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U.S. Government Finds Thousands Of Counterfeits In Weapons Systems

The United States military and the federal government's national security agencies are facing an unprecedented infiltration of counterfeit electronic chips, chipsets and components. In a comprehensive government-mandated survey of most of the companies involved in the avionics electronics supply chain, the Commerce Department's Bureau of Industry and Security found 7,383 electronics counterfeit incidents during 2008. This is up from 5,747 such incidents reported in 2007. It is the first such survey ever done and the results are startling

The survey was comprehensive: virtually all of the companies and organizations constituting the avionics supply chain were required to participate. Among the 482 companies and organizations completing the 80-

question survey were microchip manufacturers, electronic board producers and assemblers, distributors and brokers of electronics parts, prime defense contractors and subcontractors and virtually every DOD arsenal, depot and the Defense Logistics Agency's purchasing offices.

According to a preliminary analysis of the survey results, the majority of counterfeit electronics products found in avionics systems originated in China and other Asian nations, and the majority of them were discovered only after they were "returned as defective."

The study, sponsored by the U.S. Naval Air Systems Command (NavAir), was conducted to help identify and mitigate potential problems in the avionics electronics

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2008 Election Results

Fair Traders Add To Their Numbers

The "fair trade" community that has worked for years to upend the current free-trade regime was in a state of unbridled joy after the Nov. 4 election. The trade issue played a major role in a radical transformation of the House and Senate, with as many 40 new House and Senate members riding the "fair trade" issue into office. Fair-trade challengers knocked out some of the most powerful members of Congress and the issue played in dozens of congressional campaigns, even beyond the traditional manufacturing states.

"The demand for a new trade and globalization model went mainstream with the 2008 election," proclaimed Lori Wallach, head of Public Citizen's

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Business Community Is Hopeful

The Washington business policy and lobbying community is trying to make the most out of the November 4 election that swung heavily in favor of Democrats. Business lobbyists are rationalizing the loss by consoling themselves in the belief that most Americans classify themselves as moderate conservatives and that the new Democratic majorities say they are committed to restoring America's economic health. The Democrats, they say, can only accomplish this by working with the business community.

The most telling aspect of business representatives'

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COMMENTARY:**Without Manufacturing The Economy Teeters**

I keep having a recurring vision of the American economy. It is vivid and it won't go away. It is of the World Trade Center towers getting hit by two commercial jetliners.

As I watched the Trade Center buildings burn on Sept. 11, 2001, I was convinced that the NYFD would douse the flames. It would take a while, but they'd get it done one floor at a time. It never crossed my mind that the buildings would collapse.

But what I did not know until years later was that the towers had been built without any internal structural steel. They were, in fact, hollow. The designers of the buildings knew this, but nobody else did.

With the September and October 2008 collapse of the U.S. financial system, the U.S. economy has taken a massive and direct hit. Like the damaged World Trade Center towers, the economy is burning. The firefighters — federal officials at Treasury and the Fed — are at the scene, scrambling for a solution, throwing pittances of borrowed money at an overwhelming conflagration.

But like the World Trade Center towers, our economy has been made empty. It wasn't Wall Street that collapsed first, it was America's industrial heartland, leaving only a shell of an economic structure. The legions of talking heads on TV don't seem to understand this. But there is one group in the United States who knows about America's economic artifice: the domestic manufacturing community.

The people who ruled Wall Street and whose millions of dollars fed the Washington policy apparatus of politicians, lobbyists and think tanks were the same people dictating the economic fate of the country's largest manufacturers — the companies whose production for decades provided the backbone of the U.S. economy. The same charlatans who destroyed the financial sector also induced American manufacturers to move

BY RICHARD McCORMACK

their wealth-generating production capacity offshore for the sole benefit of increased quarterly profits. There was no regard for American jobs or communities, for America's standing as a superpower, or even for their own long-term survival.

The American economy has been left without any structural support. And the fires rage.

I have the same tremulous feeling in my gut today about the U.S. economy as I did on the morning of Sept. 11, 2001, watching as two of the world's tallest and most iconic structures billowed smoke. I distinctly remember thinking, "This can't get any worse." And then it got a whole lot worse.

The U.S. economy has not collapsed, but it's getting close. Auto sales just tanked in October. If you lose 25 percent of your business in one month, wow, wow, wow, wow — watch out. That is a cliff over which the automobile industry just fell. The auto industry's economic influence is ubiquitous, penetrating far beyond suppliers and dealerships. Imagine what it means for the National Football League to lose GM or Ford as a weekly game-day advertiser. Poor Tiger Woods won't have a Buick Open to win in San Diego.

There was no way to save the World Trade Centers after they were struck. I'm wondering if the same will be said about the U.S. economy. Maybe I am wrong. I hope so. I really do. But reading the news over the past two months has gripped me in fear, because as editor of *Manufacturing & Technology News* I think I have an understanding of America's economic structure, designed by the radical architects of the Wall Street meltdown — a structure of which I am also an occupant.

QUOTABLE

"I am a free market person until you're told that if you do not take decisive measures then it's conceivable that our country could go into a depression greater than the Great Depression."

— President George W. Bush, November 15, 2008

"Ignorance more frequently begets confidence than does knowledge."

