
Date: Mon, 05 Nov 2007 23:06:04 -0700
To: "Robert Pollock, WSJ Editorial Features" <edit.features@wsj.com>
From: Bob Powell <scuba@usa.net>
Subject: The Death of the Middle Class and the U.S. Economy

Mr. Pollock,

A group of us associated with the Manufacturing Task Force in Colorado Springs would like to submit a commentary on the loss of jobs and U.S. economic decline. The group: Dave Anderson, Mfg Task Force Leader; Mike Callicrate, Ranch Foods Direct; Frank Shannon, Finishes Ltd; Bob Powell, exponentialimprovement.com.

While the comments below are in response to the commentary by Stephen J. Rose on The Myth of Middle-Class Job Loss (included below), our submission would be independent of that commentary as noted at Op-Ed Guidelines for The Wall Street Journal. If you are receptive, we will send such a submittal.

Note to Dr. Ribbing at PPI: I would have sent this directly to Mr. Rose, but could not find his e-mail address on the PPI website. Mr. Rose is sufficiently misguided that he should surrender his economic credentials. Here is why, followed by data and graphs.

Note to Jim Gibson at the Colorado DLC: Please forward this to the national DLC.

The Death of the Middle Class and the U.S. Economy

Stephen J. Rose in his commentary on The Myth of Middle-Class Job Loss is in denial. Mr. Rose's assertion that "there is no convincing, data-driven proof that trade has led to any overall job loss during the last 30 years" is a red herring.

It's true that the U.S. would have to add another 4.7 million jobs to have kept up with population growth (see graph), but that's because Federal Reserve policy controls the number of jobs. Trade policy affects the quality and pay of jobs.

He classifies valid arguments that there's a major problem as "populist dogma." But the opposite of populism is government controlled by corporations and the wealthy. That's fascism. We oppose fascism.

Until around 1980, employee compensation tracked productivity. Since then productivity has continued to climb, but the compensation of the lowest 80 percent of the workforce has stagnated (see graph). Had the previous trend continued, compensation would have been 68% higher in 2004. With higher wages, we wouldn't need cheap, unsafe products from China.

Mr. Rose makes a false analogy when he compares farm and manufacturing job trends. An article by Bill Hawkins, Senior Fellow in National Security Studies, at the United States Business and Industry Council (USBIC) on "Intellectual Deception Reveals Weakness of Free Trade Ideology," 2/5/04, explains the flaw in the argument that the decline in the number of people working in manufacturing should be no more troubling than the decline in the number of people working on the farm. The flaw is that product demand for farm commodities is relatively inelastic, but demand for manufacturing products is relatively elastic. Therefore, there is no reason why manufacturing employment should fall as farm employment has because of advances in technology.

Mr. Rose notes the loss of manufacturing jobs, but not the magnitude of the loss: 3.65 million nationally since the March 1998 peak or 20.7 percent. Colorado has lost 48,500 jobs since the April 1998 peak, 25.1 percent. Colorado Springs has lost 10,000 jobs since the January 2001 peak, 37.5 percent. Those were better than average paying jobs.

It's not just manufacturing jobs that have been lost. The nation lost 630 thousand information technology jobs since the March 2001 peak, 16.6 percent. Colorado's lost 37,400 IT jobs, 33 percent. Colorado Springs has lost 6,800 IT jobs, 46.9 percent! People retrained for those IT jobs when they lost their manufacturing jobs. For what are they to "reskill" now and how often will "reskilling" be required?

More important, the U.S. is rapidly losing not just low-value-added, simple manufacturing jobs. The "trade" balance in Advanced Technology Products (ATP) has gone from a $40 billion surplus in 1991 to a $48 billion deficit now. Rose cites a need "to help displaced men who lack post-secondary education," but more education and training are not the answer when high-tech jobs are also disappearing. (See graphs on the Mfg, IT and ATP.)

There's a choice for the U.S. economy: either more primary employers or an increasing and unsustainable trade deficit. Rose doesn't seem to understand that the exponentially-increasing U.S. trade deficit is an enormous problem; it will be 10 percent of GDP within a few years. Actually, "trade" should be in quotes because what's going on is "transfer of the factors of production," not trade.

Local economic development organizations emphasize the importance of "primary employers." They sell to outside the region and bring dollars in to circulate and recirculate to allow the economy to grow.

Rose doesn't understand that primary employers are just as important for the national economy. The loss of manufacturing and ATP export jobs isn't simply a matter of losing jobs. The accompanying decline in the production of exportable goods is a national loss of primary employers means we're not "earning" enough dollars from outside the country. This requires ever-increasing and unsustainable borrowing that's undermining the U.S. economy and national sovereignty.

The problem is made worse by the proliferation of the polar opposite of primary employers: Wal-Mart-like companies. They don't produce exports. They displace local businesses that are more likely to spend dollars locally. And every night they send dollars back to their headquarters outside the region that might otherwise be available for circulation. Many Wal-Mart employees also shop at Wal-Mart, so much of their wages also immediately leave the community.

Losing primary employers and gaining Wal-Mart-like employers spells an economy in decline. The U.S. economy and the middle class are bleeding to death and "free traders" like Rose are wielding the knife.

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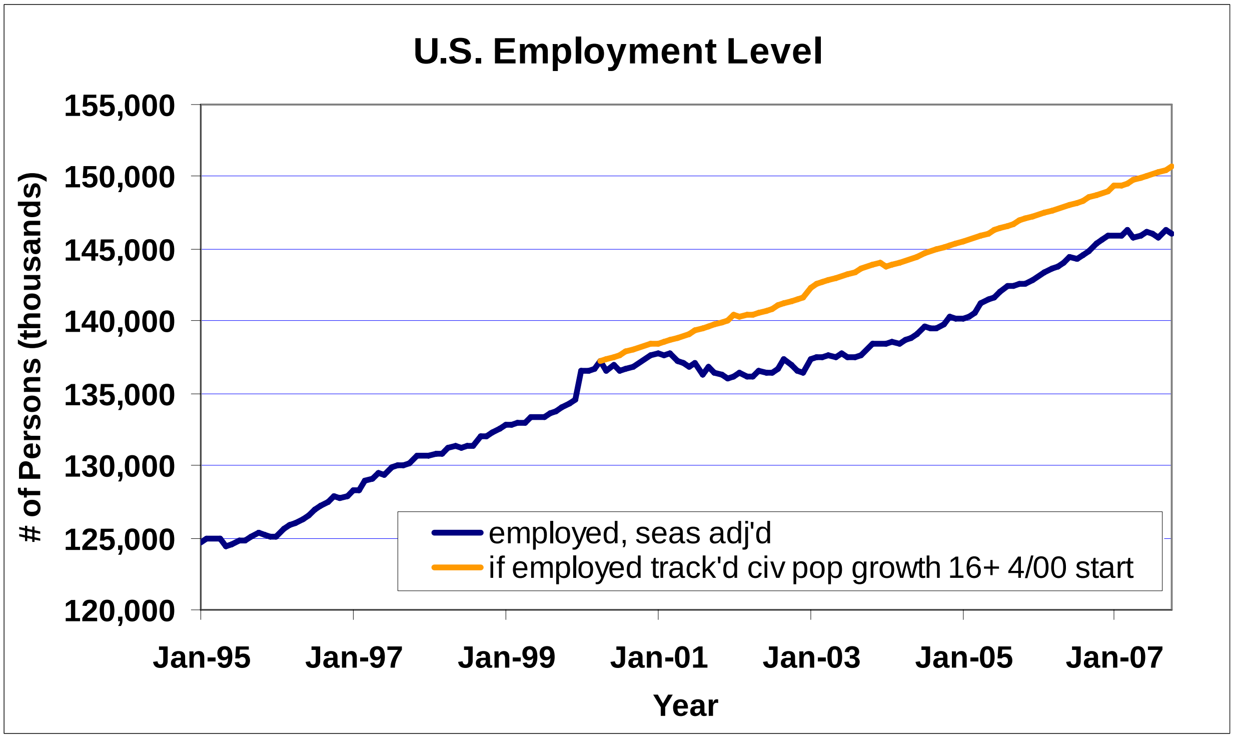
DATA and GRAPHS

For the U.S. economy to have kept up with population growth since April 2000, there would have to be 4.66 million more jobs as of October 2007.



So there is a "number of jobs problem," but it's for reasons that go beyond the issue of "trade" because it's Federal Reserve policy that controls the number of jobs. The main problem is the kinds of jobs, their pay and quality.

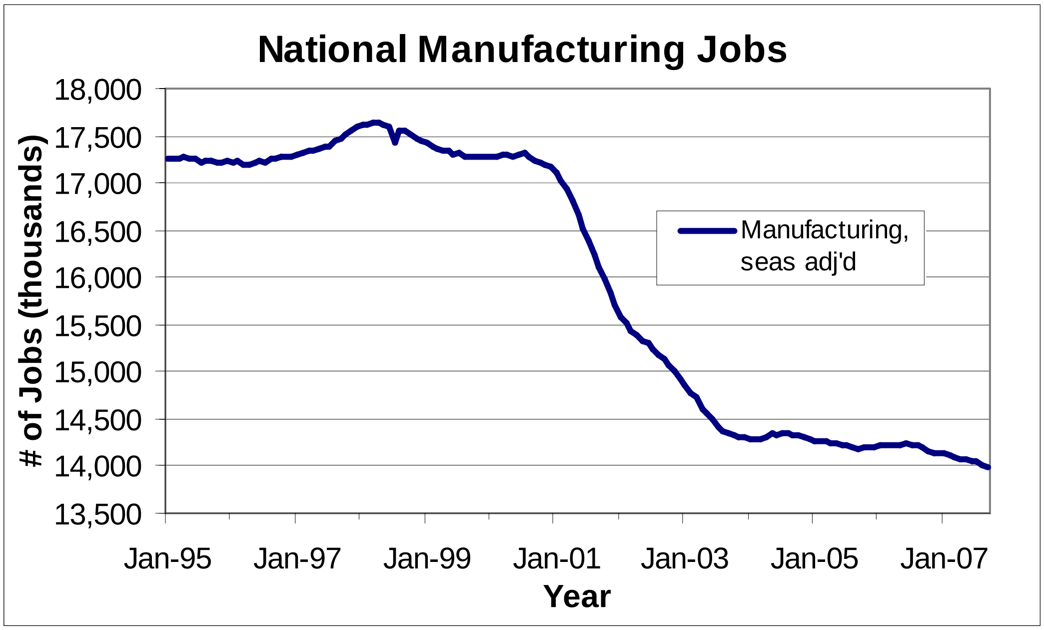
As of Sept 2007

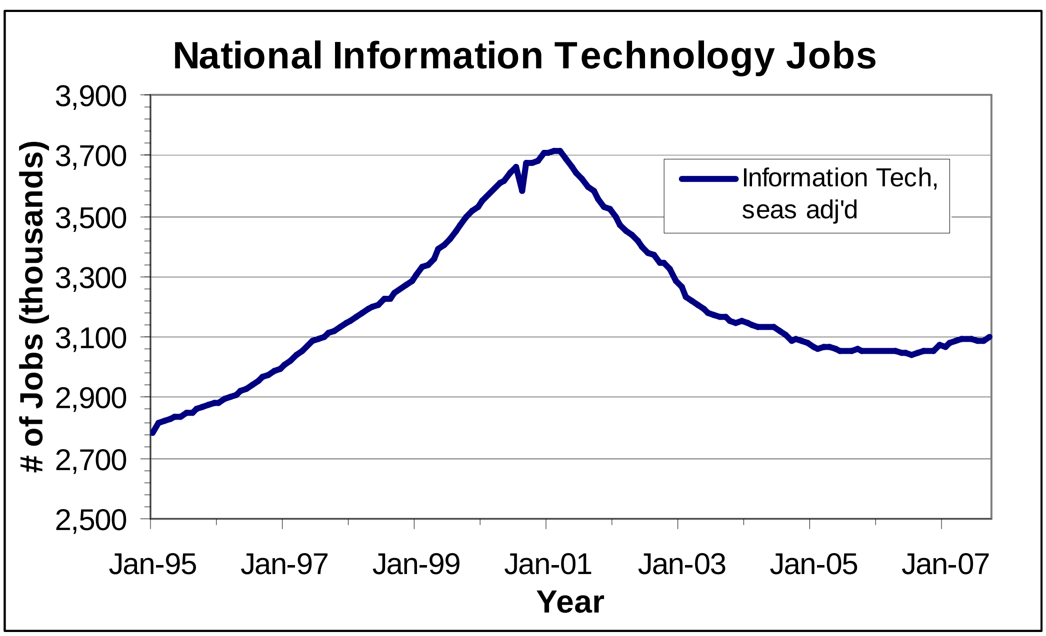
The numbers show the magnitude, but the graphs are more ... well ... graphic in illustrating what's happening: disaster.

