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Commentary: U.S. Military Fails To Learn Ancient Military Lesson

It wasn't long ago that the world watched the collapse of the Soviet Empire. At the time, the USSR had a mighty military force that was overextended throughout the world and was bogged down in Afghanistan. Within a flash in 1989, the Soviet Union came tumbling down, not because it could not produce tanks and nuclear warheads, but because it couldn't produce bread. The collapse happened so rapidly it even surprised the U.S. intelligence community.

The United States is now inexplicably suffering the same fate. The country can produce a stealth bomber, but it can't produce a pair of shoes. Ronald Reagan must be turning in his grave.

BY RICHARD McCORMACK

If Ronald Reagan knew one thing, he knew that for the United States to win the Cold War, it would have to win the economic war. The United States could win an arms race by turning the Soviet Union's economy into a basket case, but only if the United States economy did not suffer the same fate.

What has happened in the short span of 19 years since the demise of the Soviet Empire? Why did America's strategic military and political leaders not learn the principle lesson of ancient history: "rich country, strong army."

For the past seven years, the U.S. military has been repeatedly warned about the loss of the U.S. industrial base and its high-tech capabilities and its potential to profoundly impact the military. In 2005, a Defense Science Board Task Force on High Performance Microchip Supply said the country was losing its high-tech industrial capability and that "urgent action is recommended." It warned that America's most strategic industries were not in a position to change the competitive dynamics that had emerged globally to shift the balance of production and markets away from the United States. "Addressing this problem is a uniquely government function," said the report. "The task force considers DOD the logical steward to lead, cajole and encourage a national solution to this critical problem regardless of which arm of government must act."

The response from DOD's top political appointees and the White House National Security Council: nothing.

For years, the U.S. military shrugged off similar admonishments from the National Academy of Sciences, the United States-China Economic and Security Review

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Financial Meltdown: What Happens Next

What does the U.S. financial sector's collapse mean for American manufacturers? It won't be good, at least in the short term, according to some economists who have warned for years about the economic threat posed by global trade imbalances and the plight of U.S. manufacturing.

"Unless there is a sharp policy turn that allows U.S. manufacturers to supply our own market, most of them will be out of business," says Charles McMillion, president and chief economist at MBG Information Services. "Because both consumer demand and business investment is tanking and will not reappear for a long time, the pain hasn't even started."

The rapid decline in both the stock and real estate markets means

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Trade Agreements Need Health And Safety Assurances

The United States trade policy apparatus is skewed to represent only the interests of importers, and needs to be reoriented to include other groups, according to the independent Consumers Union, publisher of the Consumer Reports magazine. "For many years, U.S. trade policy, at the direction of Congress and the executive branch, has proceeded with blinders on towards just one goal — that of gaining U.S. companies access to markets in other countries, with little consideration to the impact on the domestic economy or marketplace," says Jean Halloran, director of food policy initiatives at the Consumers Union. "Safety standards are typically viewed as potential barriers to U.S. exports rather than a measure that assures the quality of imports and assures a level playing field for domestic and foreign producers."

Not only should trade agreements include adherence to environmental regulations and labor standards that would be required to sell foreign products in the United States, they should also include health and safety measures, says the Consumers Union executive. "Unless we look more closely at the impact our trade policy has on safety issues, our quality and standard of living will decrease, rather than increase as it can and should with increased trade," said Halloran. "We simply cannot grant blanket access to our markets for products that we know are produced in completely unregulated economies and that do not meet U.S. standards."

Such products are harming American consumers and their pets, and they are driving the few remaining domestic producers "to lower their standards in order to compete," Halloran told a late summer meeting of the United States-China Economic and Security Review Commission. Congress should look at all past, pending and future trade agreements to make sure they protect the right of the U.S. federal government, state and local governments "to protect the safety of their citizens." Any trade agreement should have within it a "targeted, risk based

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NAM's Total Revenues Drop But Members' Dues Stay Strong

The National Association of Manufacturers experienced a steep decline in revenues in 2007. The organization's total revenue number fell from $40.579 million in 2006 to $33.649 million in 2007, according to the organization's IRS Form 990, which is a public document due to the association's non-profit status. But NAM's members aren't paying any less in dues. "Membership dues and assessments" in 2007 totaled $25.856 million, an increase of $1.3 million from 2006, when membership dues were $24.517 million. In 2005, membership dues were $23.125 million, and in 2004 they were $21.687 million.

The big difference in revenue between 2007 and 2006 came in the category of "direct public support." In 2007, that number was $4.194 million, down from $11.816 million in 2006. Much of that revenue came to NAM for its leadership of various lobbying coalitions, including asbestos legislation.

According to the IRS Form 990, NAM president John Engler made $1,000,751 in 2007, along with $311,000 in employee benefit plans and deferred compensation; in 2006, his compensation was $1,207,500, with $8,800 in contributions to employee benefit plans and deferred compensation; in 2005, his total compensation was $850,000 with $8,400 in additional benefits plans.

The second highest paid executive at NAM in 2007 was senior vice president Jay Timmons, whose pay was $426,000, along with $10,563 in employee benefits plans and deferred compensation. In 2006, Timmons made $501,000, with $8,800 in employee benefits plans. Nobody else at NAM made more than $259,600 in 2007 (LeAnne Wilson, the organizations' chief operating officer).

