Manufacturing & Technology News

COVERING INNOVATION, GLOBALIZATION AND INDUSTRIAL COMPETITIVENESS

PUBLISHERS & PRODUCERS, P.O. BOX 36, ANNANDALE, VA 22003
PHONE: 703-750-2664 FAX: 703-750-0064 URL: WWW.MANUFACTURINGNEWS.COM

Wednesday, December 3, 2008 Volume 15, No. 21

R&D Will Not Be Included In Obama Economic Stimulus Package

Don't look to President-elect Barack Obama's chief economic advisor to direct any of the massive economic stimulus package toward funding for science and technology. When asked by *Manufacturing & Technology News* at a recent event at the National Academy of Sciences if there was a need for some of the stimulus to support R&D, and in particular the thousands of scientific grant applications that are going unfunded, Lawrence Summers, incoming director of Obama's National Economic Council, responded: "You're not going to much like my answer but I guess it won't be the first time I gave an answer that wasn't 100 percent diplomatic....In the context of a short-run macroeconomic stimulus, that is to say, programs of stimulus that are explicitly temporary, it does not strike me that running up the research budget and then running down the research budget is a terribly rational way to run a country."

Summers was quick to note that he believes there needs to be an increase in federal R&D funds for the sake of the long-term health of the U.S. economy. "There is an important role for more science....but while more may always be better, a lot of ramping up and ramping down comes with very substantial inefficiency," he said.

Obama's stimulus package would increase the short-term federal budget deficit, but the intention is to build the economy in such a way as to provide long-term growth in federal revenue, said Summers. There is a "certain logic" to providing tax cuts for two years, and for accelerating investments in infrastructure that have

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Business Group Claims There Was No 'Fair Trade' Mandate In Election

"Free trade" and "fair trade" policy opponents are kicking up a storm over how to interpret the November 4 election results. The National Foreign Trade Council (NFTC), which represents large international corporate interests such as Wal-Mart, General Electric and Siemens, says claims that there was a "seismic shift" of new "fair trade" members of Congress are overblown.

"After an election, it's always tempting for representatives of each side of an issue to come out and declare victory," says NFTC president William Reinsch. "But the truth of the matter is that the results of the congressional elections are a mixed bag when it comes to trade. In the majority of races, trade was not an important factor, and it is not correct to suggest that incoming members represent a sea change in the way the United States will approach trade and diplomatic policies."

That is wishful thinking, according to Public Citizen's Global Trade Watch, which spent two months analyzing the role of trade in 260 congressional campaigns. "These are the people who formed the lobbying coalitions that bought us NAFTA and WTO," says Todd Tucker, research director at Public Citizen, referring to the NFTC. "The adverse economic consequences of these unfair trade agreements have shifted public opinion massively against them. I would suggest psychological help immediately for NFTC as they sit there and say 'Oh, this wasn't an issue in the campaign,' when their champions in Congress are getting booted out one after the other."

It its analysis of the election results, the National Foreign Trade Council found that of eight Senate races, trade was only explicitly mentioned on the Web sites of four successful candidates. Only two of the new senators "are less inclined towards free trade and engagement than the

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The CIA Peers Into A Crystal Ball And Finds China To Be The Main Story of 2025

America's place in the world by 2025 will be radically different than it is today, thanks to the continued "unprecedented shift in relative wealth and economy power" to China, according to the Central Intelligence Agency. In a new 99-page report entitled "Global Trends 2025: A Transformed World" the agency writes in its first line: "The international system — as constructed following the Second World War — will be almost unrecognizable by 2025, owing to the rise of emerging powers, a globalizing economy, an historic transfer of relative wealth and economic power from West to East and the growing influence of nonstate actors." These nonstate actors include businesses, tribes, religious organizations and criminal networks.

The recent financial meltdown "could end up accelerating many ongoing trends," but the CIA says "we do not believe that we are headed toward a complete breakdown of the international system, as occurred in 1914-1918 when an earlier phase of globalization came to a halt. However, the next 20 years of transition to a new system are fraught with risks."

There will be "strategic rivalries" that revolve around trade, investment, technology, and acquisitions, "but we cannot rule out a 19th century-like scenario of arms races, territorial expansion and military rivalries."

The CIA says "this is a story with no clear outcome." But what is "likely" to occur is the relative strength of the United States will decline "and U.S. leverage will become more constrained...China is poised to have more impact on the world over the next 20 years than any other country." China, India and Russia will be major players on the world stage, but none of them are following the Western model for growth.