National

Mfg Jobs lost since Mar98 peak (thousands)	3,654
frac lost since Mar98 peak	0.207
Mfg Jobs lost since Jul-00 peak (thousands)	3,342
frac lost since Jul-00 peak	0.193
IT Jobs lost since Mar 01 peak (thousands)	630
frac lost since Mar 01 peak	0.166

The U.S. has lost 20% of its manufacturing jobs and 16.6% of its IT jobs.

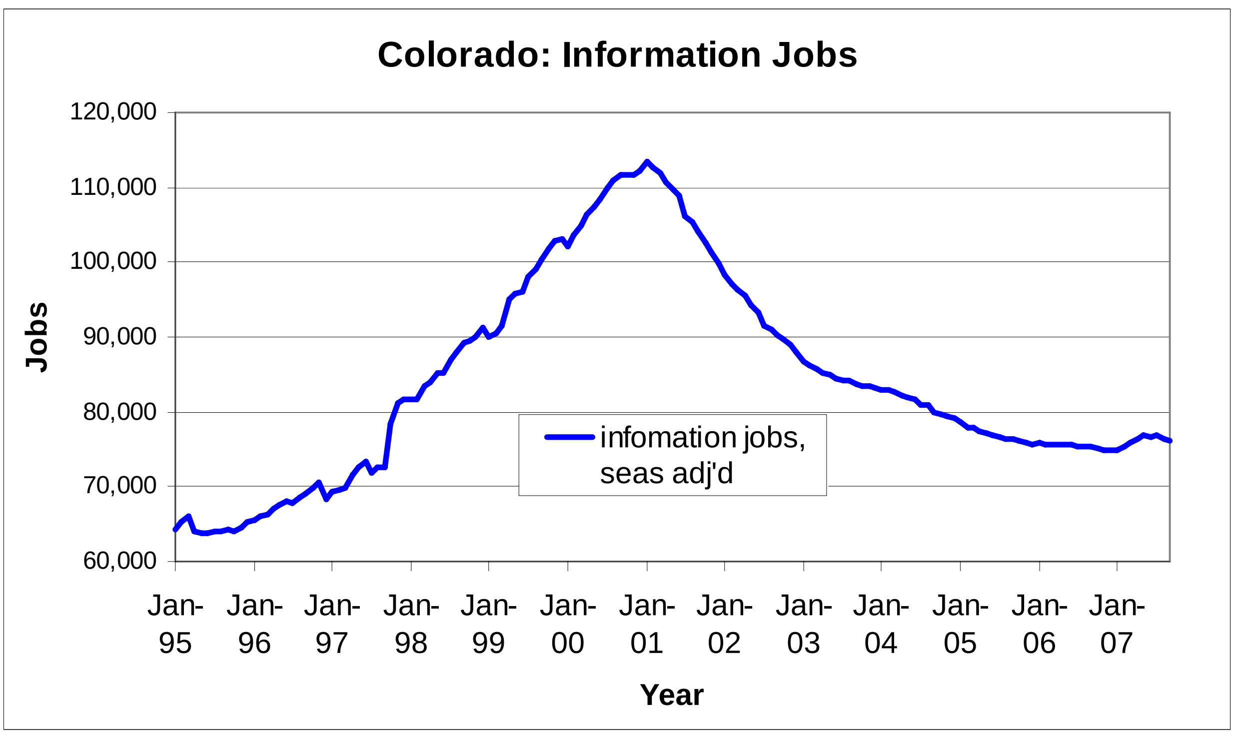




Colorado

The percentages in Colorado are even greater: **Mfg 25%, IT 33%**

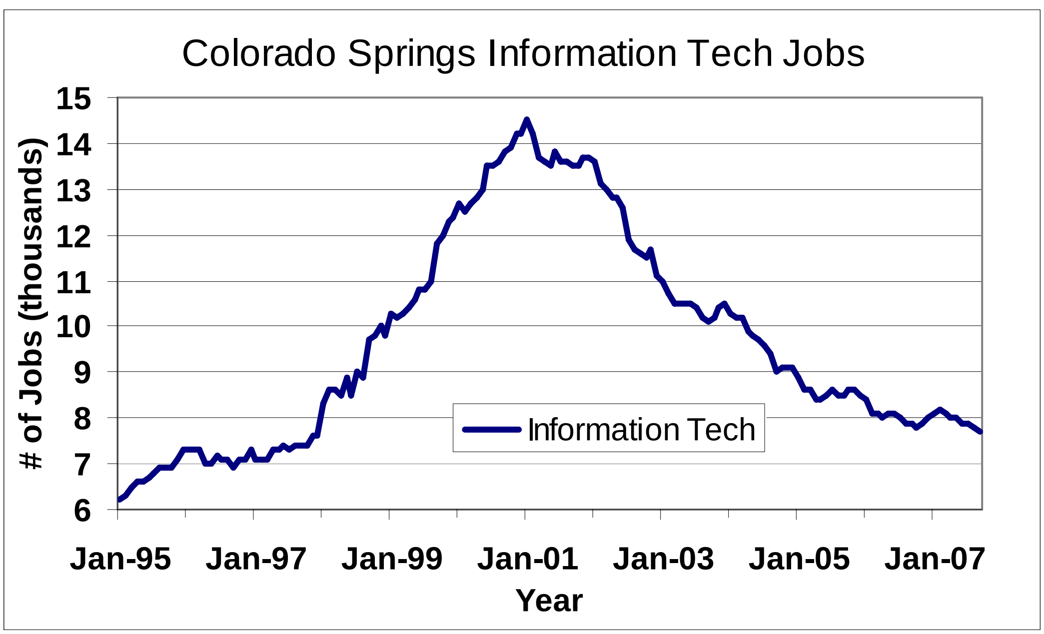
Mfg Jobs lost since Jan-01 peak	46,000
frac lost since Jan-01 peak	0.229
Mfg Jobs lost since Apr-98 peak	48,500
frac lost since Apr-98 peak	0.251
IT Jobs lost since Jan01 peak	37,400
frac lost since Jan01 peak	0.330

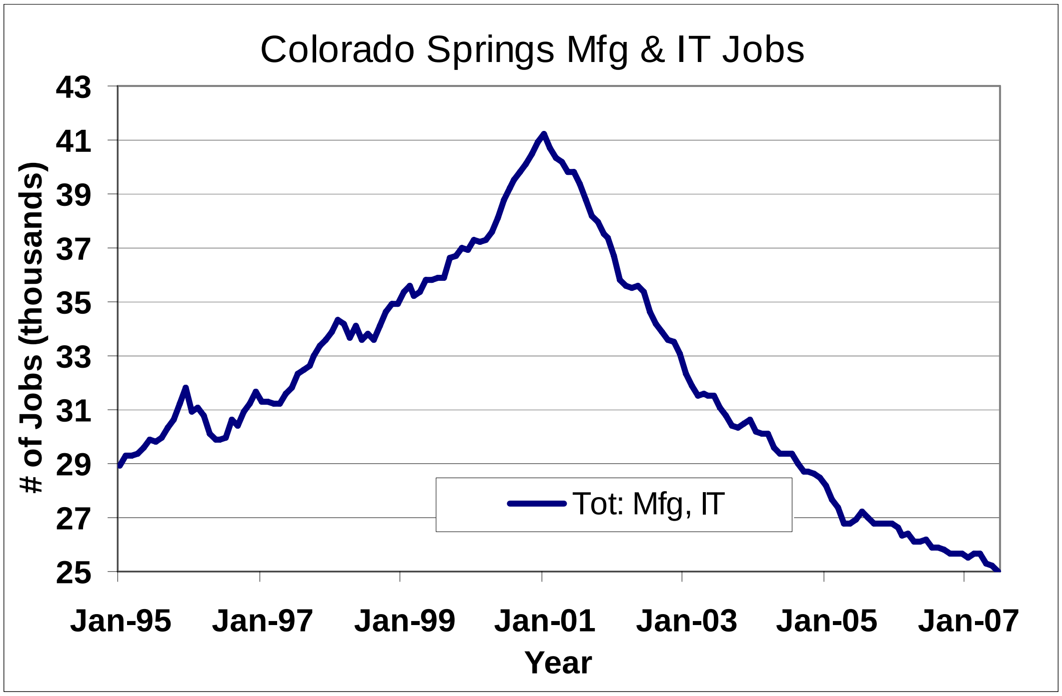


Colorado Springs

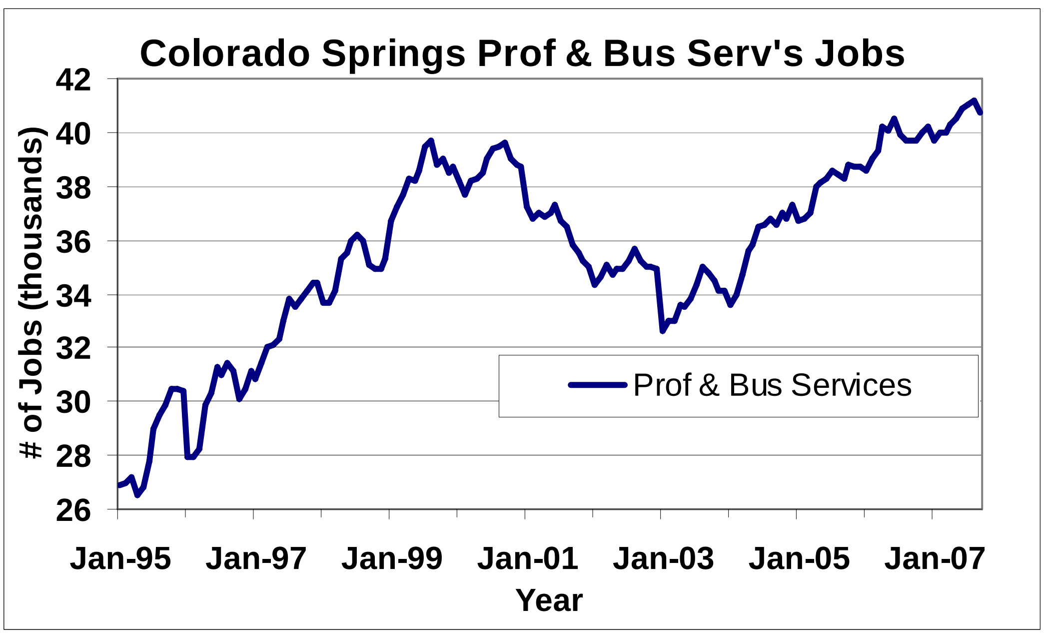
And the percentages in Colorado Springs are worse yet: **Mfg 37.5%, IT 47%**