— Charles Darwin

New Top Dog (For Now) At NIST

The National Institute of Standards and Technology has a new man in charge, at least temporarily. Patrick Gallagher has taken over the reins of the agency from acting director Jim Turner who has left NIST to become deputy assistant secretary for international affairs at the National Oceanic and Atmospheric Administration.

Gallagher currently holds the title of deputy director, at least until the Obama team either names a new director or elevates him into the post to lead the \$931 million agency with 2,900 employees. Those around Gallagher say he is deserving of the position. Gallagher has bachelor's degrees in physics and philosophy from Benedictine College and a Ph.D. in physics from the University of Pittsburgh. He joined NIST in 1993 as an instrument scientist at NIST's Center for Neutron Research. He became director of the center in 2004.

Gallagher also got involved in the federal government's technology policy operations, serving as a NIST representative on the National Science and Technology Council to set U.S. policy for scientific user facilities. He chaired the White House Office of Science and Technology Policy's Interagency Working Group on neutron and light source facilities.

America's Economic Crisis Is Beyond The Reach Of Traditional Solutions

By most accounts the U.S. economy is in serious trouble. Robert Reich, an adviser to President-elect Obama, calls it a "mini-depression," but that designation might be optimistic. Russian economist Mikhail Khazin says that the "U.S. will soon face a second Great Depression." It is possible that even Khazin is optimistic.

I cannot predict the future. However, I can explain what the problems are, how they differ from past times of troubles and why traditional remedies, such as the public works programs that Reich proposes, are unlikely to succeed in reviving the U.S. economy.

Khazin points out, as have others such as University of Maryland economist Herman Daly and myself, that consumer debt expansion is the fuel that kept the U.S. economy alive. **The growth of debt has outstripped the growth of income to such an extent that an increase in consumer credit and bank lending is not possible.**

Consumers are overburdened with debt. This fact takes monetary policy out of the picture. Americans can no longer afford to borrow more in order to consume more.

This leaves economists with fiscal policy, which, as Reich realizes, also has problems. Reich is correct that neither a reduction in marginal tax rates nor a tax rebate is likely to be very effective. Reich, a Keynesian, has an uncertain grasp of supply-side economics, but as one who has a firm grasp, I can attest that marginal tax rates today are not the stifling influence they were prior to John F. Kennedy and Ronald Reagan. As Art Laffer said, there are two tax rates, high and low, that will produce the same tax revenues by expanding or contracting economic activity. Marginal tax rates are no longer in the higher ranges. As for a tax rebate, Reich is correct that in the present situation a tax rebate would be dissipated in paying off creditors.

Reich sees the problem as a lack of aggregate demand sufficient to maintain full employment. His

BY PAUL CRAIG ROBERTS

solution is for the government to spend "a lot" more on infrastructure projects on top of a trillion-dollar budget deficit — "repairing roads and bridges, levees and ports; investing in light rail, electrical grids, new sources of energy." This spending would boost employment, wages and aggregate demand.

I have no opposition to infrastructure projects, but who will finance the baseline trillion-dollar U.S. budget deficit plus the additional red ink spending on infrastructure? Not Americans. The U.S. savings rate is zero or negative. Home mortgage foreclosures are in the millions. Officially, U.S. unemployment is 10 million, but if measured by pre-Clinton era standards unemployment is much higher. Statistician John Williams, who measures the unemployment rate by the pre-Clinton standards, concludes that the rate of unemployment is about 15 percent. President Clinton "reformed" the unemployment statistics by ceasing to count discouraged workers as unemployed.

For years, the federal government's budget has been dependent on foreigners financing the red ink. Countries such as Japan and China and OPEC suppliers of oil have huge export surpluses with the United States. They recycle the dollars by buying U.S. Treasury bonds, thus financing the government's red-ink budgets.

The open question is: how much longer will they do so?

Foreign portfolios are overweighed in dollar assets. Currently the dollar's value is

benefiting from the financial crisis, as investors flee to the reserve currency. However, sooner or later the huge outpourings of dollar debts will cause foreign creditors to draw back. Already China, America's largest creditor, has sent a signal that that time might be drawing near. Recently the Chinese government asked, as they do indirectly through third parties, "Why should China help the U.S. to issue debt without end in the belief that the national credit of the U.S. can expand without limit?"

Is the rest of the world, which has demanded a financial summit to work toward a new financial order, going to permanently allocate the world's supply of capital to covering American mistakes?

If not, the bailout and the stimulus package will have to be financed by printing money. And the bailout needs are growing. Car loans and credit card debt were also securitized and sold. As the economy worsens, credit card and car loan defaults are rising. Moreover, AIG needs more money from the government. Fannie Mae's loss has widened to \$29 billion despite the \$200-billion bailout. General Motors and Ford need taxpayer money to survive. General Motors says that its GMAC mortgage unit "may not survive." Deutsche Bank sees General Motors shares "as likely worthless."

Shades of the Weimar Republic

What Robert Reich and the American economic establishment do not understand is that the recession paradigm does not apply. There are no jobs waiting at U.S. manufacturers for a demand stimulus to pull Americans back into work. The problem is not a liquidity problem. To the contrary, there have been many years of too much liquidity. Credit has grown far more than production. Indeed, U.S. production has been moved

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Counterfeits... (Continued from page one)

supply chain, which has shifted off the American continent. The proliferation of counterfeit electronics components "is a broad issue and it is prevalent in the commercial and government supply chains," said study director Kevin Kurland, director of BIS's Office of Technology Evaluation. "One of the things that brought it to light was the Navy and their field operations had systems go down that affected their operational readiness."