Global demand for food is expected to rise by 50 percent by 2030. By 2025, 36 countries with a total population of 1.4 billion will not have enough cropland or fresh water to serve their populations. Climate change could also have a "devastating" impact on food production and water availability, says the CIA. On energy, "all current technologies are inadequate for replacing traditional energy architectures on the scale needed."

Here is one scenario outlined by the CIA entitled "A World Without the West: In this world...new powers supplant the West as the leaders on the world stage. The U.S. feels overburdened and withdraws from Central Asia, including Afghanistan; Europe will not step up to the plate and take the lead. Russia, China and others are forced to deal with the potential for spillover and instability in Central Asia. The [Chinese] gain ascendance while NATO's status declines. Anti-China antagonism in the U.S. and Europe reaches a crescendo; protectionist trade barriers are put in place. Russia and China enter a marriage of convenience; other countries — India and Iran — rally around them. The lack of any stable block — whether in the West or the non-Western world — adds to growing instability and disorder, potentially threatening globalization."

The CIA concludes that many of the trends over the next 15 to 20 years could lead to a more fragmented and conflicted world, "but bad outcomes are not inevitable," says the report. "International leadership and cooperation will be necessary to solve the global challenges and to understand the complexities surrounding them."

The report is located at http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf.

Electric Utilities Submit Applications To Build New Nuclear Reactors

The Nuclear Regulatory Commission is busy accepting applications for new nuclear reactors. The latest is from Detroit Edison for a new unit at its Fermi site about 30 miles southwest of Detroit. The NRC is reviewing the Detroit Edison application to build a 4,500-megawatt boiling water reactor manufactured by General Electric-Hitachi. Over the past year, the agency has received formal applications for construction of more than a dozen new nuclear reactors. Among the other applications received by the NRC over the past three months are:

- Luminant Generation Co. for Units 3 and 4 at the Comanche Peak power station in Summervell County, Texas. The company is proposing to build pressurized light water reactors made by Mitsubishi Heavy Industries;
- PPL's proposed "Bell Bend Unit One," an AREVA-built reactor adjacent to its Susquehanna plant in Luzerne County, Penn.;
- Union Electric Company for Callaway Unit 2, an AREVA unit in Callaway County, Missouri;
- Progress Energy Florida for two new Westinghouse pressurized water reactors in Levy County, Fla.;
- Nine Mile Point Nuclear Project and UniStar Nuclear Operating Services for Nine Mile Point Unit 3 to be built by AREVA in Oswego, N.Y.;
- Entergy Operations for River Bend Station Unit 3, a boiling water reactor to be built in St. Francisville, Louisiana; and
- Exelon Nuclear Texas Holdings for two GE-Hitachi boiling water reactors near Victoria City, Texas.

WHY DETROIT NEEDS A BAILOUT

The Economic Fallout Would Be Catastrophic

BY THOMAS PALLEY

The financial crisis that began in 2007 has been persistently marked by muddled thinking and haphazard policymaking. Now, the United States Treasury is headed for a mistake of historic and catastrophic proportions by refusing to bail out America's Big Three automakers.

Make no mistake, if Detroit's Big Three go bankrupt, the perfect storm really will have arrived with a collapse in both the real economy and the financial sector. This threat means that the financial bailout funds authorized by Congress can legitimately be used to support the automakers. Treasury's refusal to do so is a monumental blunder that risks a general meltdown, the consequences of which will extend far beyond America's shores.

Proponents of a bailout for the Big Three have emphasized the enormous job losses associated with a bankruptcy scenario, including not only jobs directly provided by the automakers, but also jobs with parts suppliers, auto dealers and in the transport and advertising industries.

These job losses will then be multiplied locally and nationally. Lost wages will reduce consumption, causing additional job cuts, while factory closures will reduce investment, hitting employment in capital goods industries. Lost incomes will also drive down tax revenues, resulting in public-sector employment cutbacks.

Moreover, the automakers are essential for closing the trade deficit, and their demise could bring another surge in imports. The automakers are also the backbone of American manufacturing, driving advances in manufacturing technology that will be needed if America is to be a world leader in the coming "green" transportation revolution. Additionally, the Big Three are vital to national security, supplying important military transportation assets. Lastly, bankruptcy will impose massive costs on the government's Pension Benefit Guaranty Corporation (PBGC), potentially undermining its financial stability.