In 2007, NAM provided cash grants to the following organizations:

Manufacturing Institute: $100,000
Bipac Business Institute for Policy Analysis: $25,000
Heartland Institute: $37,500
American Chemistry Council: $25,000
American Justice Partnership: $20,000
Congressional Black Caucus: $10,000
Congressional Hispanic Caucus: $5,000
Friends of Adam Smith: $5,000
Tax Relief Coalition: $5,000
Council on Competitiveness: $2,500
American Enterprise Institute: $1,000
Tax Foundation: $1,000

In 2006, NAM provided the American Justice Partnership with $500,000, the American Chemistry Council with $765,000; the Heartland Institute with $18,000; and the BiPAC Business Institute for Policy Analysis with $25,000. It has provided the same level of funding to its own Manufacturing Institute ($100,000) since 2004.

The IRS Form 990 is available for all non-profit organizations at the http://www.guidestar.org Web site. Non-profits are required to disclose revenues and the pay of top officers, but they do not have to reveal sponsors, individual member's dues or financial supporters.

Finance Ministers Fail To Address Undervalued Chinese Currency

BY ERNEST PREEG

Finance ministers at the annual International Monetary Fund (IMF) meeting this past weekend understandably devoted almost all of their time to the banking crisis, but one casualty was that no attention was given to the misaligned currency problem, and the greatly undervalued Chinese yuan in particular.

This is unfortunate.

The yuan is even more undervalued in 2008 than it was in 2007, and the resulting very large increase in the Chinese trade surplus in manufactures this year is having an adverse impact on the U.S. and European economies now facing low growth or recession.

The overall Chinese trade surplus declined by 3 percent from January through September this year compared with 2007, but this was the result of a more than doubling of the oil import price. The surplus in manufactures, more directly linked to the currency misalignment, in contrast, increased by 31 percent through August, and is on track to rise from $444 billion in 2007 to $580 billion in 2008.

The sharp rise in the surplus for manufactures will become more apparent in the remaining months of the year, when oil prices will be close to the $90 per barrel level in 2007. In August, the total surplus was up by $4 billion compared with 2007, including a $15 billion larger surplus for manufactures, and in September the total surplus rose by $5 billion. The sectoral figures for September are not yet out. October through December should show much larger total surpluses dominated by manufactures.

China now talks of curtailing the appreciation of its currency to protect export-oriented manufacturing jobs. But a $130-billion larger surplus in manufactures this year means a couple of million more manufacturing jobs in China, at the expense of jobs in the United States, Europe and elsewhere. The surplus with the EU has risen very rapidly because of the strong euro and is now almost as large as the surplus with the United States. Moreover, as the United States, Europe and others suffer from low growth or recession, the mercantilist impact of the undervalued yuan on their manufacturing sectors will arouse political as well as economic protest.

The adverse effect is not limited to manufacturing jobs abroad, but also impacts on the domestic Chinese economy. In order to maintain its undervalued currency, the Chinese central bank purchases huge amounts of foreign exchange, up from $430 billion in 2007 to a projected $600 billion in 2008. These purchases are then "sterilized" to avoid inflation by requiring banks to hold a corresponding increase of government securities, which means less bank credit at higher cost for the private sector. The result is less growth in domestic demand, which is supposed to be the offset for a reduced external surplus.

These are the basic facts. The benchmarks for Chinese currency misalignment are large-scale central bank purchases, at $600 billion this year, and the current account surplus, at 11 percent of gross domestic product in 2007. Both are far beyond precedent for a major trading nation, and the misalignment is even larger this year than last.

In June, the IMF touted its new "landmark framework" for exchange rate surveillance "to enable a more focused policy dialogue." The above figures for China should have focused the finance ministers' minds and led to action at the recent meeting, but they did not. Only one out of 16 paragraphs of the report of the IMF Executive Board Reviews of the Fund's Surveillance dealt with exchange rates, and it simply called for further efforts to ensure that these assessments are "candid, evenhanded, and fully integrated." The communiqués of the Group of 20 and the IMF International Financial Committee made scant reference to exchange rates while the term "exchange rate misalignment" was nowhere to be found.

This leaves the whole currency misalignment issue, and the undervalued Chinese yuan, for next year. In this context, the U.S. Secretary of the Treasury is required to report to the Senate Banking Committee twice each year whether any nation is manipulating its currency to gain an unfair competitive advantage. In recent years, the answer has consistently been no for China. It will thus be an early defining moment for the new Treasury secretary when he makes his first report in April.

— Ernest Preeg is Senior Fellow in Trade and Productivity at the Manufacturers Alliance/MAPI and author of "India and China: An Advanced Technology Race and How the United States Should Respond" (MAPI and CSIS, 2008).

Trade Agreements... *(Continued from page two)*

enforcement" mechanism that can be used against countries shipping unsafe products to the United States, said Halloran. "The ability to target enforcement should be made clear in all trade agreements."

Halloran is a member of the State Department's Advisory Committee on International Economic Policy and Trade. She believes that these types of advisory committees, including those run by the USTR, need to broaden their members beyond industry representatives "to include representatives from consumer, environment, labor organizations and the general public," she told the USCC. "Currently, those advisory committees include only representatives of the business community."