NavAir approached BIS to conduct the survey because of the agency's 58-year history of conducting industrial base assessments. For NavAir, counterfeit electronics in avionics systems were proving to be more than a nuisance. The cost of replacing a defective, counterfeit chip or circuit board was marginal, but the downtime in operations was having a "dramatic impact from a cost and national security perspective," says Kurland. "Most of what we're hearing is that missions can't be accomplished because a board went out in a black box. We're trying to get a handle on this, [but] we are comfortable in saying the issue is prevalent."

Most of the counterfeits that have found their way into avionics systems are working without incident, but low-grade fakes that are not made for high temperature or extreme conditions "don't work when you crank them up to a certain level," says Kurland. "That's when you find out it's not the real one. That is what is scary about this. They work at certain [environmental] ranges" and then suddenly quit.

The survey disclosed a great deal about how companies find counterfeit electronic parts, what they do when they find them and to whom they report such incidents. Most counterfeit products found in military avionics systems in 2007 (3,282) were previously used microcircuits that were remarked as being higher grade than what was required for the military application. There were 740 incidents in 2007 of new microcircuits "re-marked as higher grade"; 248 incidents of used microcircuits that were being sold as being new; 214 incidents of "fake (non-working) original component manufacturer products"; 161 "seconds from scrap"; and 108 counterfeits that were made from "working copies of original designs."

The study did not look at so-called "Trojan Horses" — electronics that were designed intentionally with nefarious bugs programmed to disable military systems in which they are embedded, "It's an issue in the back of our minds and an issue for anyone in the U.S. government worrying about counterfeits getting into the national security supply chain, but the survey couldn't ask that question," says Kurland. "I don't think any U.S. company that receives a counterfeit could deem to know what the intent of that chip getting into their system is."

Most of the fakes are getting into the avionics supply chain through brokers (35 percent), individual sales agents (28

percent), Internet sources (12 percent), independent distributors (9 percent) and authorized distributors (7 percent). Counterfeits are entering the avionics supply chain because of lax inventory management by parts brokers, a greater reliance on the gray market for the purchase of parts by brokers and independent distributors, insufficient supply chain accountability, and less stringent inventory management by independent distributors, among others.

"Only 56 percent of distributors and board assemblers test products they purchase before placing them in inventory," says the survey summary. Most all of the testing by distributors is done through visual inspections (81 percent), and checking paperwork. Only 13 percent of testing is done electronically.

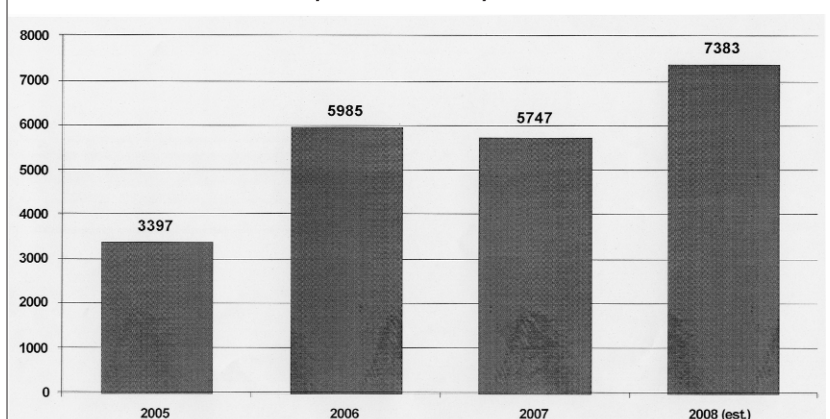
"Seventeen companies — 41 percent of those employing testing contractors — had problems with U.S.-based firms concerning faulty or forged testing," says the study. "The parts were cleared by the testing house, but were later found to be counterfeit by the customer. This is an area that deserves further analysis."

Most companies and military organizations don't know what to do when they find counterfeit electronics. Only 19 percent of original component manufacturers notified federal authorities when they found counterfeit items; 70 percent trace the part through their supply chain. Among distributors, only 11 percent notified federal authorities; 61 percent pull back inventory; and 52 percent notify industry associations. Among assemblers, only 8 percent notify federal authorities; 8 percent notify industry associations; 8 percent said "no steps are taken"; and another 8 percent said they "wait for additional complaints."

When asked who in the federal government they contact when they find counterfeits, 56 percent of original component manufacturers, 65 percent of distributors and 75 percent of board assemblers said they "do not know what authorities to contact." Ten percent contact GIDEP; 8 percent call the FBI; 6 percent notify Customs and Border Protection; 6 percent contact IRIA, 6 percent notify IDEA; 6 percent tell DLA; and 6 percent contact state and local

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Total Counterfeit Incidents: Original Component Manufacturers, Distributors, Board Assemblers



(Source: U.S. Department of Commerce's Bureau of Industry and Security)

Obama Outlines Trade Agenda, And China Reacts

President-elect Barack Obama issued a ringing endorsement of a "fair trade" agenda shortly before the Nov. 4 election. In a signed written response to a policy inquiry from the National Council of Textile Organizations (NCTO), Obama said he intends to support the "Buy America" Barry Amendment; increase funding for the United States Trade Representative to enforce trade rules; take action against China for manipulating its currency; and establish a monitoring program for China following the removal of textile safeguards on January 1.