All of this is true. But missing from this array of arguments is the damage a bankruptcy of the Big Three would do to financial markets. In one fell swoop, the hard-won gains in stabilizing the financial system could be blown away.

The Big Three and their auto finance associates (such as GMAC) are huge debtors whose liabilities are held throughout the financial system. If they go bankrupt, the insurance industry, which is likely a large holder of these debts may quickly enter a spiral of collapse. Pension funds will also be hit, imposing further costs on corporations and households at a time when they are

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Defense Industrial Base Would Take A Direct Hit

BY SHEILA RONIS

For nearly two decades, I have been researching the national security implications of the erosion of the industrial base. A few years ago, the House of Representatives' Small Business Committee asked me to analyze the systemic relationships between the defense industrial base and its larger sister, the overall U.S. industrial base. My findings were disturbing. The defense industrial base is a small subsystem of the overall industrial base and the two cannot be separated. Today, America's overall industrial base is in trouble. If it fails, much of the defense industrial base will fail with it.

For whatever reason, Congress has neither been told nor does it comprehend that the failure of the U.S. automobile industry will probably produce a domino effect that will precipitate the collapse of companies such as Lockheed Martin, Boeing, Northrop Grumman and General Dynamics. This is because these companies share an industrial infrastructure that reaches deep within their supply chains and includes such basic industries as tool and die shops, foundries, castings operations and electronics producers. The deeper you go into the U.S. defense industrial base, the more likely you will find companies that depend on the automobile industry for their survival. The defense sector is small enough that without the auto companies, a cascading collapse of small businesses could lead to a cascading collapse of the U.S. defense base.

And, no, the automobile transplants from Germany, Japan, South Korea or maybe one day China will NOT replace this infrastructure. Most of the transplants' upstream, high value-added work in design and engineering is done in their home countries. These companies still import a large amount of parts, components and finished automobiles into the U.S. market. The trade deficit in autos and parts was $94 billion through September. Americans and Congress might think that if a product is assembled in the United States it's an American-made product, but the high value-added element of manufacturing is in the complex design and engineering functions. Those functions would disappear as the American companies go into liquidation, meaning that what little is left of the country's ability to make things will be almost entirely lost.

Our country is at a critical juncture. We have already become dependent on foreign countries for critical components and systems and key industries have already lost their ability to engineer and manufacture. As original equipment manufacturers around the country for both the military and U.S. industrial

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been cancelled due to state budget shortfalls. There should be temporary federal investments in renewable energy, in information technology in the health care sector to lower costs, in universal broadband and pervasive wi-fi. "I don't think turning a science program on and then turning it off has an enormous logic," he said. "So that is the sense in which science as a short-term stimulus doesn't seem quite right to me."

Over the long term, robust investments in science and technology will be perhaps the only driver of future economic growth, and there needs to be "much more public support," said Summers. "Basic science is basically very, very important....On the one hand, only government can provide the support at the most basic level and on the other hand, the track record of governments in picking winners and losers — in deciding what are the most fruitful industries — is not hugely encouraging over time and in the quality of its judgment. So I would be tilting a bit more towards basic research in part in the conviction that there are lots of examples: the pure mathematics of factoring algorithms is just one example of where what seemed like the most abstract and irrelevant thing actually turned out to be the source of very substantial national security impact and a very substantial commercial benefit."

Here are excepts from Summer's after-dinner talk hosted in October by the National Academies' Board on Science, Technology, and Economic Policy:

This financial crisis is unlike anything, frankly, I ever expected to see. The single indicator of that I point to most, is there was a stretch where the interest rate on government bonds in the United States of America was negative. People paid the government to store their money because they didn't find anyone else they could trust. The financial system may be now beginning the process of mending, but it is going to be a process that is going to take a considerable time. The diminished flow of capital that is going to follow from the losses of the banks and other financial institutions is surely going to cause a recession and most likely a serious recession.

I have long recognized that macroeconomic policy is profoundly important, but in a way like anesthesia is important in surgery. If it is not managed successfully, the consequences are catastrophic. When there are accidents or problems, the issues rise immediately to the forefront, but anesthesia — no matter how brilliantly administered — will not make the operation a success and will not bring the patient to health and no matter how skillfully the dials of fiscal and monetary policy are turned, no matter how precisely they are set, they will not make a country prosperous; they will not make standards of living and incomes increase; and they will not assure that those incomes are equitably and fairly distributed.