Mfg Jobs lost since Jan-01 peak	10,000
frac lost since Jan-01 peak	0.375
IT Jobs lost since Jan01 peak	6,800
frac lost since Jan01 peak	0.469
Mfg + IT Jobs lost since Jan01 peak	16,800
frac lost since Jan01 peak	0.408

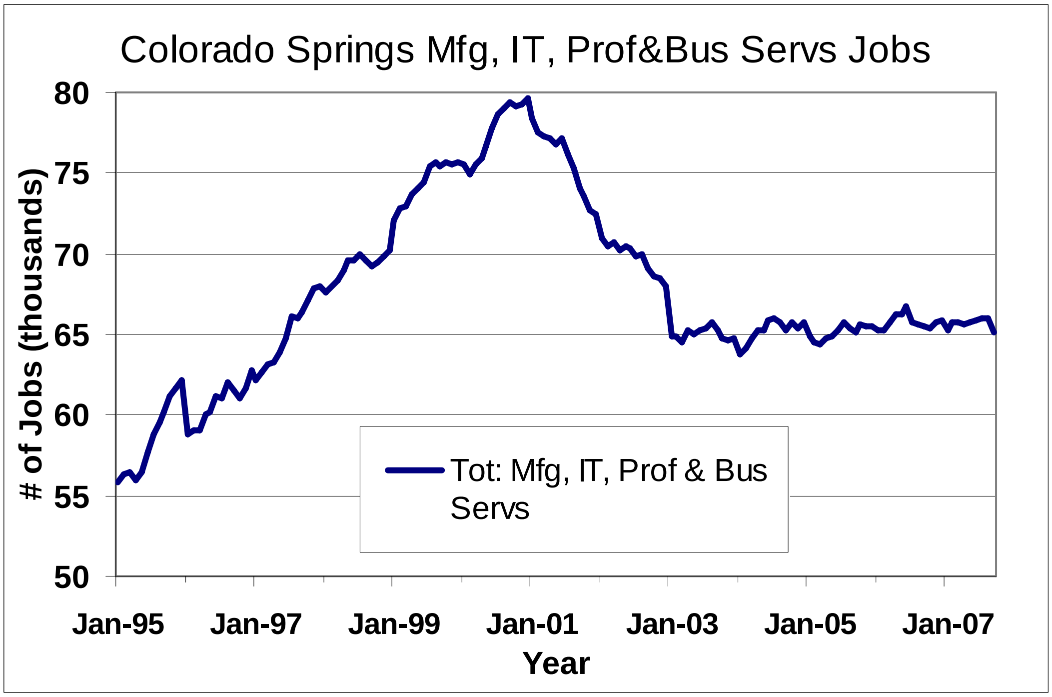




Yes, in Colorado Springs Professional and Business Services jobs have recovered because of the growth of contractors to the military, including for the occupation of Iraq and the war on a tactic of war called the "War on Terror."

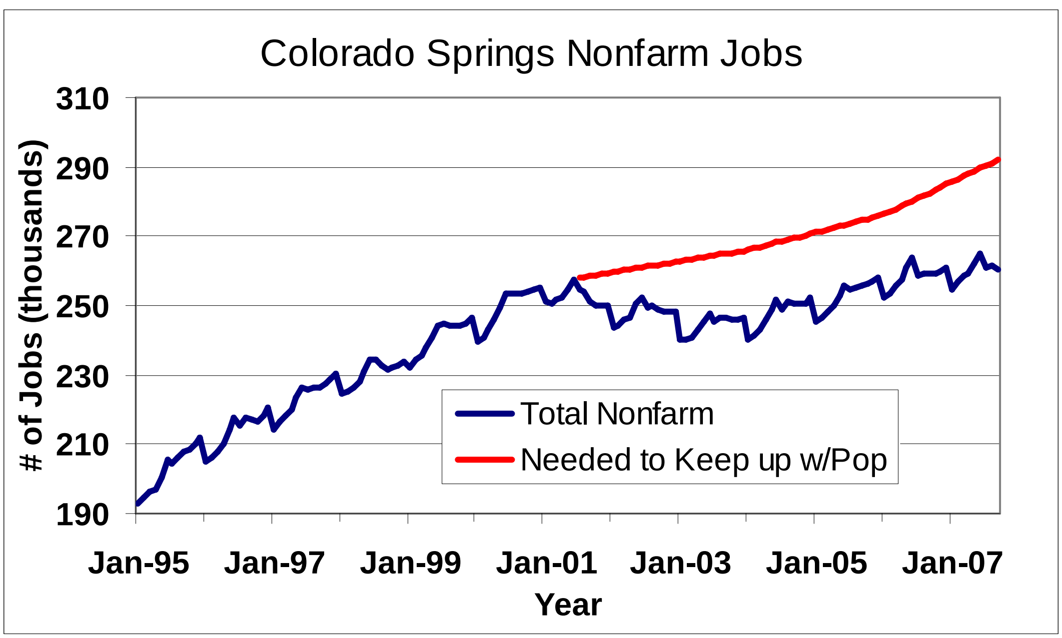


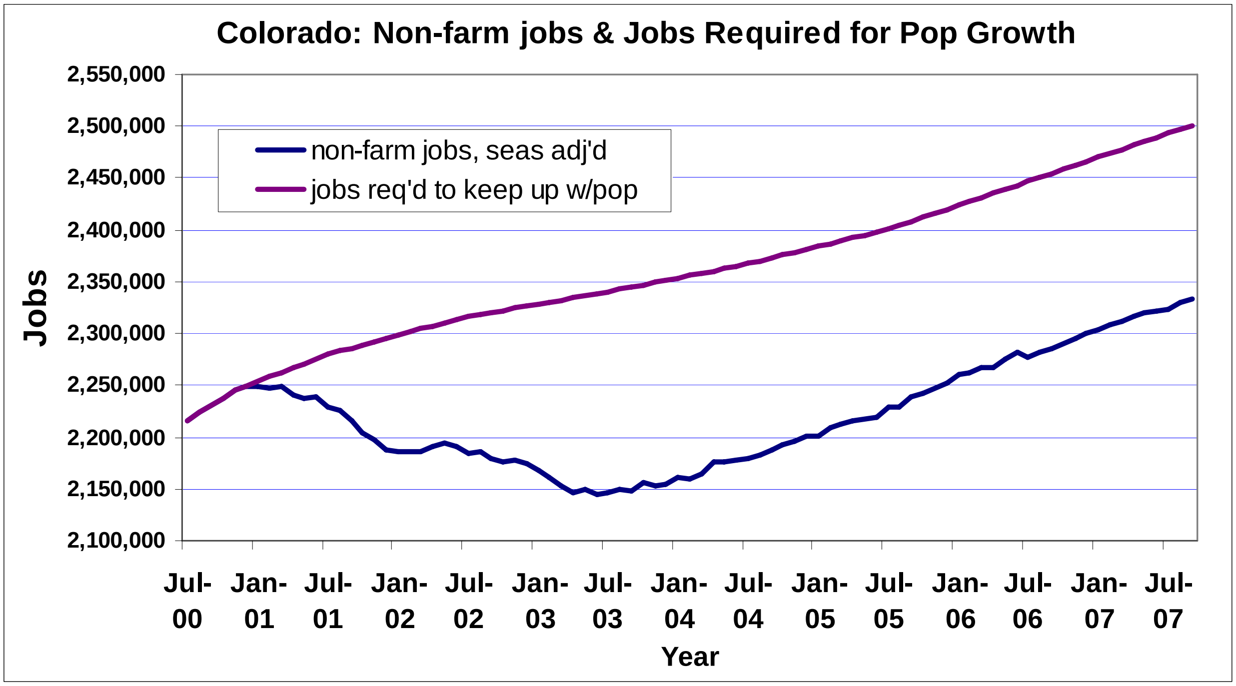
But those gains don't make up for the loss of jobs in Colorado Springs:

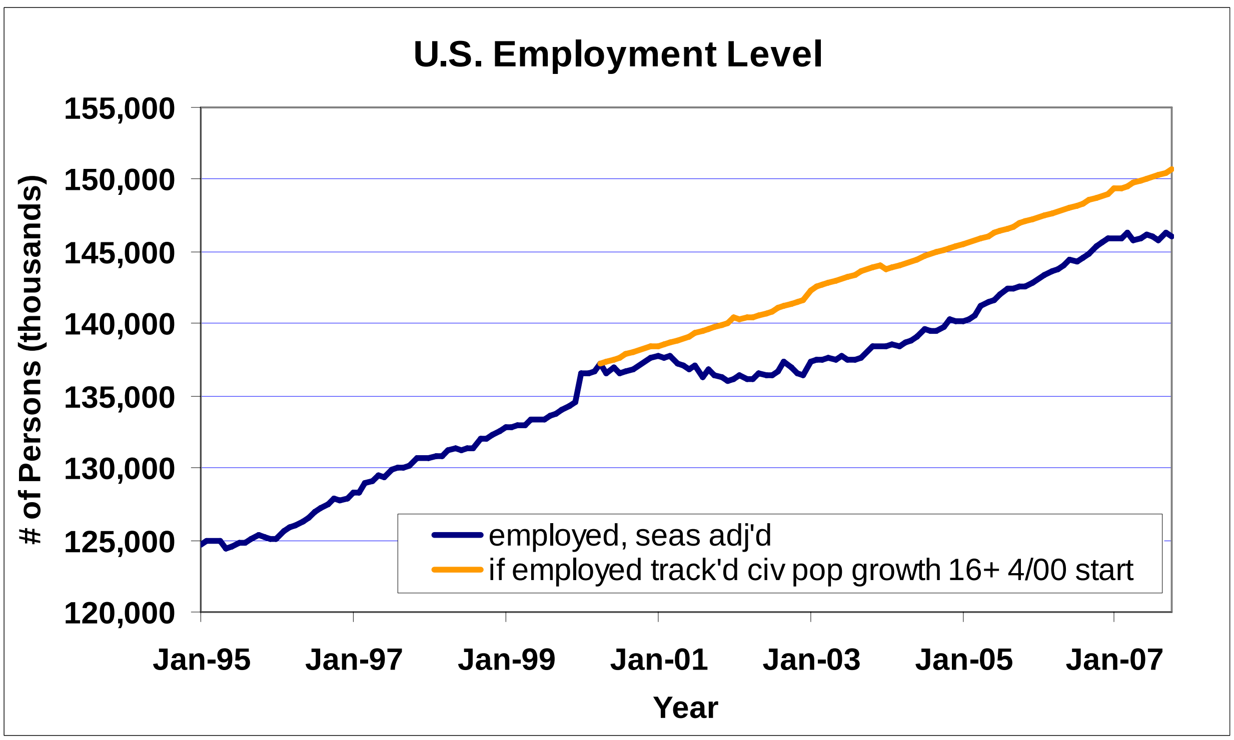


It's true that total non-farm jobs in Colorado Springs have increased slightly since the peak in 2001 (very slightly: as of Sept 07 by 2.8 thousand jobs), but this has not come even close to keeping up with population growth.

Colorado Springs population has soared. Jobs have not. Job growth nationally has lagged as well.



