "Bring 'em on!" When he said, "We will defend our vital interests in the Persian Gulf," I wrote in my

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EPA Seeks Info On Nano Chemicals

The Environmental Protection Agency has started a program to study the health and environmental risks of nanoscale chemical products. The EPA's Nanoscale Materials Stewardship Program (NMSP) will "allow the EPA to more quickly assemble the information needed to ensure appropriate oversight of the products of this promising technology," said Jim Gulliford, EPA assistant administrator for Prevention, Pesticides and Toxic Substances. "Participation in this program can help assure the responsible development, use and acceptance of these materials in the marketplace."

The program calls on manufacturers, importers, processors and users of engineered nanoscale materials to report to EPA with information about the materials within six months. EPA will work with those organizations to develop data to provide a scientific basis for assessing the hazards, exposures and risks of nanoscale materials. The EPA "encourages manufacturers and importers of new chemical nanoscale materials as well as researchers to consider reporting under the NMSP," says the agency. For information on the program, go to <http://epa.gov/oppt/nano/stewardship.htm>.

DOD Creates Battery Competition

The Department of Defense has created a new prize competition for a portable power system that can be worn by troops. The "Wearable Power Prize" will provide winners with \$1.75 million for the best power-generating methods of a wearable power source. "The goal is to reduce the weight of power systems that warfighters carry to operate their radios, navigation, weapons and other gear," says DOD. Competitors will demonstrate wearable systems that can power military equipment for 96 hours and weigh less than four kilograms (8.8 pounds).

The first-place team will win \$1 million for building the lightest weight system that generates 20 watts average power for 96 hours. The second-place team will win \$500,000 and the third place team, \$250,000. A total of 169 teams have registered for the competition. The competition is sponsored by the director of Defense Research and Engineering and will be held at the Marine Corps Air-Ground Combat Center in Twentynine Palms, Calif., from Sept. 22 to Oct. 4. For information to go <http://www.dod.mil/ddre/prize>.

Reporter's Notebook... (From page nine)

reporter's notebook the word "oil."

This being an election year, change is afoot in the race for the presidency. The candidates seeking Bush's post incessantly use the word "change." In his final State of the Union Address, President Bush used the word "change" one time, when he said: "The United States is committed to confronting global climate change."

The great thing about our Democracy is that next year, the United States will have an entirely new government. Every person occupying the seats of the president's cabinet on the floor of the House Chamber will be different. Many of the current members of Congress won't be back. It is all temporary, fleeting. Soon, another generation will occupy this space, as long as the American experiment in Democracy prevails. Let's hope it does; it's getting creaky.

As he slowly made his way out of the House Chamber after his speech, Bush amicably signed autographs on the typeset speeches handed out to members of Congress. When will we see one of those on eBay, I wondered. Will a signed copy of Bush's final State of the

Union Address make its way onto PBS's Antiques Roadshow in 150 years? What will it be worth?

Of course when you attend this event, you can't help but think that this small room — with the 550 people who control the destiny of 310 million Americans — is the ultimate target for a terrorist. If they blow the place up, I am going to go down with them. Without meaning to sound (too) seditious, I will not hold it against you if your reaction is woooo-hoooo!

"I am not an advocate for frequent changes in laws and constitutions. But laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance also to keep pace with the times. We might as well require a man to wear still the coat which fitted him when a boy as civilized society to remain ever under the regimen of their barbarous ancestors."

— *Thomas Jefferson, as inscribed in the Jefferson Memorial*

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Questions To **Rep. Marcy Kaptur** (D-Ohio) After The State Of The Union Address In The U.S. Capitol Building's Statuary Hall

Question: In his State of the Union Address, President Bush didn't mention steps needed to reviving a hollowed out economy through incentives for investment in U.S. production.

Kaptur: Even in his speech when he talked about trade agreements, he granted the outsourcing of more jobs. He said that he will take care of the casualties of trade, but he hasn't up to now, so why should we believe him this year? He hasn't done anything to make trade agreements more fair or to open up closed markets. He talked about exports going up, but what about imports going up? He doesn't admit reality.

Q: What do you think Bush's legacy will be on the economy?

Kaptur: Let's look at the category of the trade deficit that is oil. Since he became president in 2001, the United States is importing one billion more barrels of oil per year — one billion! What kind of progress is that? He can say that he wants to be energy independent, but the proof isn't in the pudding.

His legacy will be enormous debt. Under his presidency American crossed the precipice of having over half of our public securities being sold to foreign interests. As somebody said to me in my home district, "Marci, America doesn't belong to us any more." The public is very worried in my region.

His legacy is going to be debt and mortgaging our future to the foreign bond holders to pay for the war and growing deficits, both federal and trade and an inability to pay for his expenditures. He talked about investing money in [a variety of programs], I said to the congressman next to me during the speech: Where is he going to get the money? If he wants to make the tax cuts permanent and he wants to spend money on all these different programs, how do we do this?