"Our country can benefit from trade, but I will insist on a trade policy that will work for all Americans," wrote Obama. "This means opening markets abroad, include labor and environmental standards in free trade agreements, and enforce the 'section 421 provision' to unfair imports from China. I will decide those cases on their merits, not on the basis of an ideological rejection of import relief like the current administration," Obama wrote.

With regard to currency manipulation, Obama said the massive current account surpluses being accumulated by China "are not good for the United States, not good for the global economy, and likely to create problems in China itself. China must change its policies, including its foreign exchange policies so that it relies less on exports and more on domestic demand for its growth." Obama says that he will "use all diplomatic means at my disposal to induce China to make these changes."

Obama's NCTO letter may not have made much

Counterfeits... (From previous page)

authorities.

"Only 38 percent of surveyed companies maintain a database to keep track of counterfeit incidents; 67 percent of circuit board assemblers co-mingle identical parts from multiple suppliers in the same bin; and 40 percent of companies stated that they find it difficult to identify counterfeits," said the survey.

Among industry's best practices the most common response was "Don't buy from China," with the second being, "Be wary of brokers."

Unlike most BIS surveys, the respondents did not view the survey as being intrusive. "We do a number of defense industrial base assessments a year and rarely do we get a lot of feedback saying thanks for surveying us," notes Kurland. "We think the survey has had a substantial positive impact." One independent distributor said: "It is encouraging that the U.S. government has finally recognized the scope of the problem and seems to be taking meaningful steps to counteract the counterfeiting plague."

news in the United States, but it did generate a negative response in China. Obama's comments should be written off as campaign rhetoric, according to reports in the Chinese press. "The authorities would not like to see

rapid renminbi appreciation," said Chinese Premier Wen Jiabao in the November 13 *China Daily*. "They hope it could be basically stable." Moreover, according to Premier Jiabao, the yuan has already appreciated by 20 percent since 2005 "and has the U.S. economy fared better?" he asked.

With the global financial meltdown and dropoff of demand for manufactured goods, the Chinese government is feeling increased political pressure at home due to mounting manufacturing job losses. "If the yuan were to appreciate any further, it will lead to the bankruptcy of thousands of coastal exporters and cause serious unemployment and social instability," said Liu Dongliang, a currency analyst at China Merchants Bank as quoted by *China Daily*.

China's trade surplus with the United States continues to skyrocket, however, despite the modest appreciation of the yuan. In September, the U.S. trade deficit with China increased by 16.6 percent from the same month in 2007 to \$27.8 billion, almost \$1 billion a day. For the first nine months of 2008, the U.S. trade deficit with China increased to \$195.4 billion, up 4.2 percent from the same period in 2007. In the important "advanced technology products" category, the U.S. trade deficit with China increased by 11.7 percent for the first nine months of 2008 to \$53.7 billion.

The appreciation of China's currency since it was officially "de-pegged" from the dollar should have reduced the country's ballooning trade surpluses, but that has not happened, notes Charles Blum, president of International Advisory Services. "In fact, China's appreciating currency has actually led over the past 39 months to substantially larger imbalances in its bilateral trade with the United States, its overall trade with all trading partners, its current account surplus, and — most shockingly — in the build up of official reserves, which have grown by 168 percent as the RMB was strengthening."

Meanwhile, the overall U.S. trade position remains precarious. U.S. exports of goods in September declined by \$9.8 billion to \$108.1 billion, while imports of goods dropped by \$11.3 billion to \$177.7 billion, for a total U.S. trade deficit in goods of \$69.6 billion.

Such trade imbalances are "taking a severe toll on the U.S. economy and have contributed significantly to America's current financial crisis," said American Manufacturing Trade Action Coalition executive director Auggie Tantillo. "The only way for the United States to get out of this mess is to produce more wealth at home. That's the only way to create the millions of new and valuable jobs needed to jumpstart the economy. To do that, Americans must start manufacturing more of what they consume."

Paul Craig Roberts...

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offshore. Jobs that used to support the growth of American incomes and the tax bases of cities and states have moved, along with U.S. GDP, to China and elsewhere.

The work is gone. All that are left are credit card and mortgage debts.

Anyone who thinks that America still has a vibrant economy needs to log onto www.EconomyInCrisis.org and face the facts. Economists associate economic depression with price deflation. However, traditionally, debts that are beyond an economy's ability to service are inflated away. This suggests that the coming depression will be an inflationary depression. Instead of falling prices mitigating the effects of falling employment, higher prices will go hand in hand with rising unemployment — a situation worse than the Great Depression.

The incompetent Clinton and Dubya administrations, unregulated banksters and Wall Street criminals, greedy CEOs and a no-think economics profession have destroyed America's economy.

What is the remedy for simultaneous inflation and unemployment?

Three decades ago the solution was supply-side economics. Easy monetary policy had pushed up consumer demand, but high tax rates had curtailed output. It was more profitable for firms to allow prices to rise than for them to invest and increase output. Supply-side economics changed the policy mix. Monetary policy was tightened and marginal tax rates were reduced, thus stimulating output instead of inflation.

