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Multinational CEOs Say Outsourcing Has Gone Too Far

Chief executive officers and senior manufacturing executives working for multinational corporations predict the United States will become an even less competitive location for manufacturing, according to a survey conducted by Deloitte on behalf of the U.S. Council on Competitiveness. Over the next five years, the United States is expected to slip further behind the world's current leading manufacturing nations — China, India and Korea. The CEOs say Brazil will surpass the United States as a better destination for manufacturing by 2015.

The CEOs "see a fundamental shift — a new world order in manufacturing — that replaces the 20th century dominance" of the United States, Germany and Japan, says Craig Giffi, vice chairman of Deloitte. "It's a virtual restart from the 21st century."

The CEOs are nervous about what this means for their children and grandchildren if the United States can't get back into the global manufacturing game. They recognize that outsourcing of manufacturing has not worked in the way they had envisioned. "We overestimated the issues associated with outsourcing jobs to low-cost nations and the consequences of that," says Giffi. "The executives underestimated the erosion that would have in their overall capabilities in places like the United States and how that would fundamentally shift their supply chains."

They also now recognize the folly of chasing low wages. "I don't think when the whole process started there was a fully baked understanding of the fact that this is pretty elusive," says Giffi. "It's like chasing drops of mercury around the table. It's very hard to contain once you start playing that game."

Why are the CEOs just

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Military Begins To Contemplate The Impact Of America's Deindustrialization

The U.S. military is starting to consider how China's economic growth and the corresponding loss of important American high-tech industries might impact future national security. The Project on National Security Reform run by U.S. Army War College's Strategic Studies Institute, an independent academic group, has put together a "Vision Working Group" that is assessing various future possible military scenarios including how to deal with a more aggressive China if the United States does not have much left of an industrial base.

"Weaknesses in our defense industrial base supply chain, dependency on third-party vendors, continual disregard for the Berry Amendment, and lack of foresight regarding the interplay between the global economy and national security are the root causes" of a potential U.S. "failure," according to the assessment, which notes that its views do not reflect the official policy or position of the U.S. government, the Army or the Department of Defense.

The U.S. government does not do an adequate job of assessing the national security implications of China's rise, notes the Strategic Studies Institute in its "Vision Working Group Report and Scenarios." "Nowhere in the U.S. government will one find personnel dedicated exclusively to developing overarching strategy with a long-term view. It is imperative to remedy this deficiency in order to avoid disastrous consequences, and reduce risks — both potential

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Commerce Department Names New Manufacturing Council Advisory Members

The federal government has a new set of people advising it on manufacturing issues. The Commerce Department's Manufacturing Council has increased membership from 15 to 25 individuals "and now includes a more diverse and expansive industry representation in the manufacturing sector," says the Commerce Department. Members represent companies involved in textiles, steel, solar, aerospace, auto and apparel, among others. Members were picked after an announcement was made in the Federal Register earlier this year seeking applications from interested parties. Representatives from the Departments of Energy, Labor and Treasury will also provide their viewpoints. The Manufacturing Council has been meeting since 2004. Information is located at www.manufacturing.gov. Here are the new members.

- Bruce Sohn, President, First Solar, Chair (Ariz.)
- Joseph Anderson, Jr., CEO, TAG Holdings, Vice Chair (Mich.)
- Luis Arguello, President, DemeTech (Fla.)
- Greg Bachmann, CEO, Dymax Corp. (Conn.)
- Richard Beyer, CEO, Freescale Semiconductor (Texas)
- Chandra Brown, President, United Streetcar & Vice President, Oregon Iron Works (Ore.)
- Daniel DiMicco, CEO, Nucor (N.C.)
- Al Fuller, CEO, Integrated Packaging (N.J.)
- Michael Gambrell, VP, Dow Chemical (Mich.)
- David Hastings, CEO, Mt. Vernon Mills (S.C.)
- Mary Isbister, President, GenMet (Wisc.)
- Kellie Johnson, President, Ace Clearwater Enterprises (Calif.)
- Fred Keller, CEO, Cascade Engineering (Mich.)
- Samuel Landol, COO, Sealaska Corp. (Wash.)
- Michael Laszkiewicz, VP & General Manager, Automation Power Control Business, Rockwell Automation (Wisc.)
- Daniel McGahn, President & COO, American Superconductor Corporation (Mass.)
- James McGregor, Vice Chairman, McGregor Metalworking Companies (Ohio)
- Stephen MacMillan, CEO, Stryker (Mich.)
- David Melton, CEO, Sacred Power (N.M.)
- Jason Speer, VP, Quality Float Works, Inc. (Ill.)
- Ward Timken, Chairman, Timken Co. (Ohio)
- Peter Ungaro, CEO, CRAY (Wash.)
- Jane Warner, VP, Illinois Tool Works (Ill.)
- Donna Zobel, CEO, Myron Zucker (Mich.)