The ultimate potential of an economy depends on things far deeper than financial variables. It depends on the productive resources that a society has: physical capital, human capital and an educated workforce. It depends on the nature of the economic environment in which entrepreneurs and other potential innovators can function. It depends on the capacity to generate progress in developing better ways of producing old goods and ways of producing new goods as well. It depends on its capacity to innovate and adapt. In large part it depends on its relationship with science and technology.

....Somebody very knowledgeable told me — and I haven't gone and checked whether this is true — that on a business-as-usual scenario there is an 80 percent chance that Harvard Yard will be under water by the end of the next century. It's probably no more important than a thousand other statistics I have heard about the damage of global warming, but it did bring the point home to me. The largest wealth transfers in the history of planet Earth are taking place between market-oriented democracies and authoritarian states associated with the exportation of oil.

What are we going to do? How are we going to cause [green] technologies to come into being? What is the right way to think about it? There are two broadly different stories, and it's incredibly important for public policy to know which one is right. One story is the story told by optimists: that whenever we set an environmental goal, we always meet it and we meet it much cheaper than everyone expected. Look at sulfur oxides. Look at what happened with respect to the first smog requirements in Los Angeles, and even CAFE standards. People complied at substantially less cost than they said they would. If we are determined and we just insist, then the price will actually come down and it won't be that burdensome. That is many people's view

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Federal $$$s Prime The U.S. Pump

A massive surge of government spending is doing a lot to keep the United States out of a severe recession. The third quarter decrease in the gross domestic product of 0.5 percent would have been a lot worse had it not been for a 13.6 percent increase in real federal government expenditures, according to the latest GDP report from the Commerce Department's Bureau of Economic Analysis. The economy was buoyed by a massive 18 percent increase in defense spending, and a 4.5 percent increase in nondefense federal spending. State and local government spending also increased at an annual rate of 0.8 percent. A 3.4 percent growth in exports and services and a 3.2 percent decrease of imports also helped the economy.

But that wasn't enough to counter the downturn in the private sector. Personal consumption expenditures decreased by 3.7 percent for the quarter, which included a 5.7 percent decrease in equipment and software and a 17.6 percent decrease in residential fixed investment.

Corporate profits are also plunging. They fell by $14.6 billion in the third quarter, compared with a decrease of $60.2 billion in the second quarter. "Taxes on corporate income decreased $9.9 billion in the third quarter, in contrast to an increase of $3.9 billion in the second," reports the Commerce Department. The full report is located at http://www.bea.gov/newsreleases/national/gdp/2008/gdp308p.htm.

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and it may be right.

Here is another view: whenever we take a big leap into the unknown it always costs an order-of-magnitude [more] than we thought it would. Think about the Big Dig in Boston; any major piece of military procurement; the Space Shuttle; the estimates of supersonic transport made more than 40 years ago. The contemplated changes in energy efficiency are incomparably large to where we are now. So it's almost impossible to predict what the [costs] will be. Some have estimates of the impacts of the cost of carbon sequestration, but there isn't a single viable carbon sequestration pilot project that is working, so who knows how much it will cost when it becomes pervasive.

Which of these views is right? Can we figure it out? In all likelihood we can't. How should policy be set given the staggering uncertainties, not just about what the impacts of emissions will be, but what the nature of the technologies and the costs are?

It's a good idea to be flexible — that's a basic principle of making policy. But here's another principle of making policy: if you want people to make 40-year investment decisions in a way that reflects your policy preferences, you better know what your policy preferences will be 10 years from now. How do you square that with the need for flexibility? I don't have all of the answers here, but I'm pretty sure that saying we should just let the market rip is not a viable strategy and I'm pretty sure that commandeering the whole thing by government is not a very viable strategy either. How do we create the right kinds of incentives for the kinds of patterns of energy efficiency that we want to do — that balance the cost and benefits? I don't know the answer to that question, but it's profoundly important.

[Another] question that should be much more of a preoccupation for all of us is what are the animating technologies that are going to drive our economy going forward?

There was a tremendous wave of innovation in connection with the Second World War: the jet airplane, electronic technologies and much else. Their diffusion fueled a period of rapid productivity growth, which improved standards of living and made almost everything else work well for the generation after the Second World War.