Today the problem is different. The United States has abused the reserve currency role, thus endangering its credit worthiness and the exchange value of the dollar. Jobs have moved offshore. The budget deficit is huge and growing. If foreigners will not finance the widening gap, the printing presses will be employed or the government will not be able to pay its bills.

The bailout funds have been wasted. The expensive bailout does not address the problem of falling employment and rising mortgage defaults. Treasury Secretary Hank Paulson could not see beyond saving Goldman Sachs and his bankster friends. The Paulson bailout does nothing except take troubled assets off banks' books and put them on the overburdened taxpayers' books, thus endangering the U.S. Treasury's credit rating.

What the Bush Regime has done is to stick the taxpayers with the banks' mistakes. An intelligent government would have used the money to refinance the troubled mortgages and stop the defaults. By saving the mortgages from default, the banks' balance sheets would have been made secure. By failing to deal with the subprime crisis, Bush and Congress have added a financial crisis to the exhaustion of consumer

demand and the problems of financing huge trade and budget deficits. Belatedly, Paulson has realized his mistake. On November 12, Paulson announced, "We have continued to examine the relative benefits of purchasing illiquid mortgage-related assets. Our assessment at this time is that this is not the most effective way to use [bailout] funds."

The financial crisis has cost taxpayers far more than the amount of the bailout. Americans' savings and pension funds have been devastated. Americans in investment partnerships, who have been required by IRS rules to pay income taxes on gains in the partnerships' portfolios, have had the accumulated multi-year gains wiped out. They have paid taxes on years of "capital gains" that have disappeared, thus doubling their losses.

America's economic troubles will rapidly accumulate if the dollar loses its reserve currency role. To protect the dollar and the Treasury's credit standing, the U.S. needs to curtail its foreign borrowing by reducing its budget deficit. It can do this by halting its gratuitous wars and slashing its unnecessary military spending which exceeds that of the rest of the world combined. The empire has run out of resources, and the 700 overseas bases must be closed.

Can Americans afford massive infrastructure spending when they cannot afford health care? In Florida a Blue Cross Blue Shield group policy for a 60-year old woman costs \$14,100 annually, and this is a policy with deductibles and co-payments. Supplementary policies from AARP to fill some of the gaps in Medicare can cost retirees \$3,300 annually.

When one looks at the economic situation of the vast majority of Americans, it is astonishing that the Bush regime regards wars in the Middle East and taxpayer bailouts of Wall Street criminals as a good use of scarce resources.

American corporations, which have moved their production for U.S. markets offshore in order to drive up their share prices and provide their CEOs with multi-million dollar bonuses, can be provided with a different set of incentives that encourage the corporations to bring employment back to the United States. For example, the corporate income tax can be restructured to tax corporations according to the value-added in the United States. The higher the value-added in the U.S., the lower the tax rate; the lower the value-added, the higher the tax rate.

Cutting the budget deficit by halting pointless wars and unnecessary military spending and reducing the trade deficit by bringing jobs back to America are simple tasks compared to confronting inflationary depression.

The world has had enough of American irresponsibility and is taking away the reins. At the November 15 economic summit, the world began the process of imposing a new financial order on the United States in exchange for continued lending to the bankrupt "superpower." With bailouts eating up the world's supply of capital, continued foreign financing for Washington's wars of aggression is out of the picture.

Auto Companies Abandon 'Free-Market' Mantra

BY RICHARD McCORMACK

I have little sympathy for the U.S. automobile industry. Like most Americans I am torn — though not much — between my emotional side (let the Big Three die because they deserve to) and my rational side (bail them out lest our economy sink quickly into depression).

The emotional side — let them die — has tremendous merit, the least of which it feels good to finally rid the country of these awful companies. Having covered the industry for 20+ years, I know one thing for certain: the Big Three and their boards of directors' don't get it, they never have and they never will. It is an in-bred bunch living out of touch with their customers, competitors and their own workers.

This past weekend, I went to the local Ford dealership and walked around the lot. There is not a vehicle worth buying. Worse, there is not a car that the vast majority of Americans can afford to buy.

The U.S. auto sales rate has dropped to 11 million new vehicles per year. That means only one in 100 Americans — a lowly 1 percent — will buy a new car this year, and half of them will buy a foreign car. Line up 200 Americans and only one of them will buy an American-made car this year.

The price of many new cars today is equal to what it cost to send a child to university for a year. For millions of Americans, the price of a new car is equal to their annual wage, and for many more the price of a new car is more than their take home after taxes.

This is the emotional side of the argument seething forth: the free-market shows no mercy. Failure is the lifeblood of the capitalistic system. For the thousands of innocent suppliers and unfortunate workers, it is guilt by association — similar to what the legions of good local and state Republican elected officials throughout the country are now experiencing. They pay the ultimate price for their affiliation with a losing brand.

Even if the three American auto giants receive taxpayer bailouts there is no guarantee that Detroit will start building cars that people will buy.