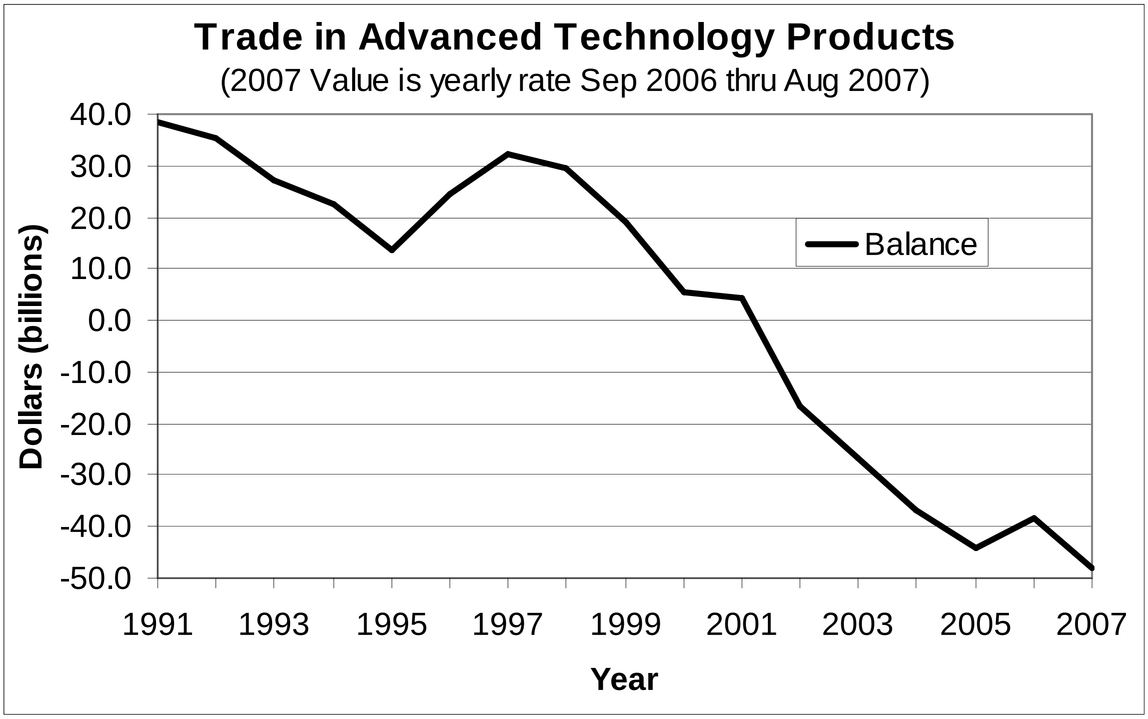




Many, like Rose, cite official unemployment statistics showing that unemployment is low. These official statistics are propaganda, not fact, due to the large numbers of people "defined away" out of the official numbers. See Unemployment: Official, Effective, Real for details.

What's called "free trade" is really "transfer of the factors of production", primarily labor so corporations can use labor over there so they don't have to use it over here at a wage rate that can support an American's mortgage. For how this is destroying the U.S. economy, see The Trade Deficit and the Fallacy of Composition.

The U.S. is not losing just the low-value-added, simple manufacturing jobs. This can be seen by examining the "trade" balance in Advanced Technology Products that has gone from a $40 billion surplus in 1991 to a current $48 billion deficit. The U.S. is losing high-tech as well as low-tech jobs.



As shown in the chart below, had compensation of the lowest 80 percent of the workforce kept pace with productivity, compensation would have been 68% higher in 2004.

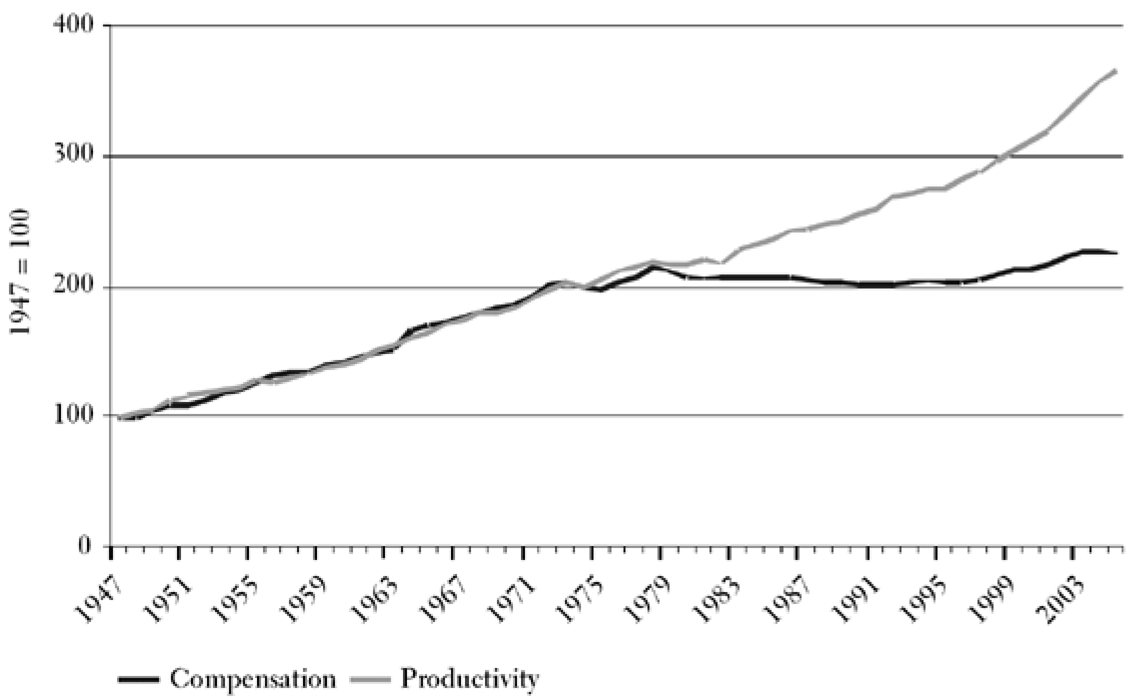
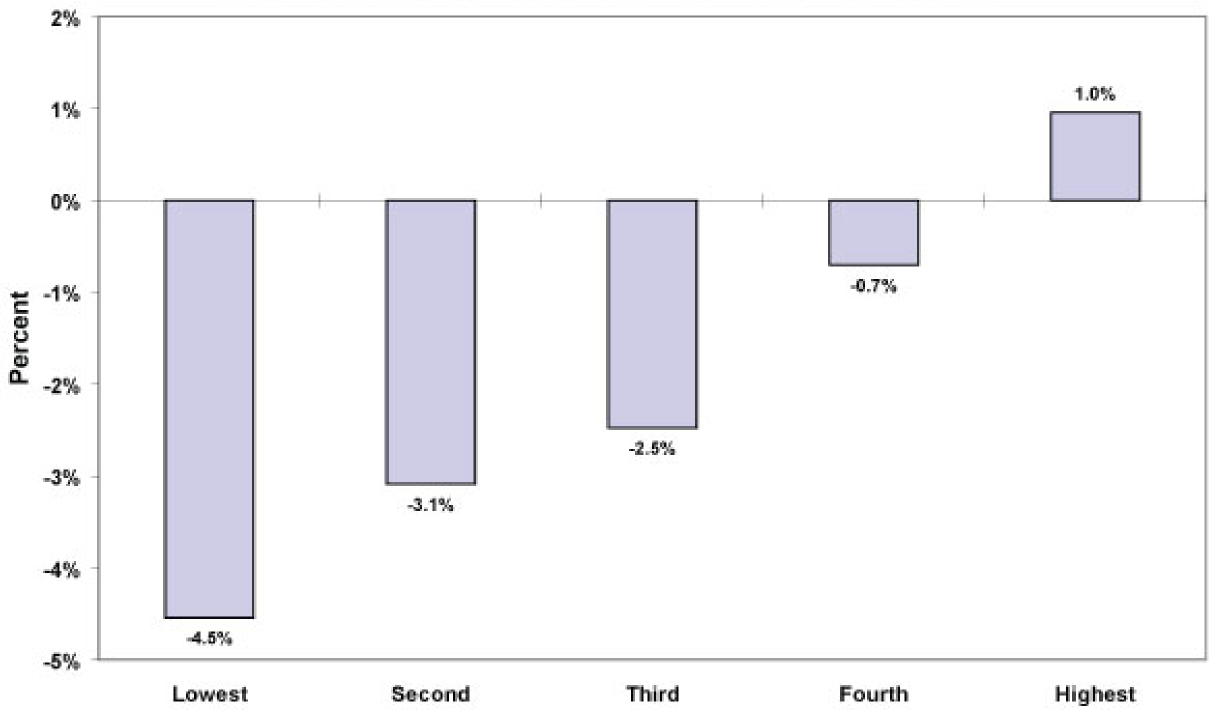


Chart above analysis by Jared Bernstein (EPI) of U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis data. Compensation of the bottom 80 percent of the U.S. workforce has lagged productivity since the mid-1970's. Found at The Rise of the Super-Rich By TERESA TRITCH.

FIGURE 2
Change in average real household income, by fifth, 2000-06



Source: Authors' analysis of U.S. Census Bureau data.

Found at Poverty, income, and health insurance trends in 2006, August 28, 2007 by Jared Bernstein, Elise Gould, and Lawrence Mishel.

The middle class hasn't been affected?

PS.

Note that the PPI is "Republican lite" at best, the same as the DLC. The PPI is neither progressive nor composed of those who can think rationally and effectively.

The Progressive Policy Institute (PPI) is a think tank in the United States, founded in 1989 and affiliated with the Democratic Leadership Council, which styles itself as promoting the ideas of "New Democrats." It covers a very wide range of issues and describes itself as centrist, although left-wing critics frequently describe it as conservative, neoconservative, or neoliberal.

PPI's neoliberal policies are destroying the nation's economy. I am a liberal, but not a "left-wing" critic as I describe at Explaining Liberal Principles. Also, see how the nation has become polarized toward the extremist "right" thanks to propaganda from "think tanks" like PPI at The Political Spectrum - 2007 Primaries.

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October 24, 2007 COMMENTARY
The Myth of Middle-Class Job Loss By STEPHEN J. ROSE October 24, 2007; Page A21

Economic change is a messy process. New technologies open up many opportunities for those prepared to take advantage of them. At the same time, old firms and their workers are displaced and forced to start over. In 1900, for example, 40% of the U.S. work force was involved in agriculture. Today, that figure is less than 2%, and no serious observer would argue that we are worse off as a result of this transformation.

Yet many of today's most prominent politicians and pundits are making an updated version of precisely this argument. They claim that the decline in the number of manufacturing jobs has led to the replacement of good middle-class jobs by low-skill, low-pay "hamburger-flipping" service jobs.

This kind of populist dogma is bad politics and even worse economics. The assertion that the American middle-class is disappearing along with manufacturing jobs is, put simply, based on an outdated view of how the economy operates, and is empirically wrong. Nonetheless, the view that the economy has failed the middle class is widespread. The outsourcing of jobs to low-wage countries is, of course, the latest culprit. Polemicists from all sides find it irresistible to blame expanding trade for middle-class decline. But how widespread a problem is outsourcing, exactly?


David Klein

It is certainly true that many jobs in manufacturing clothing, steel, metal products and automobiles have gone overseas. Plant closures not only devastate the workers who are displaced, but they have also undermined the vitality of whole communities in North Carolina, Pennsylvania, New York, Michigan, Ohio and Wisconsin, to name just a few places. But while such communities are a clear sign of the decline in some sectors of the economy, there has been strong employment growth in many other sectors. In research just published by the Progressive Policy Institute, I show that incomes and employment have grown by substantial amounts in every state (even in the so-called Rust Belt) since the passage of the North American Free Trade Agreement in 1993.

In fact, there is no convincing, data-driven proof that trade has led to any overall job loss during the last 30 years. To the contrary, the economy has grown at a slow but steady rate (a few brief recessions notwithstanding) with trade and employment rising in tandem.

To prove that there has been substantial growth of middle-class jobs, I compare the situation that existed in 1979 with that of 2005. The base year is 1979 because it represents the last business-cycle peak before income inequality and the U.S. trade deficit began to grow quickly in the 1980s. To make the comparison fair, earnings in 1979 are increased by almost 150% to adjust for inflation.

Let us look at the distribution of earnings in 1979, compared with the distribution of earnings of the net new jobs created since that year. To begin with, it is necessary to assess the experiences of male and female workers separately. Unfortunately, it is still true that a large number of women are employed in occupational titles that are predominantly held by women -- e.g., teachers, nurses, and clerical workers.