At a certain point, the energy was lost; productivity growth slowed way down and we had nearly a generation of lousy economic performance, lousy productivity growth. This made it easy to have inflation, high unemployment that led to some substantial national loss of confidence from the late 60s to early 70s to the beginning and mid 90s. At that time, the rapid diffusion of information technology touched every sector. My Blackberry has more computing power than a pretty formidable mainframe 20 years ago. And the range of activities touched by IT was pervasive to very great benefit, from retailing, health care, finance.

It's hard to read the statistics, but the best reading of the statistics would be that it looks like even before the current cyclical downturn, there is a slowdown in economic performance.

So from where is the stimulus going to come? What is the transformative activity that is going to be like the interstate highway system, the building of suburbs, that's like electronics or the Internet? What is the next thing going to be? Having the next thing, making sure it drives the economy has to be of profound importance.

Many say it's renewable energy, but if you think about it, renewable energy is more defensive than offensive. It will prevent the price of oil from spiking to a ludicrous extent. It will have very substantial environmental benefits, but at the end of the day renewable energy ends when you're plugging something in the wall and you're getting electricity like you used to. It doesn't end in a totally new capacity to do new things that were previously un-contemplated, like my cell phone does or the Internet.

Biotech? Maybe. But how much of GNP is going to be touched? Pharmaceuticals, healthcare, agriculture, certain part of materials science. But is the pervasiveness quite there? Next wave information technology? Maybe. But what are the technologies that the military has today that civilians will have 10 years from now that will be transformative? How many of them are there? What will their impact be? I don't know the answer to the question. But I do know that the underlying rate of growth that history suggests the dissemination of pervasive technologies is a profound issue for our economic future.

It's a cliché that too little American talent goes into science, and that too many people go into banking, and that our education system is said to be failing because of those effects. To some substantial effects it must be true. I found myself on a business trip to Europe and lucky for me I was sitting in business class. Seated not far from me in business class was a young woman who had graduated from Harvard 14 months before and who was working for a major financial institution and she was traveling to Europe and when people travel for that major financial institution they travel in business class. I like to walk when I'm on a plane, so I wandered. I walked back to coach and on that airplane in coach was a distinguished physicist who I had known when I was president of Harvard who I think probably is close to even money to win a Nobel Prize one day. He was going to a conference like professors of physics do and he was going like professors of physics like him go, which is in coach. And I didn't say anything to either of them, but I thought to myself there was something odd about the reward structure of our society.

The Big Three's Big Plans

GM, Ford and Chrysler have submitted their "stabilization plans" to the House Financial Services Committee in the hopes of receiving billions of dollars. They are posted on the Web and are worthy of a look:

Chrysler's plan is 14 pages: http://www.house.gov/apps/list/press/financialsvcs_dem/chryslerplan.pdf

General Motor's plan is 37 pages: http://www.house.gov/apps/list/press/financialsvcs_dem/gm.pdf

Ford's plan is 33 pages: http://www.house.gov/apps/list/press/financialsvcs_dem/fordtestimony.pdf

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already financially stressed.

But the greatest damage may come from the credit default swaps (CDS) market that brought down AIG. Huge bets have undoubtedly been placed on the bonds of GM, Ford, Chrysler, and GMAC, and bankruptcy will be a CDS triggering event requiring repayment of these bonds. Moreover, a Big Three bankruptcy will bankrupt other companies, risking a cascade of financial damage as their bonds and equities fall in value and further CDS events are triggered. This is the nightmare outcome that risks replicating the Crash of 1929.

Opposition to the bailout is bringing back to the surface the worst of the conservative economic thought that got America and the world into this mess in the first place. The opposition of the Federal Reserve and Treasury to hands-on intervention meant that they were slow to understand that merely ring-fencing the commercial banks could not save the financial system. Now, they are failing to understand the financial significance of the Big Three.

Conservative animus toward trade unions is also once again on display. But it is union weakness that has caused wages to stagnate and forced America to rely on debt and asset price inflation as the engines of growth.

Another conservative accusation is that a bailout would infringe free-trade rules. But it is these rules that have fostered the trade deficits that have destabilized and undermined the American economy. The reality is that world trade would suffer far greater damage from the global economic fallout of a Big Three bankruptcy.