For years, I covered Al Gore's pet project, the Partnership for a New Generation of Vehicles (PNGV). The idea was to create new fuel efficient cars and improve the competitiveness of the American automobile industry. What happened? The Big Three were more interested in putting DVDs in the back seat of their oversized vehicles than they were in developing a truly innovative car. Their executives argued to me that they should not be forced to improve the fuel economy of their fleet because it was imperative for the "market to decide" the vehicles Americans were demanding to buy. With low gas prices, the rise of soccer moms and the concern about safety, it was huge cars with powerful engines. Detroit's constant refrain every time the corporate fuel efficiency standards were debated in Congress and echoed by people like Rep. John Dingell (D-Mich.) was: "Let the market decide. Let the market decide. The government should not dictate what markets are better at determining."

Well, the market has decided. The market has decided that GM, Ford and Chrysler can't sell their vehicles they thought everybody should be buying. The U.S. government can just point to the Big Three's 30-year-old

argument of letting the market decide to, in fact, let the market decide.

By the way, has anyone in Congress asked the foreign-owned American producers what they think about a Big Three bailout? Has anyone asked the World Trade Organization if such a subsidy is legal in international court?

With the value of every American asset crashing by 40 percent this year, the only kind of new car most Americans will be able to afford would cost at least 40 percent less than the ones that sit quietly on dealership lots.

From what I can tell, the Big Three have no plans to create an automobile that gets 70 miles to the gallon and costs \$7,500 — a utility vehicle, a modern VW Bug. The vast majority of Americans can't afford anything more expensive, and the world has changed. The world cannot afford the same type of automobile that has basically not changed for the past 100 years: muscle cars that — as Amory Lovins characterized 30 years ago — utilize energy as a chainsaw cuts through butter.

Even GM's vaulted "Volt" automobile is expected to cost \$40,000, perhaps more. How many people living in Michigan can afford that? There are tens of thousands of homes in Michigan that are worth less.

In a world where every day there are stories about pending ecological collapse, America needs an entirely new industrial complex. Perhaps the only way it will emerge is from the ashes of the current industry that has its roots in the 150-year old system of industrialization that is entirely reliant on cheap fossil fuels. There is no sign and no record that the Big Three can make the transition to producing truly "green" automobiles.

So that's the emotive: let the industry go the way it is intended. But my rational side says save the bums to save the millions of innocents because the immediate downside is too dark. Policymakers will make the rational choice.

The capitalists have killed capitalism and the automobile companies have killed themselves. Now they march to Washington and demand a bail out from all the Americans who refused to buy their cars. Bastards!

QUOTABLE: RONALD REAGAN

"The explorers of the modern era are the entrepreneurs, men with vision, with the courage to take risks and faith enough to brave the unknown. These entrepreneurs and their small enterprises are responsible for almost all the economic growth in the United States. They are the prime movers of the technological revolution. In fact, one of the largest personal computer firms in the United States was started by two college students, no older than you, in the garage behind their home. Some people, even in my own country, look at the riot of experiment that is the free market and see only waste. What of all the entrepreneurs that fail? Well, many do, particularly the successful ones; often several times. And if you ask them the secret of their success, they'll tell you it's all that they learned in their struggles along the way; yes, it's what they learned from failing. Like an athlete in competition or a scholar in pursuit of the truth, experience is the greatest teacher."

— Ronald Reagan, May 31, 1988, at the University of Moscow

Fair Traders... (From page one)

Global Trade Watch. Overall, there was a net loss of 32 congressional seats that were previously held by supporters of NAFTA, CAFTA and the WTO. There were more than 140 anti-free trade advertisements run throughout the country on television, up from only 25 such ads in 2006.

"If there is any indication that trade and globalization demands for a new policy have hit a tipping point it is the unprecedented use of the issue in paid ads in this election cycle," said Wallach. "We saw this time that actually campaigning on fair trade is no longer just a Democratic tactic," Wallach told reporters the day after the election. "There were 18 Republicans who beat back either primary challengers or general election challengers and are coming to Congress because they campaigned on a fair-trade platform with paid ads."

There were another dozen congressional races where both Republican and the Democratic candidates battled to be the most critical of the current free-trade regime using ads to sell their fair-trade message.

"The bottom line," said Wallach: "Americans voted for people who wanted a change on trade and they threw out the folks who were stuck to the status quo."

The financial meltdown exacerbated the public's desire for a new trade policy, said Sen. Sherrod Brown (D-Ohio). Trade reform "has become a national priority in this country," Brown told reporters. "It's always about jobs, and it's about jobs with a living wage. This year we saw more candidates campaigning on fair trade than at any time in the nation's history. We saw people around the country like Phil English, a Republican from just across the Ohio line in Northwest Pennsylvania — a supporter of President Bush's free trade policy — lose his re-election bid. Congressman Robin Hayes [R-N.C.] was beaten by Congressman-elect Larry Kissell [D]. Hayes flipped on CAFTA and was on the wrong side of trade and lost because of that."

Kissell previously ran against Hayes in 2006 and lost by 329 votes. This year, as the North Carolina economy worsened, Kissell beat Hayes by 10 percentage points. "I'm an economics major from college so I have some understanding of globalization and I have seen what it has done to our district," Kissell told reporters. The unemployment rate in Kissell's district has jumped from 3 percent in 2000 to 7 percent in 2008, with 60,000 people currently drawing unemployment benefits. "Free trade has been devastating to our district," he said. "Until we see jobs starting to be created in this district and our good working people have opportunity to have good jobs then I think a time out and a restructuring of trade is exactly what we're going to have to do."