Republicans Are Wary Of Democrats' Mfg. Intentions

The House of Representatives passed a "National Manufacturing Strategy Act," which directs the President to develop a comprehensive manufacturing strategy with the help of a public/private-sector task force. The bill passed by a vote of 379 in favor to 38 against. The no votes were all cast by Republicans suspicious of the Democrats' embrace of manufacturing shortly before an election, and by Congress's unwillingness to address pro-business manufacturing policies related to changes in the tax code and a reduction in regulations. Here are the members who cast a no vote:

Alaska:
Young, Donald (R)

Arizona:
Shadegg, John (R)
Franks, Trent (R)
Flake, Jeff (R)

California:
Herger, Walter (R)
McClintock, Tom (R)
Nunes, Devin (R)
Royce, Edward (R)
Rohrabacher, Dana (R)
Campbell, John (R)

Florida:
Miller, Jeff (R)
Stearns, Clifford (R)
Mack, Connie (R)
Rooney, Thomas (R)

Georgia:
Kingston, Jack (R)
Westmoreland, Lynn (R)
Price, Tom (R)
Linder, John (R)
Graves, Tom (R)
Broun, Paul (R)

Hawaii:
Djou, Charles (R)

Indiana:
Burton, Dan (R)
Pence, Mike (R)

Iowa:
King, Steve (R)

Maryland:
Bartlett, Roscoe (R)

Minnesota:
Bachmann, Michele (R)

Nebraska:
Smith, Adrian (R)

North Carolina:
Myrick, Sue (R)

South Carolina:
Barrett, James (R)
Inglis, Bob (R)

Texas:
Gohmert, Louis (R)
Poe, Ted (R)
Hensarling, Jeb (R)
Conaway, K. (R)
Thornberry, William (R)
Paul, Ronald (R)
Carter, John (R)

Utah:
Chaffetz, Jason (R)

DOE Creates Clean Co. Incubator

The Department of Energy's National Renewable Energy Lab has created an "incubator" program for small companies to improve the costs of producing photovoltaics. The laboratory is asking companies to submit letters of interest to secure grants worth up to $1 million that "focus on accelerating the development of innovative PV module-related technologies to the prototype stage," says the agency. Follow-up funding worth $4 million would focus on "shortening the timeline for companies to transition innovative lab-scale and pre-commercial prototypes into pilot and eventually full-scale manufacture." The solicitation (number REU-0-40054) is available at http://www.nrel.gov/business_opportunities/solicitations_rfps.html.

Advanced Manufacturing Imports Continue To Grab A Greater Share Of U.S. Market

Imports are penetrating a greater number of America's most advanced manufacturing and technology production industries, according to the United States Business and Industry Council (USBIC). Advanced manufacturing industries "are becoming just as vulnerable to import competition — and in some cases import domination — as labor-intensive industries like clothing and toys," according to USBIC's "Import Penetration Rate" study.

About three dozen major industries now have import penetration rates of over 40 percent, with some now reaching between 90 percent and 100 percent, such as metal forming machine tools and medicinals and botanicals.

Numerous high-tech industries have more products being imported than produced in the United States such as aircraft engines and engine parts (63.6 percent); turbines and turbine generator sets (70 percent); heavy duty trucks and chassis (68 percent); computers (54 percent); and construction equipment (52.2 percent). Imports now account for 48 percent of the U.S. semiconductor industry.

In looking at 114 high tech and capital intensive industries that are not labor intensive (such as apparel, toys or consumer electronics), USBIC found that the import penetration rate for all of the sectors was 36.2 percent in 2008, an increase of 6 percent over 2007 and 21.4 percent higher than in 1997.

The 108 industries that lost share of their home market between 1997 and 2008 "include an especially long list of America's economic and technological crown jewels," says USBIC. "The figures show that competitiveness troubles are now as common in capital- and technology-intensive industries as in the labor-intensive industries that so far have been considered uniquely vulnerable to import competition."

In 2008, 69 of the 114 sectors lost U.S. market share to imports, including semiconductors, pharmaceuticals, construction equipment and machine tools. Fifteen of the 114 sectors lost 15 percent or more of their home market between 2007 and 2008.

"Nearly more than 55 percent (38) of the 69 industries with rising import penetration rates also saw output fall between 2007 and 2008," according to the USBIC. "The clear implication: Imports are displacing significant amounts of domestically produced goods."

The study notes that only six of the 114 industries gained share of the U.S. market against imports: sawmill products; motor vehicle stamping operations; semiconductor production equipment; computer storage devices; electron tubes; and electric coils, transformers and other inducers.

The United States lost $405 billion worth of production in the 114 industry sectors in 2008, says the study. "In other words, 2008 U.S. output in advanced manufacturing could have been increased by 20.46 percent. Total gross domestic product could have been increased by 2.8 percent. American employment levels and wages would have been much higher as well."

Thousands Of Mfg. Jobs At Stake In U.S. Wind Energy Industry

The U.S. wind energy industry currently employs 18,500 workers in the manufacturing sector, but with better government incentives, that number could increase by tens of thousands, according to the American Wind Energy Association and the United Steelworkers union. "In 2009, the U.S. wind industry installed over 10 gigawatts of new generating power and accounted for nearly 2 percent of American electricity," say the two groups. But wind installations are declining during 2010 "and power contracts and turbine orders slowed to a trickle. The industry is beginning to experience another downturn after a decade with boom-bust cycles."

One reason: the tax credits for wind continue to expire, "requiring extensions between every one and three years, say the two groups. The current credit is set to expire in 2012, and there are no guarantees it will be extended.

"In this unstable environment, many manufacturers cannot justify the significant investment required to open new facilities or retool existing facilities," says the Wind Association and the Steelworkers. "By the time a new facility comes online, the market could disappear."

There are about 14,000 jobs that are in the pipeline in the wind manufacturing supply chain, "but they won't be created unless there is a national renewable electricity standard and investment to support the existing manufacturing base," say the two groups. "Expanding wind power generation in the U.S. with the concurrent development and utilization of domestically-located sources of supply will require a national commitment to U.S. manufacturing."