Lastly, conservatives have trotted out the old moral hazard story in order to argue that a bailout would turn American manufacturing into a permanent beggar of government funds. In fact, business has always lobbied Congress for favors and tax breaks, and the Lehman Brothers experience proved the foolishness of confusing parables about moral hazard with crisis management.

There are undoubtedly colossal problems in Detroit, and the bosses of the Big Three automakers could never be convicted of an excess of imagination. Economic policy has also contributed to their current condition as trade agreements and an over-valued dollar promoted auto imports, and incoherent energy and environmental policy stifled innovation.

All of this must be fixed. But sacrificing the Big Three automakers will accomplish nothing while risking a tragic economic depression.

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Sheila Ronis...

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corporations outsource more of their engineering and manufacturing, the nation's ability to dominate and control supply chains is disappearing. The current financial meltdown is rapidly exacerbating this situation.

America's national security requires a healthy market-based economy with a strong industrial base of globally competitive industries that continuously improve quality and productivity. A strong economy creates high-paying jobs that require unique knowledge and generate tax revenues that power the nation's military capabilities. With the weakened economy, the system is at risk of failure, bringing down the entire defense industrial base.

When I wrote a few years ago that the nation could not sustain the kind of growth that America enjoyed if it continued to permit a steady erosion of its industrial base, I was chastised by the military community. But in many cases, the United States is already unable to manufacture the equipment and technology used to fight and win the nation's wars. This situation is not documented. It is not monitored. There is no plan to ensure strength of the country's core of the industrial base, and it needs to be. Globalization "uber alles" in this case is not viable public policy, especially where national security is concerned. In a global economy, the rules of engagement are different. Permitting the industrial base to erode is harmful and dangerous on many levels. Benjamin Franklin once said, "A little neglect may breed mischief; for want of a nail, the horse was lost. For want of a horse, the rider was lost. For want of a rider, the message was lost. For want of a message, the battle was lost. For want of a battle, the war was lost. For want of a war, the kingdom was lost...and all, for want of a nail."

The entire world expects the United States to remain a leader and work toward a future of increasing liberty, prosperity, justice and peace. We can't do this unless we have a strong economy.

— Sheila Ronis, Ph.D., is Associate Professor of Management at Walsh College in Troy, Mich., sheilarr@aol.com.

U.S. Textile Industry Braces Itself

The United States textile industry could be on the edge of oblivion, due to the coming expiration of U.S. quotas on Chinese products, and China's decision to increase its textile subsidies by $10 billion, according to the National Council of Textile Organizations (NCTO). "By dramatically increasing subsidies just prior to the phase-out of quotas, China is throwing down a gauntlet that the U.S. government and the U.S. Congress must not ignore," says NCTO president Cass Johnson. "At a time of international economic turmoil, the Chinese government is essentially bankrolling the destruction of the U.S. textile industry and the jobs of American workers."

On November 20, the Chinese government increased its "export tax rebate" on textile and apparel exports from 14 percent to 17 percent. It did this just after its leadership attended the economic summit meeting of the G-20 in Washington, D.C. At that event, the Chinese pledged to "reject protectionism" and defend "open markets." The Chinese subsidy was also proposed after trade data was released by the U.S. government indicating a record U.S. trade deficit with China of almost $1 billion a day. Since July of this year, the export tax rebate has increased from 11 percent to 17 percent, an increase of 55 percent. "As a result, Chinese exporters have

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The View From An American Manufacturer: To Fix The Economy Fix The Trade Deficit

BY JACK DAVIS

Even the most optimistic among us must now realize that the United States is in a recession, but if we all had good paying jobs we would not be in a recession. We have lost 4 million manufacturing jobs since October 2002. There are now over 10 million Americans out of work and 30 million Americans on Food Stamps.

The recession and financial crisis has been caused by the transfer of jobs and our wealth to foreign countries. First we lost our jobs and then our wealth. Trade deficits kill domestic jobs. Our trade deficit is now $2 billion a day, $700 billion a year.

Today, one billion dollars of manufactured imports equals 13,000 jobs lost. Therefore, 9 million jobs lost. Over the past 20 years, our trade deficit totals about $5 trillion. Not coincidentally, our government also owes foreign countries $5 trillion.

Behind all of these numbers — the percentages and statistics — there are real people. Americans are struggling to pay their bills, keep their homes and secure their retirement. We now buy products from overseas that we used to manufacture here, and we wonder what happened to our jobs.