Presidential Debates: Not Much Stuff Amidst The Fluff

In the four debates involving the presidential and vice presidential candidates, there has been little discussion of economic issues that pertain to the creation of wealth in the United States through the production of goods. By running keyword searches through the transcripts of the debates, here are the number of times — and the context — in which various terms were mentioned:

Manufacturing: Zero Mentions.

Imports: Zero Mentions.

Exports: One Mention.
OBAMA Third Debate: "We should enforce rules against China manipulating its currency to make our exports more expensive and their exports to us cheaper."

Deficit: Three Mentions:
OBAMA Second Debate: "When George Bush came into office, we had surpluses. And now we have half-a-trillion-dollar deficit annually."
OBAMA Second Debate: "While it's true that nobody's completely innocent here, we have had over the last eight years the biggest increases in deficit spending and national debt in our history. And Sen. McCain voted for four out of five of those George Bush budgets."
OBAMA Third Debate: "One of the things that I think we have to recognize is pursuing the same kinds of policies that we pursued over the last eight years is not going to bring down the deficit."
OBAMA Third Debate: "We are now looking at a deficit of well over half a trillion dollars."

Production: Three mentions:
OBAMA First Debate: "I've put forward a plan to make sure that, in 10 years' time, we have freed ourselves from dependence on Middle Eastern oil by increasing production at home."
OBAMA Second Debate: "I believe in the need for increased oil production."
OBAMA Third Debate: "We do need to expand domestic [oil] production and that means, for example, telling the oil companies the 68 million acres that they currently have leased that they're not drilling, use them or lose them."

Trade: Two mentions:
OBAMA First Debate: "We've got to deal with a growing poppy trade [in Afghanistan] that has exploded over the last several years."
OBAMA Second Debate: "I do not agree with Senator McCain that we're going to be able to execute the kind of sanctions [against Iran] we need without some cooperation with some countries like Russia and China that are, I think Senator McCain would agree, not democracies, but have extensive trade with Iran but potentially have an interest in making sure Iran doesn't have a nuclear weapon."

China: Fifteen Mentions:
MCCAIN First Debate: "One of the major reasons why we're in the difficulties we are in today is because spending got out of control. We owe China $500 billion."
MCCAIN First Debate: "The point is that throughout history, whether it be Ronald Reagan, who wouldn't sit down with Brezhnev, Andropov or Chernenko until Gorbachev was ready with glasnost and perestroika. Or whether it be Nixon's trip to China, which was preceded by Henry Kissinger, many times before he went."
OBAMA First Debate: "China had a space launch and a space walk. We've got to make sure that our children are keeping pace in math and in science."
OBAMA First Debate: "I do not agree with Senator McCain that we're going to be able to execute the kind of sanctions [against North Korea] we need without some cooperation with some countries like Russia and China.
OBAMA First Debate: "We've got challenges, for example, with China, where we are borrowing billions of dollars. They now hold a trillion dollars' worth of our debt."
OBAMA Second Debate: "We're going to have to come up with alternatives, and that means that the United States government is working with the private sector to fund the kind of innovation that we can then export to countries like China that also need energy and are setting up one coal power plant a week."
MCCAIN Second Debate: "We obviously have to stop this spending spree that's going on in Washington. Do you know that we've laid a $10 trillion debt on these young Americans who are here with us tonight, $500 billion of it we owe to China?"
MCCAIN Second Debate: "Let me say that we obviously would not wait for the United Nations Security Council [to commit troops if Israel is attacked by Iran]. I think the realities are that both Russia and China would probably pose significant obstacles."
JOE BIDEN in the Vice Presidential Debate: "China is building one to three new coal-fired plants burning dirty coal per week."
JOE BIDEN in the Vice Presidential Debate: "A comment made in a rope line was taken out of context. I was talking about exporting that technology to China so when they burn their dirty coal, it won't be as dirty, it will be clean."
OBAMA Third Debate: "If we invest in a serious energy policy, that will save in the amount of money we're borrowing from China to send to Saudi Arabia."
OBAMA Third Debate: "But nothing is more important than us no longer borrowing $700 billion or more from China and sending it to Saudi Arabia. It's mortgaging our children's future."
OBAMA Third Debate: "We should enforce rules against China manipulating its currency to make our exports more expensive and their exports to us cheaper."
MCCAIN Third Debate: "Government spending has gone completely out of control; $10 trillion dollar debt we're giving to our kids, a half-a-trillion dollars we owe China."
MCCAIN Third Debate: "By the way, when Sen. Obama said he would unilaterally renegotiate the North American Free Trade Agreement, the Canadians said, "Yes, and we'll sell our oil to China." You don't tell countries you're going to unilaterally renegotiate agreements with them."

Ancient Lesson...

(From page one)

Commission, and the Advisory Group on Electron Devices, which DOD even temporarily shut down in 2003 because it did not like a report it produced describing the wholesale destruction of U.S. innovation capability. Anybody raising such issues has been branded with the pejorative label of being a "protectionist." But without an economy, what is there for the U.S. military to protect?

Over the past 30 years, zealous libertarian free-market economists have won the debate in Washington policy circles. They should be proud: their intellectual prowess has led to the collapse of the American economy, American capitalism and the American empire.