The two groups recommend that Congress expand the "oversubscribed" Advanced Energy Manufacturing Tax Credit," which was part of the Stimulus bill, and pass the "Investments for Manufacturing Progress and Clean Technology" bill, and the "Renewable Energy Market Access Program Act."

To view the recommendations, contained in the report "Winds Of Change, A Manufacturing Blueprint for the Wind Industry" from the American Wind Energy Association and the United Steelworkers, set your browser to http://www.areadevelopment.com/article_pdf/id76867_WindsofChangeAWEA.pdf.

China Threat...

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and real."

It is not hard to imagine China exerting its increasingly high-tech and capable military muscle against the United States. Such a scenario "is not a product of fantasy or prediction, but rather of practical reasoning and logical deduction," says the Vision Working Group's report. "To be sure, the framework required for disaster [if] this scenario [is] to unfold is largely already set."

The Chinese have already "infiltrated" much of the U.S. industrial base by targeting automotive, aerospace, metals and electronics, according to the assessment. The U.S. military has further enabled China by insisting on purchasing "off the shelf" commercial technologies that are now made in China, and through the near elimination of MILSPEC requirements. "These changes have caused some concerned individuals within industry, government and the Pentagon to derisively call the changing state of affairs in terms of weapons systems development and procurement, along with acquisition support materiel, 'the Wal-Mart Military,' " according to the vision report. "Economy and competitiveness, not security and performance, are the overarching parameters of DOD supplier participation."

National security vulnerabilities "are literally being built into our offensive, defensive, and detection systems," says the study. "A veritable Pandora's box of systems security compromises was thrust open due to a gradual reduction in standards and shortsightedness by too many within industry and government. . . It is only a matter of when — not if — disaster will occur."

The Chinese are actively engaged in acquiring the most advanced military technologies through commercial operations in the United States, and the lack of U.S. federal government oversight of Chinese business acquisitions. "We know from interactions with Chinese representatives, industry spokesmen, and government and military personnel that specific strategies are in place to gain control of various elements of the U.S. industrial and defense industrial bases," says the study. The Chinese are purchasing high-tech U.S. suppliers that are under financial stress. They are also providing financial assistance to U.S. companies that are in need of cash "until they work their problems out," according to the Vision Working Group. Such partnerships provide the Chinese with cover from charges of industrial espionage and copyright laws. The Chinese are able to gain access to important technologies.

"According to U.S. intelligence officials, this is the means by which Aegis weapon system technology was stolen: a company fronting for the Chinese became a subcontractor to Lockheed-Martin during Aegis development and acquired enough data to construct its own clone," according to the report. "At this time, up to four Luyang II-class destroyers have been acknowledged as featuring this missile defense system."

U.S. defense contractors have no transparency within their supply chains, the study notes. The Pentagon does not know which components in military systems are made overseas. Furthermore, the Chinese control of global shipping puts the United States in a dependent and precarious position, with the potential for "economic chaos in the United States and its surge capability," which could "disappear." The United States, says the vision document, "needs a plan to 'win' the war, economically, diplomatically, politically and militarily with China and other emerging powers."

The Vision Working Group recommends the creation of a new Center for Strategic Analysis and Assessment that would reside within the Executive Office of the President. "Fragments of such a system exist in various parts of the federal government," writes Leon Fuerth, from the Project on Forward Engagement. "But no single system exists for the application of foresight to governance as a whole." The center would provide policymakers with "foresight and awareness of the path we are on, of the consequences of our decisions and of the major challenges that await us. Doing this involves, in part, the continuous development and exploration of future scenarios to enhance our preparedness and improve our chances of success. . . If this goal is to be achieved, the United States will move from merely reacting to emergencies to pre-empting them, from responding to threats to seizing opportunities. . . Failure to act could mean that the nation is caught off guard by emerging threats, unable to see them until they have become imminent and, perhaps, intractable problems. In the worst case, the country could suffer what has been described as a synchronous failure, wherein the adaptive capacity of government and society is overwhelmed by the convergence of diverse and interacting stresses, resulting in a breakdown of institutional and social order."

Feds To Crack Down On Unfair Trade

The Commerce Department says it will get tougher with countries that are cheating on trade. The agency has announced a proposal to strengthen antidumping and countervailing duty laws and to pursue more cases.

It intends to start looking more closely at how foreign companies function in "non-market" economies and it will take into account advantages provided to them by government export tax and value-added tax rebates. "Where such taxes are present, this proposed change would result in an increase in antidumping margins," says the Commerce Department.

It will strengthen "the accountability of attorneys and non-attorneys practicing before" the Commerce Department in trade cases, and it will tighten the deadlines for submitting new factual information in anti-dumping and countervailing duty cases.

The agency's International Trade Administration will also improve its methodology for determining the value of labor in non-market economies; strengthen rules to make sure that companies found guilty of dumping are paying the duties assessed on their products; and begin including more foreign companies in anti-dumping investigations and not just the largest exporters.

Commerce will also reconsider the way in which it treats resellers and "other non-reviewed parties in non-market economies cases to ensure that such parties pay the full amount of anti-dumping duties."

The crackdown is part of President Obama's National Export Initiative: www.trade.gov/nei.

The Accelerating Trade Imbalance In Mfg: A Central G-20 Challenge In Seoul

BY ERNEST PREEG

In April 2009, the Group of Twenty (G-20) adopted a framework for "balanced and sustainable" economic recovery, a clear reference to the unsustainable trade imbalances before the global recession, and the need to reduce the imbalances, centered on the unprecedented Chinese surplus and U.S. deficit in the manufacturing sector.