It doesn't have to be this way. If we all had good-paying jobs, we could pay our mortgages. If we paid our mortgages the banks would not have a liquidity problem and we would not have the financial crisis on Wall Street. Rather than more of the same, we must start manufacturing and selling more than we are borrowing and buying.

We didn't get here all at once. There have been many mistakes made by many smart people. But we are not going to tax our way out of this recession, or borrow our way out of this recession, or even bail our way out of this recession. We are going to have to work our way out of this recession to become a wealthy country again.

Federal, state and local elected officials still don't understand the cause of the recession and financial crisis. The current federal solution is just more of the same — spend more of our tax dollars. We were given a high price tag without much of a plan and now we learn that not only is there no oversight of the rushed bailout package, but the lobbyists are already working the system and bending the rules to get their clients our tax dollars.

Our tax dollars are used to bail out banks, insurance companies and now the auto industry, but nothing is done to change the policies that got us here in the first place. It would be cheaper, smarter and in the long run more profitable to create jobs and put Americans back to work.

The past two presidents have experimented with "free trade" deals that have been anything but free. They opened our market to foreign producers without protecting our jobs and industries from predatory trade. Free trade is just another economist theory that has been a failure in practice: the NAFTA, CAFTA and WTO agreements have destroyed mining, farming and manufacturing and have transferred our wealth-producing capacity. Robert Cassidy, the chief U.S. trade negotiator who negotiated China's entry into the World Trade Organization, now says the deal has not worked to the benefit of the U.S. economy and its workers. Warren Buffet believes that over the long term, running large and persistent trade imbalances will be problematic for the United States.

Both Buffet and Cassidy are right. And the cold, hard facts now make it plain to see for everyone. The job losses are now no longer just in manufacturing. Managers, bankers, stock brokers, insurance agents and all types of jobs in retail and wholesale are gone. Over 10 million workers are out of jobs, more are under employed, and it will get worse.

The U.S. housing market has lost $5 trillion in value. Millions of Americans have lost their homes; millions are behind in payments and others are paying mortgages that are higher than the present value of their home.

Americans with savings, pensions or retirement plans in stocks and interest paying investments have lost over $10 trillion in value. The financial crisis has destroyed several of the largest investment banks and insurance companies. The Federal Reserve has loaned $2 trillion of your tax money and has not been disclosed how it was spent.

The Big Three auto companies are bleeding cash, heading for bankruptcy and are now begging for a bailout. Locally, tax revenues to city, county, state and federal governments have all decreased. These governments have record deficits from loss of tax revenue on wages, Social Security, Medicare and Medicaid, sales taxes, real estate taxes, capital gains and others. Cuts in government employment, health care, education and Social Security will be next, unless we pursue a path of balanced trade and put Americans back to work.

We are borrowing $2 billion a day from foreign countries to buy their exports. Within a year, another $700 billion, the size of the bailout package, will be in foreign countries.

Bailouts are necessary because of these bad policies, but

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Textile Industry...(Continued from page six)

seen export subsidies from the Central Government increase from $19 billion to $29 billion in just the last four months," says NCTO.

The group called on the Obama administration to take action by "self-initiating" trade remedy cases against China if its textile and apparel imports begin a massive surge starting on January 1, 2009, when the quotas are lifted. NCTO also recommends that the Obama administration file a case against China's use of export subsidies in the World Trade Organization.

Johnson noted that Vice President-elect Joe Biden supported strong U.S. government action on behalf of the industry. In October while campaigning in Charlotte, N.C., Biden said: "This state's textile industry is getting killed not because our workers cannot compete, not because our products aren't the best, but because no one has been willing to stand up to China and nail them when they compete unfairly. We are for fair trade, not free trade."

'Fair Trade'... (From page one)

incumbent." On the House side, of the 52 races analyzed "only 12 successful candidates made any mention of international trade in the issues section of his or her Web site," says the NFTC. Of the 12 House races in which trade was featured only seven successful candidates advocated a "fair trade" policy. Moreover, only 23 percent of successful candidates running for a House seat mentioned trade on their Web site, "which is a dramatic decline from 2006 when 54 percent of successful candidates mentioned trade," says the NFTC.