I come from a district where the food pantries need help. People out of work have run out of unemployment benefits and are flocking into the food pantries and he talks in his speech about getting money to foreign farmers to buy their products. I have nothing against foreign farmers, but what about our own food banks? He didn't mention that we have people here who are hungry. What does freedom mean when you have no liberty because you have no way to support yourself?

Yesterday I was with a retired couple whose son lost his job that was outsourced to Mexico. His wife died, he has two sons to support and his mother who is on Social Security is trying to support the family. She says, "Marcy, what am I supposed to do?" I said maybe I can get you some heating assistance help through LIHAEP [the Low Income Home Energy Assistance Program], which Bush did not even mention. Utility bills are killing people in the Midwest with the weather what it is. The president doesn't seem connected to reality.

Q: What is the average heating bill in the Midwest?

Kaptur: It's hundreds of dollars — 200, 300, 400,

500, 600 dollars a month. Burglaries are going up. Things are happening because people need cash.

Q: What do you think of the economic stimulus plan?

Kaptur: I don't think it is a stimulus, it almost sounds like welfare for the middle class. Rather than help the people who have minimum wage jobs or retool for new industries — the industries of the future — all they're doing is borrowing more money from foreign creditors and giving a little bit out to everyone because it's an election year, but I don't think the public is that naive.

We need to increase LIHAEP immediately and have a major program this summer connected to a public works program to install solar, wind, any kind of clean wood-burning device and renewable power systems across this country to spawn a new industry and do anything to wean us off our foreign energy dependence. If people had solar panels on their house they could produce power for themselves. Even in a place like Ohio you get your money back over a 10-year period.

Taxpayers are asking me that if they get \$800, will they have to pay taxes on that next year? Somebody asked me yesterday in my home district: "Why don't we go after the oil companies who are making all those profits on oil that is \$100 a barrel? Why give us a tax rebate that isn't going to mean that much anyway? It's going to be gone."

Q: Who are you going to endorse: Obama or Clinton?

Kaptur: I will endorse the person who has the best campaign finance reform proposal, but I haven't heard any of them talk about that. I will endorse the one that is the least owned, the wisest and the one with the least money — whoever meets that criteria.

Q: Least money, what does that mean?

Kaptur: That they're not a wholly owned subsidiary of some subset of interests.

Q: What do you think of the Democratic presidential campaign?

Kaptur: It's come down to this: Are we for women or minorities? The country is going to hell in a hand basket and we're dealing with gender and race? We decided to move the campaign from the economy and the war to social stuff.

NASA Tech. Transfer Report

NASA's "Spinoff 2007" report describes 40 NASA technologies that have been applied in the medical, computer, industrial, environmental, public safety, transportation and consumer sectors. It describes NASA's research, education and innovative partnerships programs. It provides contacts of the technology transfer officials at all NASA locations. The 172-page report is located at http://www.sti.nasa.gov/tto/Spinoff2007/PDF/basic_version_07.pdf.

Lasers Focus Sound Waves; The Sun Goes Around The Earth; Radiation Does Not Exist In Nature

Americans don't do very well in answering basic scientific questions, according to the bi-annual survey conducted by the National Science Foundation. When asked if all radioactivity is man made, 64 percent of females answered correctly, while 77 percent of males got it right. Both males and females are becoming less intelligent, however. In 2001, 71 percent of females answered the question correctly, while 81 percent of males got it right.

Only 32 percent of women knew the correct answer to the true-false question: "Lasers work by focusing sound waves." (False). That's worse than the 50-50 odds of guessing. Only 61 percent of males answered that one correctly.

Fewer could answer the question about how the universe started (with a huge explosion): only 27 percent of females answered that one correctly, versus 40 percent of males. Less than half of all women know that the earth goes around the sun (46 percent), versus 66 percent of males.

But women know better than men when asked if the male determines the sex of the child (72 percent of women answered correctly versus 55 percent of men). When asked if antibiotics kill bacteria, 61 percent of women answered correctly versus 50 percent of males. On a question about evolution: "Human beings as we know them today developed from earlier species of animals" (true), only 40 percent of women answered correctly versus 47 percent of men.

Only about one-third of Americans agreed that Darwin's theory of evolution is supported by evidence. The same percentage said that Darwin's theory "was not supported by the evidence," and 29 percent said they didn't know enough to say.

In response to another group of questions on evolution asked by Gallop, "about half (49 percent) of those surveyed agreed with either of two statements compatible with evolution: that human beings developed over millions of years either with or without God's guidance in the process," says the Science and Engineering Indicators report. "However, 46 percent agreed with a third statement: that God created human beings pretty much in their present form at one time within the last 10,000 years or so. These views on the

origin of human beings have remained virtually unchanged since the questions were first asked in 1982."