Manufacturing is the dominant sector of trade, accounting for 95 percent of Chinese and 80 percent of U.S. merchandise exports. It is also the most price-sensitive and therefore the most heavily impacted by exchange rates. Most important, especially for the United States and China, manufacturing is central to technological innovation, research and development and military modernization.

During the 2009 recession, trade surpluses and deficits declined substantially, as part of the cyclical pattern. Now, however, on the recovery path, the trade imbalances during the first half of 2010 have been increasing again at a rapid and accelerating pace. If this continues during the second half of 2010, as is likely, the G-20 leaders, when they meet again in Seoul in November, will face the daunting challenge of a more and more unbalanced and thus unsustainable economic recovery.

Chinese exports of manufactured goods rose from $494 billion in the first half of 2009 to $667 billion in 2010, or by 35 percent, well above the $630 billion in pre-recession 2008. The trade surplus was up from $186 billion in the first half of 2009 to $220 billion in 2010, or by 18 percent, approaching the $246 billion in 2008. Moreover, the surplus has been increasing at an accelerating pace. During the first quarter, the monthly surplus was $30 billion, which rose to $31 billion in April, $47 billion in May, and $51 billion in June. The June 2010 surplus was 87 percent higher than in June 2009.

As for bilateral balances, the Chinese surplus during the first half of 2010, compared with 2009, was up by 26 percent with the United States and by 40 percent with the EU. The Chinese surplus with the United States, however, was still 31 percent larger than with the EU, because Chinese imports of manufactured goods from the EU are double those from the United States.

The picture for the United States is similar, but in the opposite direction. U.S. exports of manufactured goods rose from $409 billion in the first half of 2009 to $495 billion in 2010, or by 21 percent. But imports were up by 22 percent, and thus the deficit rose from $138 billion in the first half of 2009 to $176 billion in 2010, closing the gap with the $218 billion deficit in 2008. And the second quarter acceleration in the rise of the deficit was also sharp, from a monthly deficit of $26 billion during the first quarter to $29 billion in April, $30 billion in May, and $40 billion in June. The June 2010 deficit was up by 73 percent, compared with June 2009.

As for bilateral balances, China accounted for 74 percent of the increased U.S. deficit in the first half of 2010, but deficits were also up with other trading partners, including Japan and Germany. Eighty-two percent of the increased deficit of $12.9 billion in the automotive sector was accounted for by Japan ($7 billion) and Germany ($3.9 billion).

These are the basic facts about the resurgent trade imbalances in the manufacturing sector that conflict with the G-20 strategy of balanced and sustainable economic recovery. The growing imbalances present a policy dilemma for nations trying to reduce their fiscal deficits while absorbing a growing trade deficit. The balanced G-20 recovery path would offset the growth-inhibiting impact of a reduction of the fiscal deficit with the economic stimulus and job creation of a declining trade deficit. If, in contrast, a reduction of the fiscal deficit moves ahead together with a growing trade deficit, there is a mutually reinforcing slowdown in growth and jobs. This is the prospect facing the United States, with principal adverse impact on the manufacturing sector.

For the United States, this all comes during the course of a heated election campaign, where lagging job creation is the central issue of debate. A projected increase in the trade deficit for manufactured goods in 2010 of upwards to $100 billion translates into roughly a half-million fewer jobs in the sector than if the trade balance had remained at the 2009 level.

The questions ahead are whether the rapid rise in the trade imbalances will continue in the second half of the

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Corporate Tax Incentives Are Low Compared To Other Tax Breaks

Corporate tax incentives and preferences are not that costly to the U.S. Treasury, according to a study from the Tax Foundation. Tax preferences for corporations "are not as generous as political rhetoric makes them seem, nor do they have a major impact on reducing the effective tax rate or overall amount of income taxes corporations pay," says the study.

Most of the tax preferences for companies are available across all industries. The oil and gas industry receives $2.8 billion in targeted tax increases, while the renewable energy sector receives $11.3 billion, according to the study.

"Generally available tax provisions will cost $54.8 billion in 2011 compared to $19.6 billion for industry-specific initiatives" says the study. That is not much compared to the exclusions for employer-provided health insurance ($177 billion), pensions and 401ks ($142 billion), the mortgage interest deduction ($104 billion), and those helping state and local governments such as the exclusion on bond income ($96 billion). The report, "Putting Corporate Tax 'Loopholes' In Perspective," is available at www.taxfoundation.org/publications/show/26580.html.

Energy Dept. Takes Credit For Reviving U.S. Battery Industry

The federal government's $878-billion economic stimulus program included $2.4 billion to establish 30 electric vehicle battery and component manufacturing plants, according to the Department of Energy. The government made an additional $2.6 billion in "Advanced Energy Manufacturing Tax Credit" loans to Nissan (Tenn.), Tesla (Calif.) and Fisker (Del.) to build electric vehicle manufacturing plants.

"Projects have now begun constructing new manufacturing plants, adding new manufacturing lines, building electric vehicles and installing electric vehicle charging stations, creating thousands of new jobs across the country," says DOE. An additional $80 million has been used by DOE's Advanced Research Projects Agency – Energy to fund "transformative" research.

"Taken together, the impact of these investments is greater than the sum of their parts," says DOE. "Federal investments in electric vehicles are being matched by private-sector funding, helping to move private capital off the sidelines."