Ever since the end of the Reagan administration, I have watched from a front-row seat in Washington, D.C., as the leadership in the U.S. government sat back and allowed the wholesale outsourcing of key industrial sectors like semiconductors, lithography, printed circuit boards, photomasks, machine tools, computers, consumer electronics, foundries and software; not to mention textiles and apparel, automotive parts, furniture, toys, sporting goods, home furnishings and appliances. The U.S. government did not lift a finger as the United States trade deficit in goods soared to $838 billion in 2006, and as tens of thousands of industrial plants closed and millions of high-paid workers were sent to the streets.

It is obvious that the political appointees in the Pentagon still do not comprehend the implications of the U.S. financial system collapse as millions of Americans lose their jobs, are forced out of their homes and even die because they can't afford health care. If they did, there would be crash meetings with officials at the Commerce Department and USTR with proposals on what must be done immediately to start rebuilding the American industrial base, similar to what is occurring now among Treasury and Federal Reserve officials to salvage the banking system.

The U.S. government did not expect and has not planned for a "worst-case" economic scenario such as the one that is currently unfolding. In fact, the U.S. did whatever was in its power to foster the eventual financial meltdown — because there was no leadership anywhere to be found in the military/political complex to assure that the United States remains an industrial powerhouse. Five defense "integrators" — Raytheon, General Dynamics, Boeing, Lockheed Martin and Northrop Grumman — do not constitute a robust industrial base.

None of this would have been allowed to happen under Ronald Reagan in the 1980s at the height of the Cold War. After much ideological debate over free trade and free markets during the first four years of his presidency, Ronald Reagan adopted a robust industrial policy aimed at competing head-on with both the Soviet Union and Japan. It wasn't easy for him to do so, but he supported important U.S. industries like semiconductors, autos and machine tools, and invested billions of dollars into future U.S. technological capability.

For his defense of U.S. industry and its workers, Reagan transformed the country's political dynamic with legions of Reagan Democrats, who remain to this day committed to the Republican Party despite its subsequent repudiation of Reagan's industrial embrace. Ronald Reagan's industrial legacy — and the enduring dedication of middle-class workers — is the reason why George W. Bush is still in office.

It was the Department of Defense during the Reagan presidency that created the Semiconductor Manufacturing Technology (SEMATECH) consortium. The National Center for Manufacturing Sciences (NCMS) was created to foster the development of an advanced machine tool and automation industry. The Defense Advanced Research Projects Agency (DARPA) funded a vast array of important industrial technologies. DOD's top technologists had a long-term vision that was unencumbered by a corporate fixation on quarterly profits, and they pumped billions of dollars into entrepreneurial companies and individuals that were focusing on computational sciences, digital technologies, networking, optics, lasers, advanced materials and global positioning capabilities. There was no place else in the government that could fund this research, even though much of it was commercial in nature. DOD's technologists knew how to get results.

The investments made during the Reagan years resulted in the incredibly prosperous decade of the 1990s. The digital technology revolution that drove the U.S. economy through the 1990s was Ronald Reagan's economic legacy.

What happened to America's strategic military thinkers and leaders? Why did they fall asleep at the helm? Why were they persuaded by free-market economic ideologues that the United States didn't need to produce anything to be a military superpower — that it was okay to be a "knowledge" economy based on services and consumption? How did they fail to learn the lesson of the economic collapse of the Soviet Union?

It all started changing radically the moment Ronald Reagan left the presidency. As editor of *New Technology Week* at the time, the biggest and most unexpected shock

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QUOTABLE, From 1988

"Foreign television firms have benefited from ample funding and direct government involvement in developing HDTV. U.S. companies are under-funded and, as entrepreneurs, pursuing independent strategies. The personal computer, automated manufacturing equipment and semiconductor industries will be seriously impacted should the United States not enter the HDTV market. Non-participation means a loss of technology know-how across a broad range of industry sectors. Whichever country controls the world HDTV markets — and thereby the profits — will also be able to advance its technological leadership broadly."

— Pat Hubbard, Vice President of the American Electronics Association, as told to MTN Editor Richard McCormack, December 5, 1988

MILITARY LAPSE...

(FROM PAGE FIVE)

of the first Bush administration in 1989 was its immediate reversal of Reagan's industrial policies. During Reagan's term, there were passionate and patriotic scientists, engineers and industrialists who were compelled to fight for American industry. Bob Costello in the Office of the Secretary of Defense, started the Defense Manufacturing Board; Craig Fields and his cohorts Arati Prabhakar (who later became director of NIST), Lance Glasser (who helped create the National Electronics Manufacturing Initiative) and dozens of others at DARPA were actively engaged in funding promising commercial technologies; Malcolm Baldrige and Bruce Merrifield at the Commerce Department understood the strategic importance of critical technologies; Sens. Jeff Bingaman, Fritz Hollings, Joe Lieberman and Pete Dominici and their trusted aides Ed McGaffigan, Bill Bonvillian and Pat Windham funded defense technology programs in the Senate. Reps. Mel Levine, Don Ritter and George Brown and aides like Jim Turner in the House of the Representatives pushed an aggressive technology agenda. Dozens of high profile executives worked the issue in Washington, D.C., including Bob Galvin, CEO of Motorola; Robert Noyce, inventor of the integrated circuit and co-founder of Intel; Dick Elkus, inventor of the videocassette recorder; John Young CEO of Hewlett Packard; and Ian Ross, president of AT&T Bell Labs. Among the trade associations, Dick Iverson of the American Electronics Association went out on a limb to ensure the United States remain a viable industrial powerhouse. All of these people sacrificed their careers to put their country first.