Such analysis is bogus, flawed and does not "acknowledge facts," claims Tucker of Global Trade Watch. The Global Trade Watch's 100-page election analysis of the election was based on research of television advertisements, candidate questionnaires, Web site analysis and "bird-dog reports," utilizing "a very serious methodology," says Tucker. It found that there was a net gain of 33 House and Senate members who replaced a "free trade" incumbent by prominently featuring the "fair trade" message in their campaigns. There are six new "fair traders" in the Senate for a net gain of six, and 35 new fair traders in the House, for a net gain of 27.

The National Foreign Trade Council says such gains are overblown. It points to the fact that the so-called "CAFTA-15" — the 15 House Democrats who voted with Republicans to pass the Central America Free Trade Agreement — all won reelection, most by a wide margin, despite vendettas issued by the anti-free trade movement to unseat them.

Tucker argues that the CAFTA-15 have become even more marginalized in the House. Before the election, they represented 8 percent of the House Democratic Party caucus. After the election, with large pickups of anti free-trade Democrats, they represent only 6 percent of the Democratic Caucus. "They are a shrinking and miniscule faction of the Democratic Party," says Tucker. "The more important point, however, is that there are lot more Republicans who are now anti-free trade. Moreover, the new president, Sen. Barack Obama and his new chief of staff Rep. Rohm Emmanuel both voted against CAFTA."

The CAFTA-15 are all Democrats in a year in which only three Democratic incumbents lost their House seats. And like the majority of House races, none of the CAFTA-15 were in competitive races.

"What we showed is that in the races that were competitive the Democrats are picking up seats where they campaign against the record of an anti-fair trader and they are winning those seats with a platform of renegotiating NAFTA, changing Fast Track and changing import safety laws," says Tucker. "They are missing the broader point that there is a massive shift going on in the Congress, in the Democratic Party and to an increasing extent in the Republican Party."

The NFTC also says that if there was any increase in "skepticism" over free trade "it is regional and largely reflects concerns over loss of manufacturing jobs. While the NFTC believes these are valid concerns, they do not suggest that the new Congress broadly 'anti-trade.' "

Public Citizen disputes that claim too, stating: "The issue played out in the Pacific Northwest, the Rocky Mountain states, New England, the South and Southwest — in other words, far beyond the Rust Belt." Says Tucker: "It's fine if they want to have a fake story that they peddle around their members to make themselves feel better about the biggest loss in history, but facts are facts."

Fix The Trade Deficit... (From page seven)

as large as they are, they are only a Band-Aid on a cancer.

We have become a nation of consumers of foreign products and borrowers of foreign money. That's the bad news. But the good news is that we can fix it ourselves.

For a nation to be strong and wealthy it must grow, dig and manufacture. This is all we have to do. These are the only activities that produce wealth. Borrowing money, printing money, buying companies or products or services does not create wealth. It only delays the day of reckoning that now approaches.

The federal government's free-trade policies left our industries and farms helpless. Foreign countries attacked them with predatory trade policies by keeping wages low, rebating value-added taxes on their exports, providing domestic industries with local tax incentives and special financing, charging tariffs on imports and keeping the value of their currency low in comparison to the U.S. dollar.

No U.S. company manufacturing in the United States can compete. This is why we have lost jobs and complete industries to foreign competition. It is the reason we are in recession.

It is not hopeless. This is what we must do: we must continue to trade, but it must be balanced trade. Balanced trade means if a country desires to sell products to the United States they are required by agreement to buy an equal dollar amount of products or services from the United States. If they don't buy an equal amount of products, a trade balancing tariff (tax) will be applied to their products that we import.

Owners and managers at U.S. companies and factories will then recognize the possibility of domestic growth in business and profits. They will then hire and invest in plants and equipment in America.

For too long, the American worker has been competing on an unfair and uneven playing field. The U.S. government's free-trade policies have caused the recession and financial crisis by sapping our wealth, killing our jobs and shrinking our markets.

I am passionate about protecting our workers, our families and our children's future but I cannot talk to enough people, give enough speeches or get articles printed in enough papers. What we need is a movement. Do you see or feel a threat to your future and your children's future? Will you help? Will you convince others to convince others to convince others that our government's free-trade policies have caused the recession and the financial crisis? We need a main-street, grass-roots movement to change Washington's free-trade policies.

— Jack Davis is founder and owner of I Squared R Element Co., the largest U.S. manufacturer of silicon carbide heating elements based in Akron, N.Y. He has 54 years of experience in manufacturing and foreign commerce: jrdavis@isquaredrelement.com, 716-542-5511.