Not everyone is buying the DOE hype. Commenting on President Obama's July 15 visit to Holland, Mich., to attend the groundbreaking ceremony for Compact Power Inc.'s new lithium-ion battery plant being built with $151 million in federal funds, former *Energy Daily* publisher Llewellyn King notes that the plant "isn't American and neither [is] its technology." The company is a subsidiary of LG Chem, a giant South Korean conglomerate, and the technology is Asian. "We have, so to speak, been shocked by presidential energy enthusiasm before," writes King in his weekly nationally syndicated column. "Jimmy Carter believed in liquids from coal and launched the ill-fated Synthetic Fuels Corp., and George W. Bush went hog wild over ethanol — and those expectations are being trimmed daily." The same is likely with Obama's electric car, says King.

Nevertheless, the Energy Department maintains that federal funding should cut the cost of electric batteries by nearly 70 percent by 2015. Manufacturing capacity being put in place with federal funds should lead to the production of 500,000 electric-drive vehicles by 2015, DOE claims. "Between 2009 and 2015, increases in energy density will reduce the typical weight of an electric vehicle battery by 33 percent," says DOE. New electric vehicles should sell for between $25,000 and $35,000 at the end of this year "after tax credits," the agency adds. "Using electricity to power a car is only about 30 percent of the cost of using three-dollar-a-gallon gasoline."

The DOE report, "The Recovery Act: Transforming America's Transportation Sector, Batteries and Electric Vehicles," is located at http://www.whitehouse.gov/files/documents/Battery-and-Electric-Vehicle-Report-FINAL.pdf.

Commerce Readies U.S. Mfg. Roadshow

The Department of Commerce's Manufacturing and Services division is organizing a series of conferences aimed at revitalizing U.S. manufacturing. The "Manufacture America" tour "is designed to help American manufacturers rethink, retool and rebuild their operations through exploring new products, markets, processes and sources of finances," according to the Commerce Department's International Trade Administration, which runs the agency's manufacturing division. "These conferences will be followed by support from local, state and federal resources shaped by the needs of the local manufacturers." From what appears on the ITA's Web site (http://trade.gov/manufactureamerica/), only one event has been finalized for Pittsburgh, Penn., for Sept. 27, with other dates not yet scheduled for Morgantown, W.V., Detroit and Chicago.

Preeg... (From page five)

year and, if so, what will the G-20 leaders do in November to reverse the upward trend. The answers are likely to be troubling at best.

There is little to suggest that the trade imbalances will begin to decline during the remainder of 2010. The greatly undervalued Chinese currency continues to be a major incentive for a growing surplus. The Chinese surplus rose sharply in July, with exports up by 38 percent from July 2009. U.S. economic growth, while inadequate, is still higher than in Europe and Japan, which means relatively lower export growth to and higher import growth from these trading partners.

As for the G-20, during the June 2010 meeting the handling of trade imbalances and exchange rate policy can be characterized as a dialogue of the deaf. China claimed total sovereignty over exchange rates, but obligations in international organizations and treaties often, by definition, involve limitations on sovereignty. IMF Article IV obligates members not to manipulate their exchange rates to gain an unfair competitive advantage in trade, with currency manipulation defined, most explicitly, as protracted, large-scale purchases of foreign exchange by the central bank. This subject, however, was not addressed, and the very lengthy final statement by G-20 leaders made no mention of exchange rates. There had been a sentence on the subject in the draft text, but China insisted on its removal and the others acquiesced.

Looking ahead, the Korean government is intensively engaged in preparation for its chairing of the November meeting, covering a wide range of issues. But thus far, apparently, the issues of growing trade imbalances and exchange rate misalignment, as threats to sustained economic recovery, have not been fully addressed. Hopefully, this will soon change as the resurgence of trade imbalances receives wider public attention. If not, and the issues are again excluded from serious discussion and effective remedial action, especially concerning exchange rate misalignment, the follow-on question will be how otherwise to deal with unsustainable trade imbalances if the G-20 is not up to the task.

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

BOOK REVIEW:
'The Betrayal of American Prosperity'

In the late 1980s at the height of the competitive challenge posed by Japan, America's lead Asia trade negotiator Clyde Prestowitz wrote a seminal and best-selling book *Trading Places* on the industrial and economic strategies Japan used to become a world power. The book thrust Prestowitz into the national policy limelight. Prestowitz's views on the nature of global economic competition have grown recently in stature, due to the financial industry meltdown, the rise of China and with the publication of a new book, *The Betrayal of American Prosperity, Free Market Delusions, America's Decline and How We Must Compete in the Post-Dollar Era*.

In it, he provides a personal and fervent rebuke of the economic leadership of the country — a leadership that refuses to admit that its ideological embrace of free markets and free trade has been proven wrong, and destroyed the prospects for tens of millions of Americans.

He describes how the "best and brightest" American free-market economists — the people he has debated directly for a generation — have been "invoking false doctrines that are systematically undermining American prosperity." He notes that his views have been considered "alarmist and outside the mainstream." Now, however, "it looks as if we may not have been alarmist enough," he writes early in the book. "Our best and brightest have been betraying our productive base and over committing us geopolitically. Now we are at a crossroads where the future of America truly is at stake."

The "loyal disciples of a false faith" continue to sell their ideas, however. Yet their faith has been rejected by the Asian nations that are now thriving off America's depleted wealth. "In a fascinating display of denial, most U.S. economists have rejected the Asians' explanation of their own success," he writes. "Just as the science of aerodynamics says bumblebees can't fly (the equations argue that a bumblebee's structure should keep it grounded), so conventional economic wisdom argues that Asian industrial policy and strategy trade can't work."