The United Steelworkers was active in the election cycle, putting 11,000 volunteers into the field in 31 states working for a "transformative" change in trade policies. "The reason we were able to get so many volunteers is because so many of them are living on the edge of losing their jobs and many have lost their jobs as a result of these bad trade deals," said USW president Leo Gerard. The financial meltdown "is putting the final nail in the coffin in the myth that this kind of economic

deregulation and trickle down economics would create jobs and prosperity. We've had deregulated financial markets, deregulated global trade, deregulated labor markets and the overwhelming majority of the country knows that this has created an economic catastrophe."

The Alliance for American Manufacturing (AAM) was also active throughout the industrial states in the weeks leading up to the election promoting a political dialogue over the importance of manufacturing and getting tough with unfair Chinese trade practices. "These were clearly big issues in all of the seats" that either were held by incumbents voicing support for fair trade policies or challengers, said AAM executive director Scott Paul. In every race in the regions where AAM organized "Keep It Made In America Town Hall" meetings to discuss the issues there were ads about jobs and trade. "It was truly remarkable," said Paul. But among the thousands of people attending the town hall meetings there was an understanding that there are no easy answers to the problems facing American manufacturing and in crafting a trade agenda that benefits U.S. domestic producers and their workers. "It took a long time to get into this mess and it's going to be a slow and painful slog to get out of it and it's going to take a serious battle to change of viewpoints of the powers that be," said Paul.

When Gerard was asked by *Manufacturing & Technology News* how he intends to counter the argument that trade protectionism is going to lead to a depression, he stormed: "We're in an economic depression now! Where has everybody been? Manufacturing has been gutted. The trade debt is the highest it's ever been. We're losing jobs every month. We've lost 900,000 jobs so far this year and the policies that are in existence now are what created it. We just won an historic presidential election on the cry for change. Have you ever seen an election where the people were in the streets cheering and crying? It's not just to do with making history on racial lines. It's the fact that we made history because everyone that ran who got elected was running on a campaign of change. Even John McCain, who was the world's most committed free trader, was trying to pretend he was for change. John McCain who was the world's greatest deregulator was running on a campaign of regulation. So let's not fall into a trap. We're in an economic depression in manufacturing right now. Not a recession."

Wallach said the idea of calling a new trade regime protectionism "is a red herring. At issue is not whether or not there will be trade, the question is will the rules of trade and globalization be designed to suit the public interest or just the set of narrow interests like the current status-quo policies."

Added Congressman-elect Mark Shauer (D-Minn.): "I think the American people are looking for fairness. We will reach a bipartisan consensus because this is not a partisan issue."

To read Public Citizen's 58-page election analysis "Election 2008: Fair Trade Gets an Upgrade, Trade Issues Play Unprecedented Nationwide Role in Congressional, Presidential Races; Officials' Trade Views Move Closer to Public's" set your browser to <http://www.citizen.org/documents/ElectionReportFINAL.pdf>.

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discussion of the election results is the pronoun used when referring to the victorious Democrats: "they."

After watching Obama's victory speech in Grant Park in Chicago on election night, National Association of Manufacturers president John Engler said, "I saw the olive branch come out and we are very thankful for that."

Jay Timmons, NAM's top political lobbyist who joined the organization from the staff of former Sen. George Allen (R-Va.), also hung heavily on Obama's words of inclusion: "I have to say I was incredibly impressed [when] the President-elect said, 'As Lincoln said to a nation far more divided than ours, we are not enemies but friends, though passion may have strained it must not break our bonds of affections and to those Americans whose support I have yet to earn, I may not have won your vote, but I hear your voices and I need your help and I will be your president, too.' That was an amazing statement," said Timmons, "and one we take to heart at the NAM."

(Perhaps just as "amazing" a statement was what President George W. Bush said in his victory speech on December 13, 2000: "I was not elected to serve one party, but to serve one nation. The president of the United States is the president of every single American of every race and every background.")

Timmons said that people ask him how he is going to work with the new Democratic administration and Congress, "and I simply respond: forthrightly, honestly and now with respect and admiration for their tremendous victory."

Burnadette Budde, senior vice president of the Business Industry Political Action Committee (BIPAC) said: "I also pay tribute to what the President-elect accomplished but since I have followed congressional elections for over 30 years, my attitude about the outcome of the election might have been a little different in that you should not see this as anything magical or mysterious. It has been a natural evolution of things we've seen taking place in congressional elections" for the past four years.

Obama and the Democrats did not blaze a trail, Budde told a news conference BIPAC organized with NAM the day after Obama's electoral landslide of 365 to 162. The groundwork for the Democratic victory had been put in place years ago. "Somebody else had done that," Budde pointed out. "States such as Colorado and Virginia have been on the radar screen for a number of elections and [with] the demographic changes taking place it was inevitable," she said. It was only a matter of time before the shift away from the Republican majority took place in a state like North Carolina, Budde said. "Indiana seems like an enormous victory for the Obama campaign, but in 2006 Republicans lost three congressional districts and they lost control of the state legislature."

The 2008 election was a "natural evolution," Budde told a packed press conference. It demonstrated that "the voters didn't regret 2006. The voters had

opportunities in 2008 to return Republicans to office they defeated in 2006 and they didn't do it. They did elect Democrats who ran again, so voters [did not have] a one-time burst of anger. They did not regret 2006."