Ronald Reagan's management style of allowing people to take big risks with potentially big failures may not have worked in many areas of government — resulting in the Iran/Contra, HUD, EPA and Interior Department scandals — but it is exactly the type of management philosophy needed for success in scientific, engineering and technological endeavors.

It all worked until George Herbert Walker Bush took office in 1988, and it came tumbling down, driven by free-market zealots who have put the United States in its current financial bind. A heated and frankly ridiculous debate emerged over "industrial policy, corporate welfare and picking winners and losers." Bush's science advisor Alan Bromley was thrown in the dog house for six months, told not to talk to any member of the press, after he confided to the Wall Street Journal that there was a need for an industrial policy. Bush's Defense Secretary Dick Cheney reflected the "who cares about U.S. industry philosophy" when he told *Aerospace Daily* on January 23, 1992 that "buy American" and other similar policies favoring U.S. industry "raise questions about my spending money on things I could get cheaper elsewhere, and it raises the specter of having to rely upon less than first-rate technology in certain areas."

Within the George HW Bush administration there was the despised economic "troika" of White House chairman of the Council of Economic Advisors Michael Boskin, OMB director Richard Darman and Bush chief of staff John Sununu working against the long-term technology interests of U.S. industry. Boskin is quoted as saying, "Computer chips, potato chips, what's the difference." Bush's Commerce Secretary Robert Mossbacher had his own famous line when it came to the U.S. government putting in place policies and funding programs to assure U.S. participation in the high-definition television and flat-panel display industries: "Uncle Sam will not be Uncle Sugar."

In a highly symbolic act, Bush's team fired DARPA director Craig Fields, who remains a hero to this day among entrepreneurial technologists. Michael Sekora, a physicist who directed the Defense Intelligence Agency's "Project Socrates," which monitored advanced technologies of U.S. economic competitors, abruptly resigned and his program was eliminated. Bob Costello, former DOD undersecretary of acquisition, said upon the elimination of the Defense Manufacturing Board: "It sends a terrible signal to industry. It's a step backward, a tragedy. I don't know see what we gain by doing away with it."

George HW Bush's ideological economic stridency abruptly ended the Reagan era of industrial engagement, and it assured his loss of the presidency after one term to Arkansas Gov. Bill Clinton in 1992 who touted, "it's the economy, stupid."

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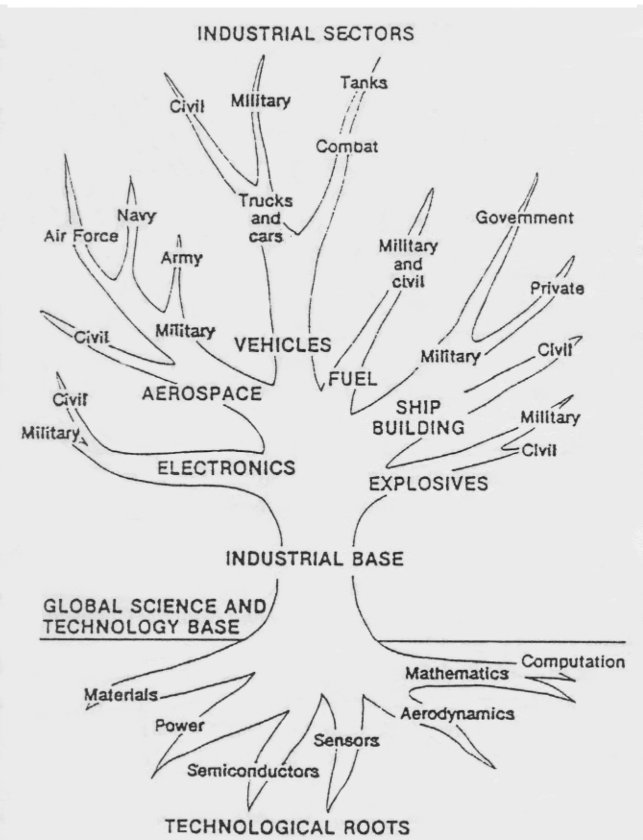
Relationships Among Defense Sectors and the Broader National Industrial Base

From The New Defunct U.S. Congress's Office of Technology Assessment, July 1991



Military Lapse... (Continued from page six)

Clinton's era started well, but then fizzled. His ambitious Technology Reinvestment Project (TRP) was quashed by the new Republican majority in Congress in 1994. Clinton created the Office of Economic Security in the Defense Department, and the National Economic Council at the White House to parallel the National Security Council. But without the Soviet Union around, Clinton could coast, benefiting from the "peace dividend" that came from cutting the military and plowing the savings into reducing the deficit.

Clinton also hired Robert Rubin from Citibank and free-trade economist Lawrence Summers from Harvard to be his chief economic advisors and they relentlessly pursued the same ideological concept of trade at the expense of U.S. industry. Rubin and Summers are a good part of the reason Sen. Hillary Clinton did not make it out of this year's presidential primaries — due to the baggage from her husband's embrace of unfettered "free" trade. Yet, amazingly, both men are now seen standing astride Barack Obama — making it difficult for an otherwise articulate person to present a viable way out of this economic mess other than through tired ideas of tax cuts and additional spending that will lead to further debt.