Prominent U.S. economists such as Lawrence Summers, President Obama's chair of the National Economic Council, have tried to rationalize Asia's economic success by saying it was due to "good execution of the Washington Consensus," writes Prestowitz. They have even labeled the Korean government's interventionist economic policies that created huge and thriving industries as being a "failure." But one of Korea's leading economists, Ha-Joon Chang, a professor at Cambridge University, says "nothing could be further from the truth." The Asians have pursued aggressive industrial and trade policies involving subsidized export loans, access to cheap capital and barriers to imports and foreign investment. U.S. economists that have discounted these policies, which have led to Asia's dominant economic strength, "don't have a clue about Asia and its success," according to Prestowitz's quoting of Chang.

Prestowitz skewers others: President Clinton's top economic advisors Robert Rubin and Laura Tyson (who is now being considered as a replacement for Christina Romer, Obama's Chair of his Council of Economic Advisors); the McKinsey Global Institute, whose main proponent of outsourcing (Diana Farrell) is now a Deputy Director of Obama's National Economic Council; Greg Mankiw, President Bush's chair of the Council of Economic Advisors; and other implacable economic ideologues who have steadfastly held the grip of political power.

Prestowitz enlivens the book by weaving personal experiences into the narrative. He describes the relationships he had with some of America's most important industrialists in

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President's Science Council Finds U.S. Incapable Of Producing Enough Vaccines

The United States does not have the vaccine manufacturing infrastructure to respond to a pandemic, according to a report from the President's Council of Advisors on Science and Technology. After there was a declaration for a vaccine for the recent H1N1 virus, it took 26 weeks for an initial dose to be produced. It took 38 weeks to produce doses to cover half the American population and it would have taken 48 weeks to produce enough vaccines for all Americans.

"This timeline was far too slow, by approximately three to five months," says PCAST. If the country faces a serious pandemic "saving weeks could translate into saving tens of thousands of lives." Had the production of the H1N1 vaccine begun one month earlier than it did, 2,000 people would likely still be living.

To address the bottlenecks in production, PCAST made recommendations that would cost the federal government $1 billion, with "at least similar sums over the subsequent few years."

The manufacturing sector that makes vials, syringes and sprayers needed to deliver vaccines must "adopt advanced manufacturing practices, modify existing facilities or construct new facilities" in order to respond more quickly to a pandemic, says the PCAST study. "All vaccines must eventually be packaged. The 'fill-finish' step for inactivated influenza vaccines involves transferring bulk vaccine into individual single-dose syringes as well as the single or multi-dose vials. This step is a major hurdle on the path to vaccine distribution to providers and represents a costly and laborious phase of manufacturing that can be expanded only in a linear fashion."

The report is located at http://www.whitehouse.gov/sites/default/files/microsites/ostp/PCAST-Influenza-Vaccinology-Report.pdf.

CEOs Rethink Outsourcing...

(Continued from page one)

beginning to acknowledge that their collective decisions to move production have damaged the U.S. economy, given that thousands of domestic manufacturers and millions of manufacturing workers have been raising flags about offshore outsourcing for the past decade?

The multinational companies, Giffi replies, have been driven by the interests of their shareholders. "Because they have options and have standards for profitability and performance, they feel like their hands are forced. But when you talk to the leaders and you have an honest and open conversation, what becomes clear is that these are passionate individuals themselves. They are very patriotic. Across the board, we generally find given their druthers they would prefer to remain competitive by building and locating in the United States, but there are an enormous number of challenges that come with doing that."

While outsourcing once looked like a good business practice, "time has proven that there are tradeoffs with everything and consequences with those decisions," Giffi adds. Companies can locate factories with the most advanced production technologies anywhere in the world. The significant factors that influence where those investments are made have been influenced by a nation's economic policies. In the United States, those policies have been focused on the financial sector and services at the exclusion of manufacturing.

"We allowed ourselves to believe for a long period of time that we could grow our financial services sector forever — that there was no limit to our being a service economy," Giffi says. "Those were fundamentally baked into economic policy and it became so commonly accepted that it was the precept of modern economies — that was the future." But such an approach was an "illusion" and has resulted in the loss of good paying jobs.

Since the financial sector suffered a monumental collapse, CEOs are starting to promote the adoption of economic policies that favor manufacturing. "They are saying that we have to have genuine high-value jobs created from making things and as they look around the world they see that the United States has been riding one horse — the financial services industry," Giffi explains. "There is a completely different and more basic understanding now that says innovation is tightly tied to your ability to manufacture. Creating, researching, developing new products and making them is fundamental to the stability of an economy."

There is now an opportunity for the United States to seriously address its lapsed economic policy. "There should be a higher level of receptivity to the message, finally," says Giffi.

The Council on Competitiveness is using the results of the survey to develop a manufacturing strategy. Why is the council so late to the game? "I can't comment on where they have been in the past," Giffi replies. "But I do believe that they are now focused on the right topic at the right time. It's good news when we get more and more people looking at it and drawing attention to it and going forward with a process that says we really do need a strong industrial base."

But the United States government can't dither in putting together policies that favor production over consumption. "This isn't something that can be debated indefinitely," says Giffi. "Business leaders are forced into a world of making decisions 24 hours a day seven days a week on where they have to make investments in plants, equipment and new jobs." If the United States does not address its cost structure, talent gaps, trade polices and infrastructure "then we will see a continual gradual deterioration and downward spiral. . ."

To view Deloitte's "2010 Global Manufacturing Competitiveness Index," go to www.deloitte.com/global-competitiveness.