Factual knowledge of science "is positively related to level of formal schooling, income level and number of science and math courses taken,"

says the report. "In addition, the oldest respondents are less likely than others to answer the questions correctly."

Americans aren't as dumb as those in some nations, however. Scores on the basic science questions were worse in Russia, China and Malaysia. "Compared with the United States and the highly developed countries in Europe, Japanese scores are also relatively low," says the NSF.

The report is at <http://www.nsf.gov/statistics/seind08/>.

States Start Feeling Budget Pinch

After a half-dozen years of fiscal health, states are struggling again with their budgets. At least twenty-five states face severe budget shortfalls for the coming year, with 19 having made specific estimates for combined deficits of \$32 billion. Most of the other states have not yet released information about their fiscal status. Three additional states say they expect budget problems to begin in 2010.

"The bursting of the housing bubble has reduced state sales tax revenue collections from sales of furniture, appliances and construction materials," says the Center on Budget and Policy Priorities. As sales and property tax revenues fall "local governments will be looking to states to help address the squeeze on local and education budgets," says the center. "If the employment situation continues to deteriorate, income tax revenues will weaken and there will be further downward pressure on sales tax revenues as consumers become reluctant or unable to spend."

Most states are not allowed to run deficits or borrow money to cover operating expenditures. As a result, they can either cut spending, draw down reserves or raise taxes. States have already started drawing down their reserves, "but the remaining reserves are not sufficient to allow states to weather a significant downturn or recession," says the center. "The other alternatives — spending cuts and tax increases — can further slow a state's economy during a downturn and contribute to the further slowing of the national economy, as well."

Here are projected 2009 state budget deficits and their percentage of operation budget:

- Alabama: \$784 million (9.2 percent)
 - Arizona: \$1.3 billion - \$1.7 billion (12.1 - 16.2 percent)
 - California: \$14.5 billion (13.9 percent)
 - Florida: \$2 billion (6.5 percent)
 - Iowa: \$350 million (6 percent)
 - Kentucky: \$266 million (2.9 percent)
 - Maine: \$57 million (1.8 percent)
 - Maryland: \$550 million (3.8 percent)
 - Massachusetts: \$1.2 billion (4.2 percent)
 - Minnesota: \$373 million (2.2 percent)
 - Nevada: \$565 million (7.8 percent)
 - New Hampshire: \$50 million - \$150 million (1.6 - 4.8 percent)
 - New Jersey: \$2.5 - \$3.5 billion (7.6 - 10.6 percent)
 - New York: \$4.4 billion (8.2 percent)
 - Ohio: \$733 million - \$1.9 billion (3.6 to 9.4 percent)
 - Rhode Island: \$380 million (11.2 percent)
 - South Carolina: \$160 million (2.4 percent)
 - Virginia: \$1.2 billion (6.9 percent)
 - Wisconsin: \$300 million - \$400 million (2.2 - 2.9 percent)
- Total: \$31.7 - \$34.5 billion (8.0 - 8.7 percent)

Short-Term Versus Long-Term Stimulus

Following on the heels of the unusually steep and rapid cuts in policy interest rates by the Federal Reserve Board, the Washington political establishment is apparently shedding its partisan animus to pass an economic stimulus package before the Presidents' Day holiday. The concerted action is in response to increasing signs of a recession in the domestic economy. Both the Fed's action and the fiscal stimulus package are designed to spur demand in the near term, hopefully offsetting the economic slowdown. Even the business investment incentives included in the stimulus package that passed the House and was blessed by the President extend for one year only.

One question worth contemplating is whether short-term stimulus focusing almost exclusively on the demand side is preferable to a package that might address deeper structural problems, but whose impact would only be realized over a number of years.

Monetary stimulus was almost certainly needed to prevent the mortgage-related credit crisis from spreading into a full bore credit crunch. Fed Chairman Ben Bernanke has written and spoken persuasively over his academic and public career about the dangers of a systemic freeze in capital markets to the overall economy. Such "financial acceleration" of an economic crisis was a major factor in the Great Depression, and Bernanke is on solid ground to use the tools at his disposal to avoid any serious threat of a repetition of this economic catastrophe.

Nonetheless, lowering interest rates raises the already substantial risks of stoking inflation and increasing consumption in the short to medium term. The fiscal stimulus package, too, is explicitly intended to spur consumption in the short run.

This demand-side rescue package fails to address, and may indeed prolong or exacerbate, some longer term structural problems in the United States and indeed the global economy. Easy money is a problem

BY THOMAS DUESTERBERG

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not only because it can spur inflation, but also because the domestic economy has for many years been saving and investing too little while using questionable credit vehicles to promote massive growth in housing and other financial assets. In turn, the U.S. consumption-driven economy has built up a massive trade deficit which, as Chairman Bernanke and many others have argued, cannot in all likelihood be financed indefinitely by foreign suppliers.