John McCain seems just as bad. For the past 10 years, he was the leader in the Senate in opposing any program aimed at ensuring a healthy American industrial base. He was always the first senator to rush to the Senate floor whenever any bill came over from concerned Republican members of the House that included "Buy American" provisions and other proposals that would favor the U.S. industrial base over foreign sources of supply. He killed almost all of them.

The last eight years have been a washout. Bush's tax cuts did nothing to encourage U.S. industrial innovation or high-tech domestic production. The government relentlessly pursued free-trade policies with marginal countries and encouraged outsourcing of virtually every important industrial sector. There has been an unwillingness to aggressively enforce trade laws in favor of remaining U.S. producers. The government has overseen reductions in spending on research and development in the physical sciences and engineering. It has created a despondent government workforce whose work has been doctored by political appointees and has been told to shut up and do nothing and wait for retirement. It has aggressively attacked U.S. companies like Microsoft and it put others like Arthur Anderson out of business. And the political leadership at the Department of Defense both forgot what it takes for a nation to be a military superpower and, like the Soviet Union, got lost in Iraq and Afghanistan.

And yet over the past month as major U.S. financial institutions failed, there has been little discussion about real proposals aimed at extricating the country from what could potentially be an impending economic calamity. There is no articulation of a viable vision of how to right the sinking ship, other than proposing tax cuts or spending more money the country doesn't have to go deeper into debt to cover bad debts that have still not been written off.

Few talking heads have said anything about the importance of reviving the U.S. high-tech manufacturing base and of rebuilding U.S. industrial capacity for the "environmental" era that will demand a new generation of radical innovation and efficiency in product design, production and use. Without a viable industry how is the United States going to pay off even more debt? By selling lollipops to the world's suckers who continue buying America's financial "paper"?

Wall Street needs to have its knuckles rapped publicly by the country's top political leaders — and rapped incredibly hard — for its continuing insistence on rewarding companies for laying off Americans and moving production offshore; for placing such undue emphasis on pennies-per-share quarterly profits at the expense of good-paying American jobs and America's continued economic viability.

When Hewlett Packard announced three weeks ago in the midst of the financial crisis that it was laying off 24,000 workers its stock price went up. Then, incredibly, last week Hewlett Packard announced plans to build a new computer plant — in China! This has to stop. Who will be able to afford HP computers?

The trade numbers released on Friday, October 10 show that the trade deficit did not go down. The deficit in goods remained at a staggering $71 billion for the month of September. Yet there is still happy-talk among America's "leaders" about the marginal growth of U.S. exports. Such talk obfuscates what is a bad situation: combined with the federal budget deficit, America continues to go deeper into debt to the tune of more than $3 billion a day. As Nucor CEO Dan DiMicco said recently: "We'll be indentured to foreign creditors if this madness persists. We have lost our minds."

Without a vibrant industrial sector, America's economy became hollowed out. Americans stopped making enough money to afford all of the things they were buying from overseas producers. They over borrowed. Without a solid industrial economic core the financial sector collapsed. The military structure of the United States will be next.

It took only 19 years for the United States to follow the USSR into an economic ditch.

Ronald Reagan, please come back.

Downturn In N.Y. Manufacturing

The Federal Reserve Bank of New York has issued a sobering assessment of the state's manufacturing industry for the month of October. The Empire State Manufacturing Survey indicates that conditions for New York manufacturers "deteriorated significantly in October," says the N.Y. Fed. The general business conditions index "tumbled" 17 points to -24.6, "its lowest level on record," says the Fed. The new orders index fell to a record low, and the indexes for shipments, unfilled orders and inventories all declined sharply. There was a slight bit of good news: prices paid eased significantly to the lowest level for the year. But the employment index was negative and the future new orders and shipments index "declined markedly with exceptionally large declines." The report is located at http://www.newyorkfed.org/survey/empire/empiresurvey_overviewexpand.html.

What Happens Next...

(From page one)

Americans' indebtedness has just increased by a giant leap. "Equity can collapse, but debt stays there," says McMillion. Equity in homes dropped to an all-time low in the second quarter of 2008 to 45 percent, but could fall to under 40 percent in the third quarter. "Think about it: the consumer is more indebted now than he was a month ago because his assets have been slashed by 20 or 20 percent and his debts have stayed the same or increased." Increasing personal indebtedness, which contributed to the financial meltdown, along with the rapid increase in federal debt, which jumped by an amazing $1 trillion in one year, will put the country in an even more precarious financial position.

Dean Baker, president of the Center for Economic Policy Research, says get ready for a serious downturn, but don't lose hope. "First and foremost, people have to be cautious and cover their bases, but the economy is not going to collapse," he says. Even in a severe recession, people still have to buy things. "We will be out of the recession at some point, and you want to be positioned to take advantage of that," he said.

The situation might get rough, but it was inevitable that Americans would be forced to rein in their profligate spending habits and start saving. "You can't have people going through their whole lives not saving because that means when they hit retirement, they're not going to have anything to live on," Baker says.

Clyde Prestowitz, president of the Economic Strategy Institute, believes that U.S. manufacturers will suffer through a steep downturn, but if they stay alive by growing exports, they will be in a good position when the economy settles down. "The only way we're going to be able to grow is by exports because the borrow-and-consume game is over," he says. If the dollar weakens against managed Asian currencies, it will open up new markets for manufacturers that commit themselves to product improvements and innovation. With costs in China rising, energy prices staying high and the dollar weakening, "there are a lot of products we make in this country that are competitive, so in the medium to long term, I'm optimistic."