Current Mfg. Competitiveness

Rank	Country	Index score (10=High 1=Low)
1	China	10.00
2	India	8.15
3	Republic of Korea	6.79
4	United States of America	5.84
5	Brazil	5.41
6	Japan	5.11
7	Mexico	4.84
8	Germany	4.80
9	Singapore	4.69
10	Poland	4.49
11	Czech Republic	4.38
12	Thailand	4.17
13	Canada	4.11
14	Switzerland	3.07
15	Australia	3.07
16	Netherlands	2.90
17	United Kingdom	2.82
18	Ireland	2.78
19	Spain	2.67
20	Russia	2.58
21	Italy	2.42
22	South Africa	2.28
23	France	1.70
24	Belgium	1.18
25	Argentina	1.03
26	Saudi Arabia	1.00

Mfg. Competitiveness In Five Years

Rank	Country	Index score (10=High 1=Low)
1	China	10.00
2	India	9.01
3	Republic of Korea	6.53
4	Brazil	6.32
5	United States of America	5.38
6	Mexico	4.84
7	Japan	4.74
8	Germany	4.53
9	Poland	4.52
10	Thailand	4.35
11	Singapore	4.30
12	Czech Republic	3.95
13	Canada	3.71
14	Russia	3.47
15	Australia	3.40
16	Spain	2.63
17	Netherlands	2.63
18	Switzerland	2.62
19	South Africa	2.52
20	United Kingdom	2.51
21	Ireland	2.43
22	Italy	2.37
23	France	1.92
24	Argentina	1.53
25	Saudi Arabia	1.32
26	Belgium	1.00

(Source: Deloitte and the U.S Council on Competitiveness,"2010 Global Manufacturing Competitiveness Index")

U.S. Vs. Global Mfg. Worker Wages

It's a lot less expensive to hire a manufacturing worker in the United States than it is in Western Europe. But American manufacturing workers make a lot more than those in Mexico, India and China.

The total compensation cost for all employees in the U.S. manufacturing sector rose to $32.26 per hour in 2008, up by 2.4 percent over 2007, according to the Bureau of Labor Statistics International Labor Comparison program (a program the Obama administration wants to terminate).

By comparison, the total compensation cost for manufacturing employees in Norway was $57.18 per hour in 2008; in Germany it was $48.22 per hour ; and in Denmark it was $44.68 per hour. Mexico was far less: $4.04 per hour. In China it's even lower: $1.36 per hour, or 4.2 percent of what the average American manufacturing worker makes, and in India it was only $0.91 per hour (in 2005).

Total compensation costs for manufacturing workers in 32 foreign countries (excluding India and China) increased by 7.2 percent on a U.S.-dollar basis in 2008. Most of the increase in foreign manufacturing workers' compensation costs can be attributed to the appreciation of foreign currencies.

Hourly compensation costs include basic wages, overtime pay for holiday and night work, cost of living adjustments, bonuses, vacation pay, commuting expenses, cash value of payments, in-kind severance pay, retirement and disability pensions, health insurance, income guarantee insurance, sick leave, life and accident insurance, occupational injury and illness compensation, unemployment insurance, social insurance and taxes on payrolls or employment.

The report is located at http://www.bls.gov/news.release/pdf/ichcc.pdf.

Compensation Costs For All Employees And Production Workers In Manufacturing — 2008

Country or area	US=100		US$		Production Workers (All Employees = 100)
	All Employees	Production Workers	All Employees	Production Workers	
Americas					
United States	100	100	32.26	25.65	80
Argentina	31	-	9.89	-	-
Brazil	26	27	8.28	6.93	84
Canada	101	116	32.69	29.78	91
Mexico	13	12	4.04	3.12	77
Asia and Oceania					
Australia	114	127	36.88	32.49	88
Hong Kong SAR[1]	-	23	-	5.91	-
Israel	61	67	19.61	17.13	87
Japan	86	90	27.80	23.15	83
Korea, Republic of	50	55	16.27	14.20	87
New Zealand	60	68	19.43	17.48	90
Philippines	5	5	1.68	1.31	78
Singapore	58	38	18.77	9.83	52
Sri Lanka	-	3	-	0.68	-
Taiwan	27	27	8.68	6.95	80
Europe					
Austria	148	152	47.72	38.88	81
Belgium	146	154	47.14	39.42	84
Czech Republic	38	40	12.20	10.35	85
Denmark	159	178	51.28	45.74	89
Finland	138	147	44.68	37.64	84
France	130	123	41.94	31.61	75
Germany	149	141	48.22	36.07	75
Greece	61	-	19.58	-	-
Hungary	30	29	9.56	7.52	79
Ireland	139	140	44.80	35.79	80
Italy	111	122	35.77	31.37	88
Luxembourg	-	130	-	33.37	-
Netherlands	137	145	44.32	37.15	84
Norway	177	193	57.18	49.54	87
Poland	31	32	10.07	8.26	82
Portugal	38	38	12.23	9.83	80
Slovakia	34	-	10.91	-	-
Spain	86	92	27.71	23.67	85
Sweden	134	150	43.33	38.39	89
Switzerland	134	145	43.28	37.12	86
United Kingdom	111	109	35.81	27.86	78

America's Top-Heavy Military Does Not Bode Well Historically

The announcement by Secretary of Defense Robert Gates to downsize the U.S. military's senior officer corps by 5 percent (50 generals and admirals) has been viewed as being a cost-cutting initiative. But it should be considered "far more than just that," according to the Center for Defense Information (CDI). "Militaries with proportionately large numbers of field- and general-grade officers have historically proven to be losers, not winners, in war. At its current levels, the U.S. military is among the worst."