Nevertheless, there has clearly been a sharp increase in female middle-class employment. As recently as 1979, 61% of female workers were in jobs that paid less than $25,000, and only 3% earned more than $50,000 a year. By contrast, more than 36% of new jobs that opened since 1979 for women pay more than $50,000 and only 17% pay less than $25,000.

Critics who bemoan the trajectory of the American economy over the past three decades somehow find it convenient to overlook or play down this historic improvement in the employment status and income levels of women. While women still lag in pay compared to men of similar educational attainment, the extraordinary rise in women's income since 1979 is a fact at odds with the notion of an overall decline in the American middle class.

For men, the change in employment since 1979 has not been quite as clear-cut, or as positive. There has been a tremendous growth in the number of men in high-paying jobs: In 1979, just 10% of male workers earned above $75,000, while fully 34% of new jobs since 1979 have paid this amount or more.

However, there was also growth in the share of male workers earning less than $25,000 a year, from 23% in 1979 to 36% by 2005. This rise of low-paying jobs hit less-educated men particularly hard. For those with just a high school diploma, 87% of the new jobs paid $25,000 or less.

Here's the bottom line: For three-quarters of the workforce (women and the top half of male earners), economic growth translated into earnings gains. But for male workers in the bottom half of the earnings distribution, the decline of unionized manufacturing employment has led to the drying up of some middle-class jobs for those with no post-secondary education.

For the clear majority of the workforce, then, the job market has become more welcoming, not less so. But where are these jobs?

Using a framework that I developed in the 1990s, I find that most of the employment gains over the last 30 years have been in business-management activities (administration, sales, finance and business services) as well as in professional services such as health care and education. While the percentage of U.S. jobs derived from manual work in agriculture, mining, timber and manufacturing has declined, the share of jobs related to low-skilled retail and personal/food services has remained steady.

Undeniably, some people have been left out of this middle-class workforce expansion and need help in making the transition to the new economy. In particular, the last six years have seen very little wage growth for the bottom 80% of the workforce. But we should bear in mind that real gross domestic product per person is up over 60% since 1979, and our goal for the job market should not be simply to keep pace with where things stood nearly three decades ago.

While the pessimists would have us go backward, we should be working today on expanding opportunities in the future. In particular, we have to address what we can do to help displaced men who lack post-secondary education. Higher levels of unionization and increasing the minimum wage would help, but they don't address the more basic need, which is to provide people with the necessary skills for the modern marketplace.

The economy can expand and provide more good jobs as long as workers have the education and training required to succeed. Talk of the "disappearance of the middle class" is actually counterproductive, because it distorts the real challenge. This is to make sure that our young men and women are better prepared to enter the workforce of the 21st century.

Mr. Rose is senior economic fellow at the Progressive Policy Institute, where he recently authored a report titled "The Truth About Middle Class Jobs." He has worked both for the Joint Economic Committee of Congress and as an adviser to former Secretary of Labor Robert Reich.

URL for this article:http://online.wsj.com/article/SB119318171973969059.html

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Summary of Rose's E-mail rebuttal & My Response:

I got a response for Mr. Rose the next day. I promised I would post his comments and my response to them on my website. His comments and my response begin after this summary for those who don't want to wade through all the details. But please do look at the graphs in the section after his e-mail.

- He maintains I "conclude that 4.7 million jobs were lost to trade."

  I did not; I do not. I said exactly the opposite. The number of jobs and unemployment are determined by Fed policy; the number of jobs has nothing to do with trade.

  There is a genuine and major problem with the number of jobs. Unemployment is more like 12% than 4.5%. This, along with "trade," is a major reason why wages are depressed. Anyone who believes even marginally in the power of supply and demand will understand that such an excess supply compared to demand will depress wages. And it depresses wages for U.S. workers to be in competition with workers in countries that pay their workers a below poverty wages.

- Rose uses the word, "exploded," to describe the "trade" deficit.

  That's the only place he's correct. Since 1990 the increase is almost a perfect exponential. Exponential increases are explosions. Explosions do not end well. That's why the current situation is so dangerous. This explosion, like a real explosion, is leaving devastation in its wake.

- He complains that I extrapolate the jobs needed to keep up with population growth from a peak in April 2000 and that had I "used data back to the 1980s or back to the 1950s, your trend line would have looked lots different."

  I chose that time because there was relatively low unemployment and relatively low inflation … relatively good times. There is no reason to choose another point in time when the Fed was unnecessarily holding down employment due to a fabricated fear of inflation. I quote Greenspan wondering how inflation can be low with relatively low official unemployment.

- He says "all of those people going to college and graduate school did not get the message. Technological change means that it takes less labor to produce more physical goods, the days of manufacturing as king are over. Fortunately, the economy can grow with an ever smaller share of jobs being in direct production."

  They did get the message, the wrong message. They got the message that more education would solve their job problem. Unfortunately, it doesn't because we're losing high-tech as well as low-tech jobs. Manufacturing is no longer king because of U.S. policies that subsidize the offshoring of manufacturing; it wasn't an accident or inevitable. Sure the "economy can grow" for a time, based on borrowing. It can grow until it collapses due to losing primary employers, the increasing borrowing required, a resulting declining dollar … and a subsequent hyperinflationary depression.

- He says "I cite some data on recent changes in employment to imply that trade is mainly responsible for changes in employment post 2001." Adding, I "selectively cite a few sectors but overall employment is up."

  He just can't comprehend that the number of jobs has nothing to do with "trade." I cite specific sectors that have lost jobs, Manufacturing and IT, because those are the kinds jobs that have been affected by "trade." I cite the Advanced Technology Products trade deficit as going from a

$40 billion surplus in 1991 to a $48 billion deficit in 2005 as an indication that we're losing other high tech jobs as well. Yes, in Colorado mining jobs are primary jobs and have increased, but that gain of 13,200 jobs comes nowhere close to offsetting the loss of 48,500 manufacturing jobs. All other categories I saw that increased (government, education, financial services) were NOT primary jobs.

- He says there's no gap in compensation relative to productivity when a "different inflation adjustment" is used. He does admit that "compensation and productivity and [have] diverged since [2001] with the rising share of profits.

  There no gap when the *product price index* is used. But that provides a false picture of what's happening because the *consumer price index* addresses the costs that confront consumers. Even using the CPI as the deflator understates the compensation gap because inflation is much, much higher than the official figures. The CPI is 3.4%, but inflation is really 10.8%. It's understated to rob Social Security recipients.

  On a "rising share" to profits: Johns Hopkins University economist Arnold Packer calculates that employees' share of the value added in the U.S. economy has fallen to its lowest point since records were first kept in 1947 -- and the rate of decline is accelerating. "The real damage is not the number of jobs, but their pay and quality." Exactly.

- My final comment:

  There you have it: an inability to address the real issues. I don't know whether this is simply a mindset intent on refuting a red-herring, false-anyway relationship between "trade" and the "number of jobs" or willful dishonesty. It's almost as if Rose wears blinders that don't allow him to see what's really going on.

  Either way, this is a war, a war of ideas and policy. If this nation keeps going the way it is going, we will have an economic collapse greater than the Great Depression. For that reason alone, it's a fight worth making.

- I've added links to a lecture by lawyer-professor Lawrence Lessig at Stanford Law School on the issue of corruption and how money influences the media and Congress. The DLC and PPI are similarly affected.

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Rose E-mail Response as sent:

From: [Steven Rose]
To: scuba@usa.net
Subject: trade numbers
Date: Wed, 07 Nov 2007 14:26:10 +0000

bob--

Your critique of my numbers relies on a very selective reading of the data.

Your figure 1 starts at 1995 and then extrapolates to conclude that 4.7 million jobs were lost to trade. Gee, the trade deficit starting exploding in 1982 and NAFTA was passed in 1993. If you had used data back to the 1980s or back to the 1950s, your trend line would have looked lots different.

Extrapolation based on a period of fast growth to a period of slow growth and then saying this is all due to trade is playing to the peanut gallery. If you tried to use yearly (or quarterly) data back to 1980s or earlier, you would find that the correlation of changes in imports or changes in the trade deficit and some measure of employmet, you would find that it is slightly positive. Mind you, I would not make the argument that rising trade leads to rising employment. Instead, we have a classic case of recent prosperity being associated with rising trade and employment.

In terms of manufacturing jobs, I guess all of those people going to college and graduate school did not get the message. Technological change means that it takes less labor to produce more physical goods, the days of manufacturing as king are over. Fortunately, the economy can grow with an ever smaller share of jobs being in direct production.

Finally, you cite some data on recent changes in employment post 2001. Is this supposed to imply that trade is mainly responsible for this? So, the 2.5 million added jobs per year in each of 8 years after the passage of NAFTA does not count, but the bad performance 8 years later is the key. Colorado and the country have added jobs in the last 4 years as part of the upcycle that followed the decline and slow recovery after 2001. You can selectively cite a few sectors but overall employment is up.

You might want to read the whole paper on the PPIonline cite to look at the changes in the quality of jobs. Also, you might want to look at another paper of mine at ITIF.org that addresses the issue of productivity growth and compensation growth. This is somewhat a false issue because the series are deflated by different inflation adjustments. Once this factor is taken into account, compensation and productivity grew at the same rate through 2001 and has diverged since then with the rising share of profits.

If you are going to impugn other people's research credentials, you need to do a lot better job than this.

Steve Rose

PS I am leaving for Italy shortly so may not be available to a response.

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Detailed Response to Rose's E-mail:

From: [Steven Rose]
To: scuba@usa.net
Subject: trade numbers
Date: Wed, 07 Nov 2007 14:26:10 +0000

bob--

Your critique of my numbers relies on a very selective reading of the data.

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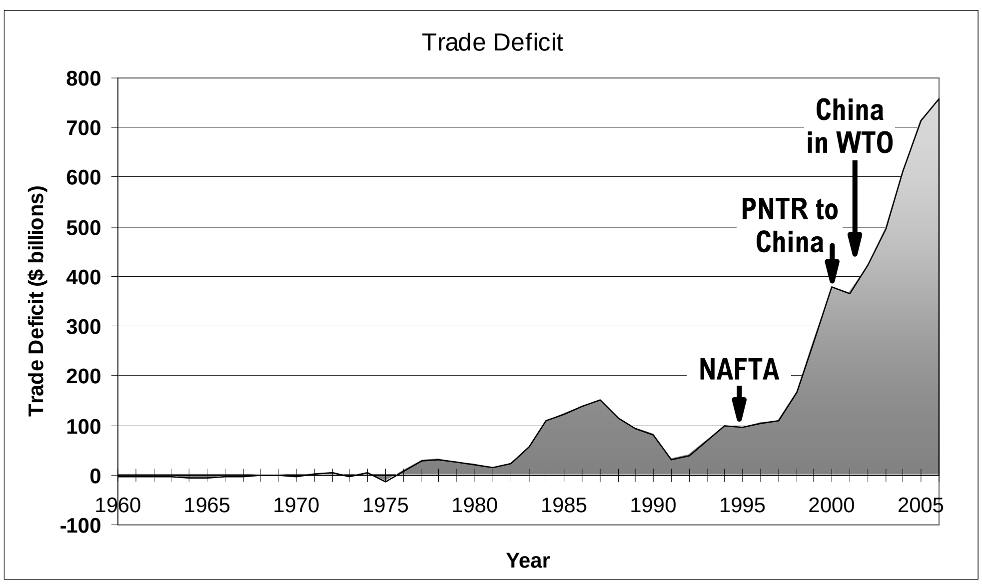
Response:

It's truly amazing. Rose states that I "conclude that 4.7 million jobs were lost to trade." I said *exactly* the opposite.

But before I get to that, let's look at the "trade" deficit and when it exploded.