Kevin Kearns, president of the United States Business and Industry Council says the U.S. manufacturing sector has been in decline for 30 years, and that the current crisis requires that the U.S. government take immediate action on prosecuting unfair trade practices and currency manipulation. "If you look at the collapse of the Bretton Woods system in 1971 and 1972, you had Richard Nixon and John Connelly as his Treasury Secretary putting on an emergency import surcharge because our trade deficit was 0.5 percent of GDP. They considered that to be unacceptable. Now we're at 5 or 6 percent of GDP and people couldn't care less." Kearns is not looking for increases in tariffs, but he does believe that when the credit crunch eases, capital needs to flow to companies that make products and provide high-end services, not into financial derivatives or phony investment vehicles.

McMillion recommends the newly elected president act quickly and decisively on a creating a government program that is on the scale of the New Deal. If the new president doesn't have a program in place similar to the CCC or WPA on the day he takes office "he may not get a second chance," says McMillion. There also needs to be a well-thought out program that places quotas on imports that encourages American manufacturers to start producing for the American market. "It has to be done in a cooperative way because we don't want to beggar and bomb thy neighbor," say McMillion. "Everyone in the world has to understand that the United States has produced $5-trillion less than what we've needed over the last eight years and we're still producing $2 billion a day less than what we need and we simply can't do that. We have created a downward spiral that has no good end without radical steps. We have to produce for our own markets, and we have to encourage others to produce for their own markets."

The financial collapse marks the end of the economic and geopolitical era that started with the end of World War II. It is a world that is "turning upside down," adds Prestowitz. "The Asians and the rest of the world are lending to us and investing in us. They're going to have to become the consumers and we're going to have to do the producing and the whole exchange rate structure is going to have to be completely redone," he says.

Without enough wealth, the United States is going to face some tough decisions involving reductions in Social Security and military spending. "I don't see how we maintain 750 military bases around the world when we owe money and are begging everyone in the world for money," says Prestowitz.

(Continued on page nine)

Imports Take A Dive

The economic slowdown is starting to impact the volume of imports coming into the United States. Cargo volume at the nation's major retail container ports is projected to decline by 6.5 percent this year, "as merchants carefully manage inventories," says the National Retail Federation. Volume is projected to total 15.43 million twenty-foot-equivalent container units (TEU) for the year, compared with 16.5 million TEU in 2007.

"The estimate is down from 15.5 million projected in September, which would have been a 6 percent decline from 2007," says the Retail Federation. "The total would be the lowest since 2005, when 15.4 million TEU moved through the ports."

September volume is estimated at 1.34 million TEU, down 9.2 percent from a year ago. October is forecast at 1.38 million TEU, down 4.3 percent. "October should be the peak month of the year, though it will fall short of the 1.48 million TEU peak for 2007 set last September," says the National Retail Federation.

Congress Tells DOD To Create 'Trusted' Systems Policies

As more high-tech U.S. software and hardware production moves offshore, the U.S. Congress is growing increasingly concerned about foreign infiltration of high-tech components and software being embedded into U.S. weapons systems. In its 2009 Defense Authorization Bill (S-3001), Congress calls on the Secretary of Defense to conduct an assessment of acquisition programs "to identify vulnerabilities in the supply chain of each program's electronics and information processing systems that potentially compromise the level of trust in the systems."

Congress tells DOD in the "Trusted Defense Systems" section of the authorization bill (Sec. 254) to develop a policy within 180 days that requires "trust assurance" in all acquisition programs involving the use of electronic components. Companies in the commercial electronics supply chain that would be impacted include those that develop, design and produce integrated circuits, semiconductors, packaging, final assembly and test equipment and services.

The Department would then require the new policy be included in all "Department directives and instructions related to the acquisition of integrated circuits and programs that use such circuits."

Congress directs the Defense Department to conduct assessments that identify the vulnerabilities to foreign infiltration of "multiple levels of the electronics and information processing systems including microcircuits, software and firmware." Congress wants the Secretary of Defense to prioritize these vulnerabilities within supply chains and identify investment strategies to "minimize the effects of compromise." It should then develop an "integrated strategy" to manage the supply chain for growing risks of infiltration.

In the specific area of semiconductor chips, which are increasingly being produced outside the United States, Congress wants the Under Secretary of Defense for Acquisition, Technology and Logistics to start working with the intelligence community, defense agencies, private industry and academia to develop ways to test commercially purchased semiconductors for breaches of trust before they are placed in "potentially vulnerable defense systems," says the legislation.

The new "integrated strategy" should provide guidance for planning and budgeting to ensure that acquisition programs have the resources to implement verification tools and purchasing systems to ensure the trust of commercially acquired hardware and software. It also recommends increasing the use of the "trusted foundry" program run by the Defense Microelectronics Agency in Sacramento, Calif.

Elsewhere in the Defense Authorization bill, DOD is told to name a new "executive agent" to oversee the development and implementation of a printed circuit board and interconnect technology roadmap. Such a roadmap would ensure that the Department of Defense "has access to the manufacturing capabilities and technical expertise necessary to meet future military requirements regarding such technology," says the authorization bill (in Section 256). The executive agent will develop funding strategies to meet the objectives in the roadmap and an assessment of the vulnerabilities and strategies to address the "trustworthiness" of printed circuit boards intended for use in defense systems.