The other side of this equation is that exuberant consumption and rapid growth of credit in the United States allows capital-rich parts of the world, especially in Asia and the Middle East, to recycle the dollars they earn from exporting to the United States into our financial markets. Because they also keep the value of their currencies artificially low in Asia, consumers there cannot readily buy products in the global market to balance their fast growth in production. Although some Asian currencies have slowly been appreciating, considerable strengthening is still needed. This combination of low purchasing power and dependence on the U.S. market for oil (Middle East and

Russia) or manufactured goods (Asia), is only going to be prolonged by our short-term, demand-driven stimulus plans. Moreover, the high cost of stimulus worsens the U.S. fiscal deficit and inhibits our ability to address other long-term domestic problems like the looming growth in retirement costs of Medicare and Social Security. It also will inhibit the ability to extend President Bush's tax cuts for individuals and businesses when they expire in 2010.

A better solution, one that addresses the long-term need to rebalance the global economies, would be to work for some kind of broad international agreement to increase investment and savings in the United States (and other deficit countries like Great Britain and Australia) and increase domestic consumption in Asia, the Middle East, and other export surplus countries such as Germany. For the United States, the policy levers would be providing incentives to savings, such as broadening tax-deferred accounts like IRAs, and promoting investment through lowering corporate income taxes, going to immediate expensing of capital investment, and expanding the research and experimentation tax credit. Reducing our dependency on imported oil is also

(Continued on next page)

Manufacturing Optimism Takes A Dip

Industrial manufacturers are not very optimistic about the U.S. economy, according to PricewaterhouseCoopers. Only 29 percent of American industrial companies expect the economy to grow this year, down from 64 percent one year ago and the "the lowest level of domestic optimism recorded since the inception of the barometer in the third quarter of 2003," says PricewaterhouseCoopers.

A majority of manufacturers are concerned that oil and energy prices, reduced demand for products and competition from foreign markets will negatively impact them this year. Sixty-nine percent said higher costs and 59 percent said higher prices will drag down growth.

Manufacturers are far more positive about growth overseas. Sixty-four percent said they had a positive outlook for the international economy while only 6 percent had a negative outlook. The positive global outlook is due largely to international sales projections, which are estimated to increase to 33 percent of total revenue. "Of those manufacturers reporting international transactions, nearly two-thirds (64 percent) experienced an increase in their sales abroad," says PricewaterhouseCoopers.

Short Term Vs. Long Term...*(From page 13)*

required. Such measures would not only begin the process of reducing our unsustainable trade deficit by marginally reducing consumption, but also have the merit of strengthening our economy in the long run by stimulating capital investment, which has been abnormally muted in the most recent expansion. If we are going to lower our long-term trade deficit, we will need to build productive capacity to compete in and supply the global economy. This is especially the case for manufacturing, which is the sector most integrated in the global economy.

Internationally, we could more aggressively work through the G-7, the International Monetary Fund (IMF), and other organizations to coordinate a reciprocal policy response from our economic partners. A lower dollar vis-à-vis major Asian economies such as China would both stimulate their domestic consumption and address simmering problems of inflation, low purchasing power, and over-investment. Structural reform in Europe to address excessive regulation, such as rigid labor markets and to reduce punishing taxes on consumption, could also stimulate demand and strengthen

their economies for the longer run. The strong euro of recent years should allow even greater growth in domestic consumption when coupled with structural reform.

“The high cost of stimulus...will inhibit the ability to extend President Bush’s tax cuts for individuals and businesses when they expire in 2010.”

Such reforms are in the interest of China, which faces growing inflation and consumer dissatisfaction, and of Europe which needs to become more competitive.

There is ample precedent for international coordination to address imbalances in the global economies. The Plaza Accord of 1985 under President Reagan and Treasury Secretary Baker is the most recent example. Due to coordinated action by the G-7, the value of the

dollar fell by 40 percent (and more against the yen) in the second half of the 1980s, permitting the near-disappearance of the U.S. trade deficit by 1990. Other significant international coordination for this purpose occurred in 1971 and the late 1970s.

The current U.S. economic slowdown was a reaction, in part, to the accumulation of large amounts of capital outside the United States and refunneled to the United States in the form of a trade and current account deficit and massive growth in cheap credit. Short-term, demand-oriented stimulus will not solve the longer-term problems. While trying to manage the short-term crisis, as Chairman Bernanke is doing, we should also turn our attention to building an international consensus to address the long-term problems. Coordinated action, including structural reform in the United States and Europe, and reorienting of Asian economies toward more consumption, would be in the economic and political interest of all parties. It is now time for other nations to participate in this longer-term effort and for the United States to show some leadership to get it done.

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