The United States military now ranks as being the most top-heavy of all modern militaries. Yet, the U.S. senior military officers are trying "to save their bureaucratic skins," says CDI.

According to an Army analysis cited by CDI, the U.S. Army, has one officer for 5.3 enlisted soldiers. In World War II, that number was one officer for 10.6 enlisted soldiers. It fell to one officer for 6.7 enlisted soldiers during the Vietnam War and continued declining through the Cold War, finally dropping to the 5.3 level today.

The U.S. Army analysis notes that most successful armies had one officer for 82 enlisted soldiers (French Army in 1806); one officer for 32 enlisted soldiers (Finnish Army in 1939); one officer for 33 enlisted soldiers (German Army in 1940); and one officer for 17 enlisted soldiers (Israeli Army in 1967).

The most unsuccessful armies were similar to what exists with the United States military today. The Prussian Army in 1806 had one officer for seven enlisted soldiers; the French army in 1940 had one officer for four enlisted soldiers; the Italian army in 1940 had one officer for 4.6 enlisted soldiers; and the British army in 1940 had one officer for 8.1 enlisted soldiers.

"Armies with lower ratios (1-to-33) of officer-to-enlisted had faster decision cycles," says the analysis. Those with ratios of between one-to-13 and one-to-six "had slower decision cycles at all levels and policies were individual centric leading to lower unit success."

One of the common traits of the world's unsuccessful armies is the rise of "careerism" of officers based upon the individual's "psychological investment in their own career coupled with promotion for pay" as an economic reward system, says the Army analysis.

For a copy of the report on general creep, send a request to Winslow Wheeler at the Center for Defense Analysis at winslowwheeler@msn.com.

U.S. Taxpayers Bailed Out Foreign Banks, According To Government Oversight Panel

In order to save the banking system during the financial meltdown in late 2008, the federal government's Trouble Assets Relief Program (TARP) pumped $700 billion into financial institutions. Other countries did the same thing, but there was a fundamental difference between the U.S. and foreign programs: "While the United States attempted to stabilize the system by flooding money into as many banks as possible — including those that had significant overseas operations — most other nations targeted their efforts more narrowly toward institutions that in many cases had no major U.S. operations," according to the Congressional Oversight Panel of the TARP. "As a result, it appears likely that America's financial rescue had a much greater impact internationally than other nation's programs had on the United States."

Had the U.S. government done some analysis before pumping money into foreign countries, "it could have gathered more information about which countries' institutions would benefit from some of its action, and it might have been able to ask those countries to share the pain of rescue."

Banks in France and Germany "were the greatest beneficiaries of AIG's rescue," says the study. "Yet, the U.S. government bore the entire $70 billion risk of the AIG capital injection program. The U.S. share of this single rescue exceeded the size of France's entire $35 billion capital injection program and was nearly half the size of Germany's $133 billion program."

The oversight panel says that even today, it cannot assess how much of America's financial bailout money went directly offshore "because Treasury gathered very little data on how TARP funds flowed overseas." As a result, "neither students of the current crisis nor those dealing with future rescue efforts will have access to much of the information that would help them make well-informed decisions."

The panel "strongly urges" the Treasury Department to "start now to report more data about how TARP and other rescue funds flowed internationally and to document the impact that the U.S. rescue had overseas." Treasury needs to create a database of this information "and should urge foreign regulators and multinational organizations to collect and report similar data."

The 161-page report, is located at http://cop.senate.gov/documents/cop-081210-report.pdf.

Book Review...

(From page seven)

the 1980s, and how they helped create his company (the Economic Strategy Institute) and other organizations such as the Council on Competitiveness. (Even that group has been corrupted by members who were "mostly believers in the win-win free trade doctrine," he writes.)

He makes the important point that the reason the competitiveness issue dissipated in the 1990s was because "many of the companies making the fuss (Cincinnati Milacron, Zenith, Perkin Elmer (etcetera) had gone out of business. There was no one left to make a fuss."

He tells the story of Motorola king Bob Galvin having "a heart-to-heart talk" with President Reagan's Commerce Secretary Mac Baldrige. "Galvin wanted the United States to adopt an economic strategy to improve America's prospects, but Baldrige, frustrated with the Reagan administration, could not help him. Baldrige . . . responded by saying frankly that an effective administration strategy was unlikely. 'I understand,' he said, 'that you have to do what you have to do.' With that, Galvin was off to Asia, and especially to China."

Providing a clear elucidation of an observation made by William Baumol and Ralph Gomory in the 2001 book *Global Trade and Conflicting National Interest*, Prestowitz describes how CEOs of U.S.-headquartered multinational companies no longer act in the interest of the country. Yet they continue to hold prominence at the policy table, directly advising President Obama and his team about what they see as the folly of "Buy American" provisions in federal government spending bills. "As I write, the U.S. Commerce Department and the Office of the U.S. Trade Representative have batteries of industry advisory groups that are supposed to counsel them on what would be good for the United States to get or to avoid giving up in international negotiations like those for the U.S.-Korea Free Trade Agreement and the Doha Round of WTO negotiations," Prestowitz writes. "Most of the members of these advisory groups represent companies that have large interests in China."

The Obama economic team shows few signs of knowing how to address the current recession. With the departure of White House economist Christina Romer, Obama would do well to give Prestowitz a call.

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