In the area of batteries (Sec. 218), the authorization tells DOD to develop a multi-year roadmap for advanced energy storage technologies. Part of this roadmap will be an assessment of what it will take to sustain "domestic advanced energy storage technology manufacturing capabilities and an assured supply chain to ensure that the Department of Defense has assured access to advanced energy storage technologies to support current military requirements and emerging military needs."

The roadmap will identify current and future "capability gaps," performance enhancements, cost savings goals "and assured technology access goals that require advances in energy storage technology and manufacturing capabilities." It will establish specific research, technology and manufacturing goals and milestones and timelines and estimates of funding necessary for achieving them. It will also include a summary of the applications for different storage technologies used by DOD and an assessment of the demand for those technologies "in terms of quantity and military need."

The battery roadmap is required to be done in a year. In six months, Congress wants DOD to provide it with a report on its expenditures for energy storage technologies and its projected expenditures through 2010.

What's Next... *(From page eight)*

President Bush would protect what little is left of his legacy if he were to work with the new president in calling a global conference of the heads of the major central banks in the major economies and come up with a global strategy of adjusting exchange rates. "There has to be an adjustment of those countries that have been managing their currencies, including for the Saudis," says Prestowitz. "There has to be a whole new currency regime."

Baker agrees. The high-dollar policy has hurt the United States economy and has been supported by Republicans and Democrats as if it's been a point of pride. "It's a machismo thing — like if you want a weak dollar, you want to be fat, lazy and out of shape, but it's not going to help us to have a strong currency," says Baker. "They are still talking about having a high dollar like it's a good thing."

The United States does not have to be "tough" on countries that are manipulating their currencies," says Baker. "There is no point in having an argument about it: we can set the value of the dollar against the Chinese currency just like they set the value of their yuan," he says. "What's going to happen to us? The peg is seven yuan to the dollar, so we say it should be five. Pick a date in the future, say June 1, and say we will honor an exchange rate of five yuan to the dollar: you come to the Treasury with five yuan, you get a dollar That's the deal. If China gets upset, you negotiate it and work something out."

It won't be easy politically because it will be like putting a tax on imports and there is nobody in politics who wants to raise taxes. "We're going to pay more for all the stuff we buy at Wal-Mart, but we don't have a choice," says Baker.

New Pay Scale For New Government Employees

The federal government has now become the de-facto owner of a number of huge private financial enterprises that were "too big to fail," including Freddie Mac, Fannie Mae and AIG. The editors of *Manufacturing & Technology News* suggest that it is therefore prudent for the government to impose a new pay schedule on these thousands of new government workers, for without a bailout from taxpayers for their monumental blunders, most of the people working for these organizations would be where employees of the now bankrupt Lehman Brothers are currently residing: at home watching the market gyrations on CNBC. The Office of Personnel Management's pay schedule can be stapled to future bailouts that use the $700-billion in taxpayer funds authorized by Congress. Here are the 2008 government salary tables from the U.S. Office of Personnel Management.

Salary Table For 2008, Incorporating the 2.5 Percent General Schedule Increase Effective January 2008

(Annual Rates By Grade And Step)

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10	WITHIN GRADE AMOUNTS
1	$ 17,046	$ 17,615	$ 18,182	$ 18,746	$ 19,313	$ 19,646	$ 20,206	$ 20,771	$ 20,793	$ 21,324	VARIES
2	19,165	19,621	20,255	20,793	21,025	21,643	22,261	22,879	23,497	24,115	VARIES
3	20,911	21,608	22,305	23,002	23,699	24,396	25,093	25,790	26,487	27,184	697
4	23,475	24,258	25,041	25,824	26,607	27,390	28,173	28,956	29,739	30,522	783
5	26,264	27,139	28,014	28,889	29,764	30,639	31,514	32,389	33,264	34,139	875
6	29,276	30,252	31,228	32,204	33,180	34,156	35,132	36,108	37,084	38,060	976
7	32,534	33,618	34,702	35,786	36,870	37,954	39,038	40,122	41,206	42,290	1084
8	36,030	37,231	38,432	39,633	40,834	42,035	43,236	44,437	45,638	46,839	1201
9	39,795	41,122	42,449	43,776	45,103	46,430	47,757	49,084	50,411	51,738	1327
10	43,824	45,285	46,746	48,207	49,668	51,129	52,590	54,051	55,512	56,973	1461
11	48,148	49,753	51,358	52,963	54,568	56,173	57,778	59,383	60,988	62,593	1605
12	57,709	59,633	61,557	63,481	65,405	67,329	69,253	71,177	73,101	75,025	1924
13	68,625	70,913	73,201	75,489	77,777	80,065	82,353	84,641	86,929	89,217	2288
14	81,093	83,796	86,499	89,202	91,905	94,608	97,311	100,014	102,717	105,420	2703
15	95,390	98,570	101,750	104,930	108,110	111,290	114,470	117,650	120,830	124,010	3180

Rates Of Basic Pay For Members of the Senior Executive Service

(Effective February 2008)

Structure of the SES Pay System	Minimum	Maximum
Agencies with a Certified SES Performance Appraisal System	$114,468	$172,200
Agencies without a Certified SES Performance Appraisal System	$114,468	$158,500

(Source of charts: U.S. Government's Office of Personnel Management)

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