Greg Casey, president of BIPAC, said the election did not represent "a lurch to the left any more than the '04 election was a philosophical lurch to the right." He pointed out that 44 percent of voters classified themselves as being moderate, 34 percent said they were conservative and 22 percent said they were liberal.

A clean sweep of Republicans out of governing provides business lobbyists with an "opportunity," said Casey. "What Americans want most is to see competent handling of the economy. The American business community is very anxious to do that. You cannot solve the financial crisis without the engagement of the American business community. We are willing as the business community to engage."

The new Democrats elected to the House and Senate should not be considered liberal or labor extremists. "We have a very different class of freshman," said Jay Timmons. "NAM has a very close working relationship with Senator-elect Mark Warner [D-Va.]. You'll see several new [Democratic] members [of Congress] coming in with a different standpoint. It will be a different tone and a different kind of dialogue." BIPAC provided Warner with campaign contributions.

Journalists asked Engler what he thought of the prospects for the labor movement's "card-check" bill being passed, now that there are so many fewer Republicans in Congress and a President-elect who would sign such a bill. Engler said it would be unwise for the new government to pick a contentious fight with the business community so quickly after taking control. "I would say there are a lot of other priorities that ought to be up first and that this isn't exactly the place where we want to start," Engler said. "We need to work on things we can work on together to benefit the American economy."

It is a "foregone conclusion" that the House would pass the card-check bill, "but it won't be treated that way," said Engler. "It won't be a free vote. We'll work hard in the House to talk to members on this." On the Senate side, it will be a "tough fight" to pass a card-check bill, Engler predicted. "Labor has made it very clear that for the hundreds of millions of dollars they spent on this election this is part of the payback, but this is not the time and not the issue on which to build a relationship."

Timmons added that Senator-elect Mark Warner "is a perfect example of someone who has not put a stake in the sand on this issue."

Engler further noted that in 2007 labor won between 50 percent to 60 percent of all union elections that were held. "Sometimes it's reported that they haven't won an organizing election in decades, and so they have to change the law because of the fundamental unfairness," he said. "This is about trying

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to win 100 percent by never having an election. We think that there are a number of new members [of Congress] who are going to take a little broader view of things. They're not going to be ready to get rid of all the right-to-work laws in this country and go to the International Labor Organization standards. They are not going to be willing to tip a lot of the labor law on its head."

Obama could really hurt his ability to govern by siding with labor, Engler continued. Private sector unions represent only 7.5 percent of the workforce, he told the press conference. "There is another 90 percent [of private-sector workers] we hope we can talk to and link up to. One of the risks of a new Obama administration is to early on get typecast — to get put in that box."

Engler was asked if his and other business organizations are now in trouble because of the "K Street Project" initiated by former Rep. Tom DeLay (R-Texas). The project aimed at institutionalizing conservative Republicanism by putting only Republicans in top Washington business lobbying organizations. Engler replied by saying his organization has its share of Democrats and that his hiring was not part of the K-Street Project, even though he was hired at the time and was considered a conservative partisan Republican who could be most useful to NAM because of his close ties to Republicans in the White House and Congress. "There is no question that Democratic staff members of the House and Senate are hot commodities because there is the need to deepen the bench with the incoming administration," Engler said. "I think from our standpoint we have an advantage at NAM [because] we don't have a political action committee so we have our sleeves rolled up and are slugging it out; we're talking issues and policies and we have awarded people in both parties in terms of recognizing them in support of issues that we care about."

Democrats aren't sure Engler should be making such an assertion, however. The NAM Award for Manufacturing Legislative Excellence has consistently

angered Democrats, especially the recent award made to 181 members of the House of Representatives, only one of whom (Rep. Dan Boren, D-Okla.) was a Democrat. Of the 43 members of the Senate who scored high enough to earn NAM's pro-manufacturing legislative excellence honor, not a single one was a Democrat.

BIPAC leader Greg Casey also weighed in on the issue of whether the business lobbying community is now on the outside looking in. "The K-Street Project was a dumb idea," he told the journalists. "We're trying to tell our business community that if you live and play by a political system dominated by partisan politics, then you are often its first victim because partisan politics knows no principles other than to win to stay in power. We in the business community have to focus on our own issues and message and find the best people to work in that environment."

With such a commanding majority in both the House and the Senate and Democrats now taking over virtually all the key economic posts in the federal government, it will be imperative for the business community to start finding moderates in the Democratic party with whom to work, said Casey. These moderates "outnumber both Republican and Democrats and the moderate [voters] who voted for them voted for them to fix the economy. It is not lost of them that that is what they have to get accomplished. That means we in the business community need to find people to work with regardless of who's in power. That is the message we want the business community to take away from this election."

In many respects, the 2008 election was a rout. The total number of votes cast for Democratic candidates for the House of Representatives was 59,713,061; for Republicans it was 10,000,000 fewer: 49,717,154. In the House, Democrats now hold 255 seats (a gain of 20); Republicans hold 175. Democrats won every one of the 12 seats that were uncontested. At least 17 incumbents lost, among which were 13 Republicans and four Democrats. On the Senate side, Democratic candidates received 33,933,212 votes versus 29,987,513 votes for Republican candidates.

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