The "Trade Deficit" Explosion

Rose employs the word, "exploded." He's right on. Explosions do not end well. That's why the current situation is so dangerous. This explosion, like a real explosion, is leaving devastation in its wake.



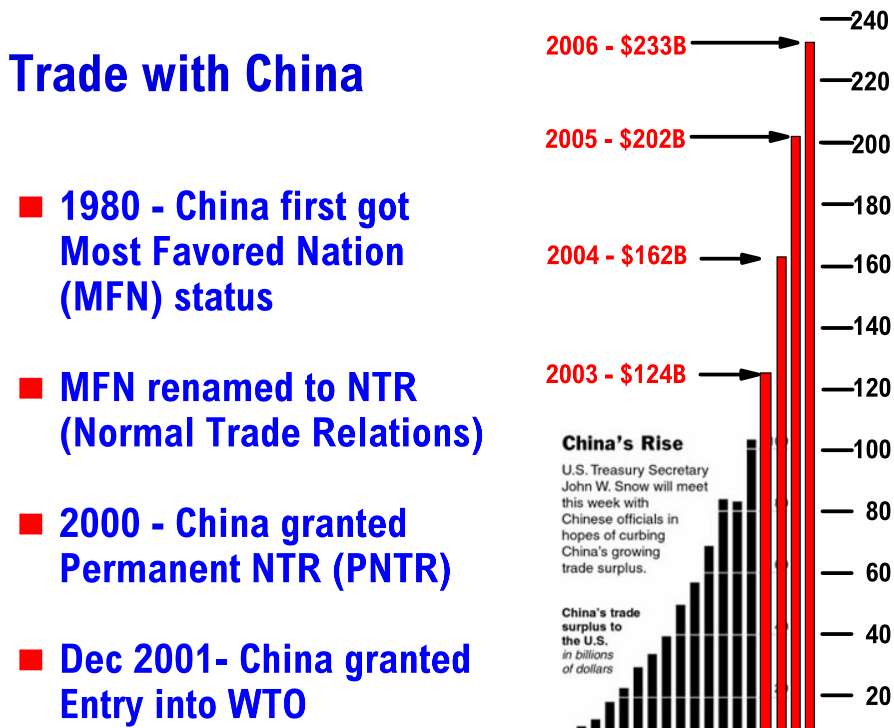
The "trade deficit" did not start exploding back in 1982. There was a bump in the 80s, but the "exploding" began in the 90s. And it's been dramatic.

It began with NAFTA in Nov. 94, after a lag of a few years, and with the U.S. granting Permanent Normal Trade Relations (PNTR) to China in 2000. China was also granted entry into World Trade Organization in Dec 2001. It's not a coincidence that that "trade" has exploded since.

Recall that I put "trade" in quotes because it's really "transfer of the factors of production," not trade as in the exchange of goods. It's about corporations using labor over there so they don't have to use it over here at a wage that won't support an American's mortgage.

The trade deficit with China has similarly exploded despite pathetic "efforts" to halt the explosion as the next chart shows. It's now over 30% of the total trade deficit.

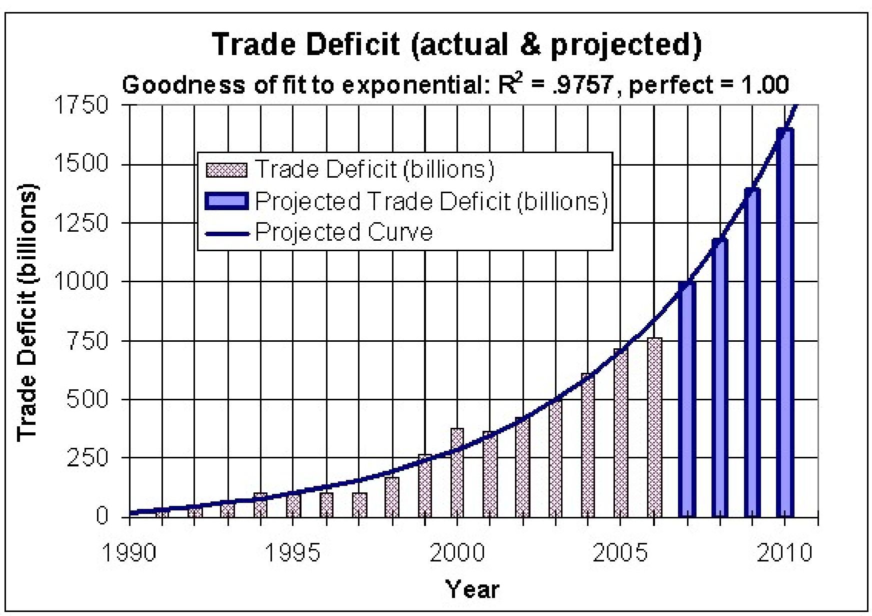
"China's Rise" chart from: Joseph Kahn, "[China Seen Ready to Conciliate U.S. on Trade and Jobs](http://www.nytimes.com/2003/09/02/business/02CHIN.html)," 9/02/03, New York Times. Text accompanying the black bars: "U.S. Treasury Secretary John W. Snow will meet this week with Chinese officials in hopes of curbing China's growing trade surplus." How's that working out? Red bars added to the chart to show continuing and rapid growth of China's trade surplus.



Graph: Joseph Kahn, "China Seen Ready to Conciliate U.S. on Trade and Jobs," 9/02/03, New York Times, http://www.nytimes.com/2003/09/02/business/02CHIN.html

Note: "Most Favored Nation" (MFN) status was "renamed" as Normal Trade Relations (NTR), because granting something called "Most Favored Nation" status to a communist dictatorship was embarrassing even though the U.S. has favored right-wing dictatorships all over the world as long as they cater to U.S. financial interests (see [Confessions of an Economic Hit Man]() by John Perkins).

Rose's use of the word, "exploded," is apt because exponential increases are explosions. Since 1990 the increase is almost a perfect exponential. The chart below shows the fit to the data through 2006 and the extrapolation based on that fit.



It's worth repeating: **Explosions do not end well. That's why the current situation is so dangerous. This explosion, like a real explosion, is leaving devastation in its wake.**

What about the Number of Jobs?

I do not at all attribute the loss of the number of jobs to "trade." The number of jobs and unemployment are [determined by Fed policy](), not "trade" policy.

There is indeed a genuine and major problem with the number of jobs. Unemployment is more like 12% than 4.5%, and that doesn't include the underemployed people with degrees and advanced degrees who are working at jobs that do not use their skills and training. I document this in detail at [Unemployment: Official, Effective, Real](). John Williams cites a similar percentage figure at [Shadow Government Statistics](): "Adding in the netherworld [of the uncounted] takes the unemployment rate up to about 12.5%."

This, along with "trade," is a major reason why wages are depressed. Anyone who believes even marginally in the power of supply and demand will understand that such an excess supply compared to demand depresses wages. And it depresses wages for U.S. workers to be in competition with workers in countries that pay their workers a below poverty wages.

What about extrapolating the number of jobs from April 2000?

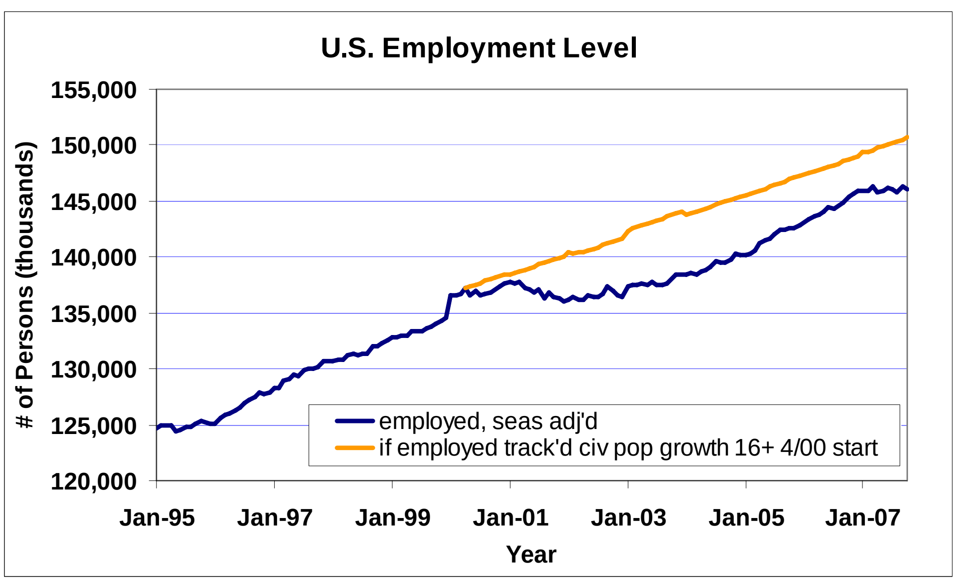
Now to Rose's point about the extrapolation to keep up with population growth is from the peak of employment in 4/00.

The reason I chose that point was that the Federal Reserve was wringing its metaphorical hands at that time wondering: "How in the world can unemployment be so low and yet inflation is low?" Here's Greenspan at a Fed meeting in July 1997 (cited at [Response to a Conservative]()):

> Many observers, including us, have been puzzled about how an economy, operating at high levels and drawing into employment increasingly less experienced workers, can still produce subdued and, by some measures even falling, inflation rates.

That's a good reason to choose that time … relatively low unemployment, relatively low inflation … relatively good times. There is no reason to choose another point in time when the Fed was unnecessarily holding down employment due to a fabricated fear of inflation.

This job gap is real. The BLS "defines it away by maintaining it's due to a decline in "labor market participation." It's this gap that makes for what's called a "jobless recovery." Note the trend is flat in 2007 … no job growth.



Rose continues:

Extrapolation based on a period of fast growth to a period of slow growth and then saying this is all due to trade is playing to the peanut gallery. If you tried to use yearly (or quarterly) data back to 1980s or earlier, you would find that the correlation of changes in imports or changes in the trade deficit and some measure of employmet, you would find that it is slightly positive. Mind you, I would not make the argument that rising trade leads to rising employment. Instead, we have a classic case of recent prosperity being associated with rising trade and employment.

> **Response:**
>
> Here it is again. I **explicitly noted that "trade" has nothing to do with the number of jobs**; that's determined by Federal Reserve policy. Correlations don't imply causality. There is no loss or gain in the *number of jobs* due to "trade."
>
> This repeated assertion that I did say this is interesting in that it shows a mindset that is bent on refuting any loss in the number of jobs to trade, even when and opponent of "free trade" says there's no relationship between the two.

Rose continues:

In terms of manufacturing jobs, I guess all of those people going to college and graduate school did not get the message. Technological change means that it takes less labor to produce more physical goods, the days of manufacturing as king are over. Fortunately, the economy can grow with an ever smaller share of jobs being in direct production.

> **Response:**
>
> In fact, they did "get the message" that the problem is that they need more education and they'll be alright.
>
> This steady message is exactly as Mr. Rose states the need: "to provide people with the necessary skills for the modern marketplace" so that "workers have the education and training required to succeed" and "make sure that our young men and women are better prepared to enter the workforce of the 21st century."
>
> The loss of IT jobs and Advanced Technology Products exports are proof that more education is not the answer in the face of U.S. policy that encourages and subsidizes the offshoring of jobs. There are specific policies that actually subsidize the offshoring of manufacturing (see How the U.S. Subsidizes Offshoring of Jobs) and that's why manufacturing is no longer "king."
>
> It's true that "technological change means that it takes less labor to produce more physical goods," but technological change has been going on since way before the 90s. "Trade" policy, not technology, is responsible for the loss of manufacturing jobs. We've got technology and they've got technology now, too,
>
> Sure the "economy can grow" based on borrowing. But (an exponentially-increasing "trade deficit" (borrowing) cannot go on forever. The economy can grow until it collapses due to losing primary employers, the increasing borrowing required, a resulting declining dollar … and a subsequent hyperinflationary depression.

Rose continues:

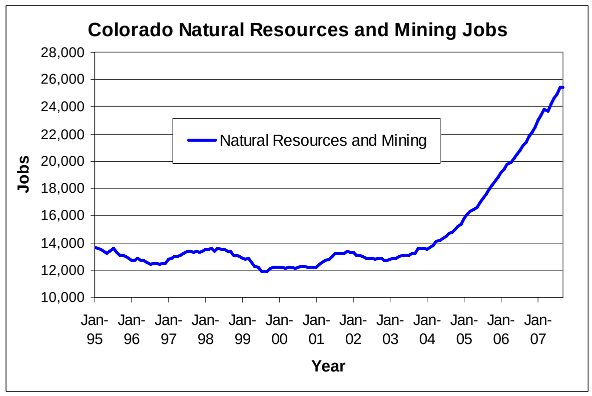
Finally, you cite some data on recent changes in employment post 2001. Is this supposed to imply that trade is mainly responsible for this? So, the 2.5 million added jobs per year in each of 8 years after the passage of NAFTA does not count, but the bad performance 8 years later is the key. Colorado and the country have added jobs in the last 4 years as part of the upcycle that followed the decline and slow recovery after 2001. You can selectively cite a few sectors but overall employment is up.

Response:

Here it is again. "Trade" is irrelevant to "overall employment". Let me say that again, **trade is irrelevant to overall employment.**

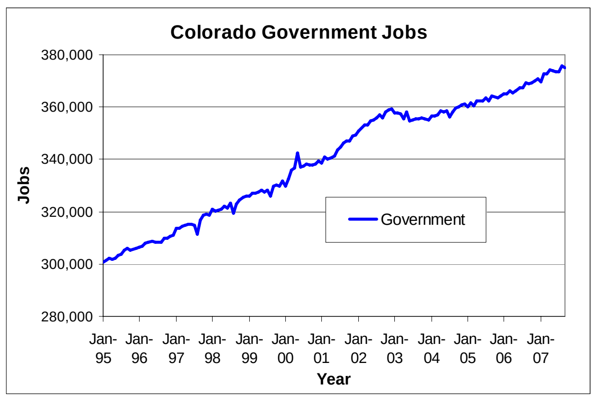
I selectively cite sectors that have lost jobs, Manufacturing and IT, because *those are the kinds jobs that have been affected by "trade."* I cite the Advanced Technology Products trade deficit as going from a $40 billion surplus in 1991 to a $48 billion deficit in 2005 as evidence that we're losing other high tech jobs as well.

Yes, the number of mining jobs is a category of primary jobs that has increased, but that gain of 13,200 jobs comes nowhere close to offsetting the loss of 48,500 manufacturing jobs from Colorado since April 1998.



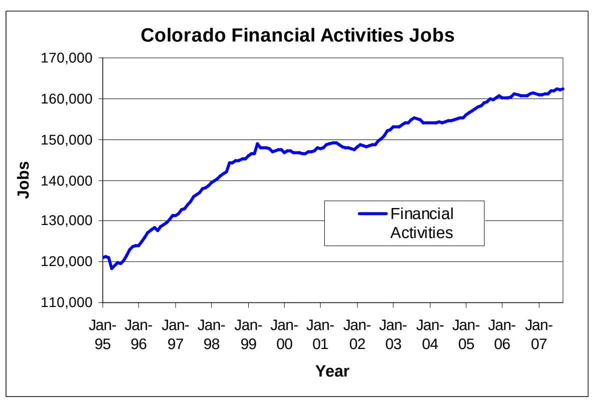
All other categories I saw that increased were NOT primary jobs.

So what if we've gained jobs in government? With fiscal debt also increasing and losing primary employers, that's got to stop.



In Financial Activities? This includes Real Estate jobs and consider what's happening: a bursting real estate bubble.

The problem is that U.S. needs primary jobs to reverse economic decline and achieve a stable economy.



Rose continues:

You might want to read the whole paper on the PPIonline cite to look at the changes in the quality of jobs. Also, you might want to look at another paper of mine at ITIF.org that addresses the issue of productivity growth and compensation growth. This is somewhat a false issue because the series are deflated by different inflation adjustments. Once this factor is taken into account, compensation and productivity grew at the same rate through 2001 and has diverged since then with the rising share of profits.

Response:

Rose invokes the use of a different measure to make inflation adjustments. The difference is whether one uses the *product price index* or the *consumer price index*.

Let me ask. Which is a better comparison with compensation?

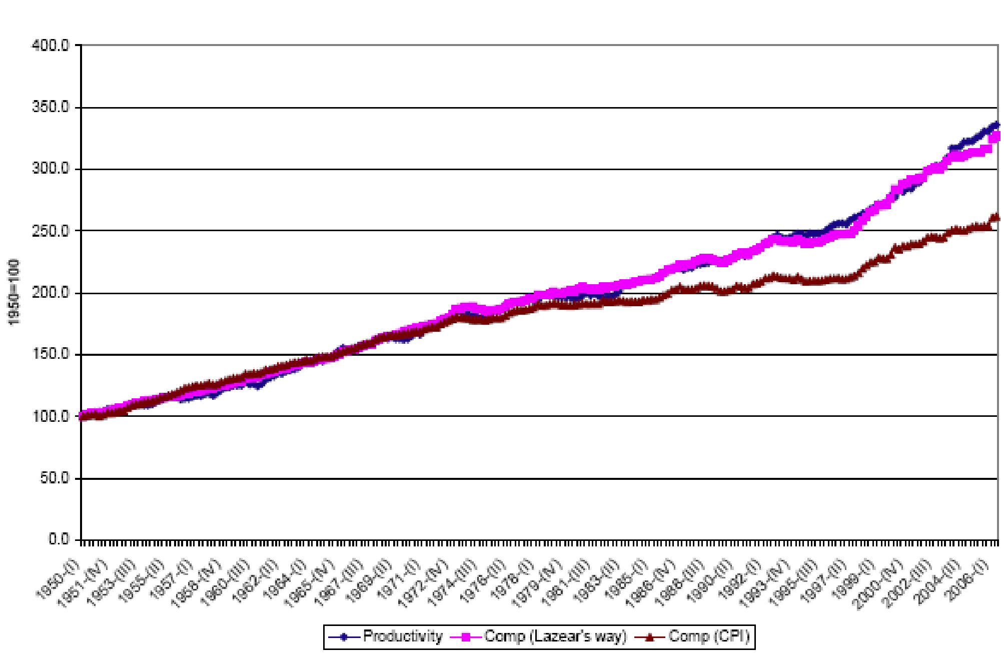
- A *product price index* that includes "prices of investment goods (items not in the consumer deflator) that have not gone up as quickly as the goods and services we consume"?
- a *consumer price index* that addresses the costs that confront consumers?

Reasonable persons would say the latter. This is addressed in [The Growing Gap Between Productivity and Earnings]() By Jared Bernstein and Lawrence Mishel [DRAFT, 10/4/06]

> Lazear offers a graph, reproduced below (Figure 1, though he omits the lower line), showing real average compensation rising pretty much in lockstep with productivity since the latter 1940s (Kroszner uses the same figure). But there are three problems with this figure in the context that it is often presented, i.e., to imply that the benefits of productivity growth are being broadly shared. **First**, to get these series to track each other, you have to deflate compensation with a product price index, not a consumer index. **Second**, the fact that average measures of earnings have diverged from the median means that such figures are less representative of the typical worker's experience, and **three**, though it's hard to see in a figure covering over fifty years, there really has a been a shift in factor shares favoring capital in recent years, one that seems to go beyond a reasonable explanation invoking lags.

Here's the figure. Using the *product price index* provides a false picture. It's dishonest. It indicates the extremes to which "free trade" proponents will go to pursue a corporatist agenda.

Figure 1: Productivity and Real Compensation, Using Product and CPI Deflators



I maintain that even using the CPI as the deflator understates the compensation gap. That's because inflation is much, much higher than the official figures. Read the whole piece on the CPI by John Williams at Shadow Government Statistics and you'll be shocked at the manipulations and machinations designed to reduce payments to social security recipients. Here are excerpts:

> **Payments to Social Security Recipients Should be Double Current Levels**
>
> … The CPI worked reasonably well for those purposes into the early-1980s. In recent decades, however, the reporting system increasingly succumbed to pressures from miscreant politicians, who were and are intent upon stealing income from social security recipients, without ever taking the issue of reduced entitlement payments before the public or Congress for approval. …
>
> Inflation, as reported by the Consumer Price Index (CPI) is understated by roughly 7% per year. This is due to recent redefinitions of the series as well as to flawed methodologies, particularly adjustments to price measures for quality changes. …
>
> Traditional inflation rates can be estimated by adding 7.0% to the CPI-U annual growth rate (3.8% +7.0% = 10.8% as of August 2006) or by adding 7.4% to the C-CPI-U rate (3.4% + 7.4% = 10.8% as of August 2006). Graphs of alternate CPI measures can be found as follows. The CPI adjusted solely for the impact of the shift to geometric weighting is shown in the graph on the home page of www.shadowstats.com. The CPI adjusted for both the geometric weighting and earlier methodological changes is shown on the Alternate Data page, which is available as a tab at the top of the home page. …
>
> **How Can So Many Financial Pundits Live Without Consuming Food and Energy?**
>
> The Pollyannas on Wall Street like to play games with the CPI, too. The concept of looking at the "core" rate of inflation-net of food and energy-was developed as a way of removing short-term (as in a month or two) volatility from inflation when energy and/or food prices turned volatile. Since food and energy account for about 23% of consumer spending (as weighted in the CPI), however, related inflation cannot be ignored for long. Nonetheless, it is common to hear financial pundits cite annual "core" inflation as a way of showing how contained inflation is. Such comments are moronic and such commentators are due the appropriate respect.

Note that the early 80s is the beginning of the Reagan Republican years.

Think about using a 10.8% deflator for compensation, instead of 3.4%. That would show an incredibly greater compensation gap.

Rose makes a good point that even using his assumptions "compensation and productivity … has diverged since [2001] with the rising share of profits." It is important to acknowledge that the share of profits is rising. Read the **bolded** text below.

> From: "Maybe We Could All Deliver Pizza . . .", Jodie T. Allen, 3/06/04, The Washington Post
>
> Columnist James K. Glassman recently constructed a "Dobbs Rogue Fund" (taking its name from CNN commentator Lou Dobbs, who compiled a list of **firms that have**

moved jobs overseas). Glassman calculates that, as a group, these 216 companies **registered a remarkable 72 percent return over the last 12 months**.

... More than 4 million workers, [Georgetown University economist Harry] Holzer notes, have run through their unemployment benefits without finding jobs and, in the last 12 months, inflation-adjusted hourly wages have barely risen.

... Since 2000, labor productivity has grown at a 3.7 percent annual rate, high even for a recovery period. Offshore outsourcing contributes to the trend, since hours put in by foreign workers are both cheaper and uncounted in traditional productivity measures. Home-shore outsourcing helps, too, by replacing full-timers with on-call piece workers who earn no benefits or overtime pay. In the past, higher productivity has translated into higher wages and more jobs as employers share the gains with workers. But this time that hasn't happened yet. Instead, the returns from higher productivity are going into higher profits and lower prices. Using official Bureau of Labor statistics, Johns Hopkins University economist Arnold Packer calculates that **employees' share of the value added in the U.S. economy has fallen to its lowest point since records were first kept in 1947 -- and the rate of decline is accelerating. "The real damage is not the number of jobs, but their pay and quality,"** Packer says.

Exactly! The issue is not the "number of jobs," but their pay and quality.

Rose continues:

If you are going to impugn other people's research credentials, you need to do a lot better job than this.

Response:

My analysis and reasoning show that there's good reason to impugn such research and the credentials of those who propagate it.

Keep in mind that those who endorse "free trade" have no problem characterizing those who oppose it as incredibly ignorant, stupid, backward, and wanting to turn back the clock. They have turned the word, "protectionist", into a slur. But if the health of the U.S. economy and good jobs aren't worth "protecting", what is? And it's really not at all about "protectionism", because "free traders" are quite happy to protect capital and intellectual property.

The goal is not to turn back the clock, but to recognize the need to progress in a way that produces a prosperous economy, not one that's failing … an economy that produces prosperity for all, not just the few.

Rose concludes:

Steve Rose
PS I am leaving for Italy shortly so may not be available to a response.

Response final comment:

Well, there you have it: an inability to address the real issues. I don't know whether this is simply a mindset intent on refuting a red-herring, false-anyway relationship between "trade" and the "number of jobs" or willful dishonesty. It's almost as if "free trade" proponents don blinders that don't allow them to see what's really going on.

Whatever, this is a war … a war of ideas and policy … for the fate of the nation. If we keep going the way it is going, we **will** have an economic collapse greater than the Great Depression. For that reason alone, it's a fight worth making.

I've printed the document to which he refers, but I've not yet read it all. It's a full-time job rebutting the propaganda spread by corporate-sponsored think tanks. I'm not getting paid as they are to promote an agenda for the corporatocracy. Hell, I'm not getting paid at all.

I recommend that Rose read
The Trade Deficit and the Fallacy of Composition.
A Systems Thinking Perspective on Manufacturing & Trade Policy
Why Offshoring is Economically Unsustainable
How the U.S. Subsidizes Offshoring of Jobs

Professor Lawrence Lessig on Corruption

A serendipitous coincidence: After writing this, I happened across a recent lecture by lawyer-professor Lawrence Lessig at Stanford Law School on the issue of corruption and how money influences the media and Congress. It's fascinating and well-worth a listen. It's about an hour.

He talks about the how the influence of money leads to corruption and gives examples. He questions who's to blame for the corruption?

He praises Gore's book, *The Assault on Reason*, and the powerful argument he makes for impeachment: never in the history of this republic, not in the Civil War, not in WWII, has a president exercised power as far from the framers' intent as this president has. But Lessig also criticizes Gore's book because Gore focuses on the one who violates the Constitution, the one seemingly incapable of modifying his pathological behavior, and "immunizes" those in Congress, particularly the Democrats, who stand by and let it happen. Congress has the authority to do something; it is the only body with this authority.

He cites what he calls "easy cases" illustrating corruption in our society.

- There's a consensus among scientists who have studied nutrition that we eat too much junk. In 2003 the World Health Organization (WHO) proposed standards that diet contain no more than 10% of calories through sugar. He says the Sugar Institute went ballistic and got Larry Craig (R) to issue a letter to threaten to withdraw WHO funding unless it changed its report to recommend the intake of sugar could be up to 25%. The WHO stuck to its 10% recommendation, but the sugar industry had more influence over our government. In 2003, the Food Nutrition Board of the U.S. government issued its latest recommended daily allowances stating 25%.
- Science has developed a consensus that global climate change is happening and that it's a result of human activity. This consensus was tested in a review of 1000 peer-reviewed articles between 1993 and 2003: exactly 0.0% questioned this consensus. A study of 600 media articles over roughly the same period (1988 - 2002) showed 53% questioned the consensus.

He notes that doctors sell their "doctored" research and opinions to pharmaceutical companies. Lawyers sell their legal opinions to corporate sponsors.

It's clear that the corporate-sponsored DLC and PPI are similarly affected.

- Go here for the audio with the slides visible. (this is probably best, there's little advantage in seeing him speaking over just hearing the audio and seeing the slides).
- This can also been seen at "Simple Policy Gone Wrong & the Role of Money" at GovTrack.us.
- Go here for the video of him speaking with slides visible.

JUMP TO TOP

Trends in poverty, income, and health insurance in 2006

From: Income Picture, August 28, 2007, Poverty, income, and health insurance trends in 2006 by Jared Bernstein, Elise Gould, and Lawrence Mishel

Historical landscape

How have poverty, income, and inequality developed over this business cycle compared to earlier ones? Since the 1970s, poverty rates have been largely insensitive to economic growth, due to factors ranging from slower and less equally distributed growth, higher average unemployment, diminished wage growth at the low end of the pay scale, and the greater share of one-parent families, who are more vulnerable to poverty.

These trends were reversed, however, for a period in the latter 1990s, as uniquely low unemployment, strong job creation, and faster productivity growth enabled more workers to claim a larger share of the growing economy.

Median household income, for example, rose less than 1% between 1967 (earliest available data) and 1995, before speeding up to an annual rate of 1.9% (1995-2000). For minority households, median income growth in the latter 1990s was especially strong, as was poverty reduction, with the median income up 3.4% for African Americans and 5.3% for Hispanics. Poverty for African American children fell an unprecedented 10.7 percentage points, compared to 2.1 points for white children.

The recession starting in 2001 halted these gains, and—as is virtually always the case in a widespread downturn—poverty began to rise and household incomes fell across the income scale, particularly for working-age households (though high-income households were hit hard by large capital losses in the early 2000s).

But when the recession ended in late 2001, poverty and median income did not improve. To the contrary, both have worsened since then, as the so-called jobless recovery made it too difficult for working families -- those that depend on paychecks, not stock portfolios -- to find enough employment in decent quality jobs.

JUMP TO TOP

Incoherent Libertarian Objection and my Response

Here's e-mail from a libertarian who finds fault with my response to Mr. Rose. Because libertarians have a distorted view of reality, they are, quite literally, irrational and insane. They hate government and deny even the existence of a collective. Only individuals exist. See examples at Libertarian Objections. He maintains that if only we'd abolish the Federal Reserve, we'd not have a "trade deficit." There are major problems with the Federal Reserve, a private corporation run by unelected officials who make public policy in the interests of that corporation, not in the interests of the nation as a whole. That said, abolishing the Fed would not eliminate the trade deficit. I explain below.

Date: Tue, 06 Nov 2007 00:00:32 -0700
From: [JW]
Subject: RE: The Death of the Middle Class and the U.S. Economy
To: Bob Powell <scuba@usa.net>

I believe you could have answered the problem much more simply if the article just stuck to the first problem identification and carried that t its logical conclusion: The Fed. It is the Fed and only the Fed that has created the problem and is the underlying basis of the entire problem. It is the Fed which must be abolished immediately to end the trade deficit and return to real money. It is not Free Trade or Walmart that is the problem. If the Fed didn't exist, none of the problems you outline in the paper would exist, neither the loss of primary employers nor the creation of such companies as Walmart. No Fed; no Walmart (nothing like its current form), no Free Trade problems. Stop.

Response:

It's difficult to comment on this incoherent response. The effect Fed policy has on the "trade deficit" is through interest rates that affect the value of the dollar. The higher interest rates, the more foreign funds are attracted to invest in U.S. bonds and in the U.S., and the stronger the dollar. The stronger the dollar, the less competitive are U.S.-produced goods.

Fed policy is but one factor that affects the offshoring of jobs and the loss of primary employers. Considering the magnitude of the other factors (see How the U.S. Subsidizes Offshoring of Jobs), this one is swamped by the others. Even if the dollar were fairly valued relative to China's currency, these other factors would still force the offshoring of jobs.

I am a critic of the Federal Reserve. The problem is not that there is an organization like the Federal Reserve, but that the Fed is a private corporation that serves the interests of the private banks that own it, not the American public. Its purpose is to increase return to capital relative to return to those who work for a wage (see There's no 'free market' for Labor) and it does a great job at that.

In 1971, then President Nixon, suspended convertibility of the US Dollar to gold, thus putting an end to any backing of the US Dollar. In 1970 the USA had a trade surplus with the world of approximately two and quarter billion dollars and Gold was priced at $35/oz. By eliminating any backing, the value of the dollar was totally in the control of the privately owned Federal Reserve banking system. No longer bound by a commodity the government was now free to fund any and all operations by just having the Federal Reserve print money. Yet one must see the moral issue in creating something from thin air that is perceived to have value and then using this instrument to acquire things that have actual value. This is the basis of fraud and is why counterfeiting currency is illegal (Except for the private Federal Reserve). On top of having the Federal Reserve create the money the government would pay them interest on the money they created. With the newly created money government could fund all the projects and wars it had desired to do but previously could not afford. National debt has risen from $390 billion in 1970 to over $9 trillion now (not including unfunded obligations). In 1972 Henry Kissinger and Nixon opened trade with China, who was more than willing to accept US dollars with which it could buy oil which was priced exclusively in US Dollars. 1972 Wal-Mart is listed on the NYSE.

Response:

This paragraph continues with disconnected and incoherent comments.

When Nixon decoupled the value of the dollar from gold, it resulted in high oil prices causing inflation for which Carter was subsequently and unfairly blamed (at The Oil Shocks of the 70s, see the "Chronology leading to the oil shock in 1973").

That recognized, there is nothing sacred about the amount of gold in the world. The quantity of gold that's been mined is in no way connected to the needed money supply as population increases. The issue is whose interests Fed policy serves: financial interests or the nation and the public at large? Now it serves financial interests.

Throughout the 80s government would test the ability to print money, increase debt and export dollars around the world. With the amazing logistics of Sam-Walton and Wal-Mart the Americans were mostly able to avoid the high cost of inflation by exporting these created dollars to China. An indication of how much the dollar has actually depreciated is the current $800 price of Gold. Yet America has not reflected this type of inflation due to the exporting of the excess printed dollars as the "trade deficit."

Trade deficits reflect the amount of goods and services we have imported versus the amount of goods and services we have exported. Trade deficits have consistently risen from 1971 on and in 2006 rose to $758 billion. So Americans get goods at very cheap prices in exchange for printed dollars that were created out of thin air. This sounds great right?

Response:

Trade deficits have not "consistently risen from 1971 on" as shown in the trade deficit chart. They have risen consistently from 1991 on with the passing of NAFTA, etc.

However, there is an element of truth here. In a perceived need to "fight communism," the U.S. has pursued "free trade" policies that have offshored jobs to foreign nations and buttressed their economies without the need for direct foreign aid. This has been done to avoid the taxes to provide direct foreign aid that would be clearly visible, and instead put the burden on the public at large through depressed wages because of wage competition with low-wage countries.

This has allowed the U.S. to reduce inflation and instead, indirectly and less visibly, hold down wages. It fits perfectly with the Republican / Libertarian war against those who work for a wage. Instituting "free trade" was just another aspect of that. As long as it enriched corporations and the wealthy, they didn't care if it decimated the U.S. economy. See below.

The result of the dishonest money has Blowback. If we can print money and get goods that we want. Why trade goods for what we want? And since we no longer need to work to create goods, and we can just export dollars then why not have China, who is a willing partner, do all the work? To an amazing degree, this is exactly what has happened over time. Thus converting America from a self reliant nation with a strong manufacturing base to a predominantly service based nation. The blowback from the dishonest money that seemed so great is the loss of manufacturing capability and jobs in America. As well as massive dependency on foreign nations.

Exporting of USA jobs is not the result of free trade but is directly the result of dishonest money. As President of the United States I will do everything in my power to reinstate honest money and do away with the Federal Reserve System. Thereby immediately reestablishing trade balance and giving the American people the ability to compete in a global economy without jeopardizing American Sovereignty via WTO, NAFTA, CAFTA and the NAU "managed trade" deals. If the "experts" out there contine to confuse symptoms with the disease we'll never be able to eliminate the disease.

Response:

The symptom ***is*** the "trade deficit." Let's make the causal influences perfectly clear.

Losing primary job / export industries requires borrowing to keep funds coming in to fuel the economy (see How a Regional Economy Works). Having more Wal-Mart-like companies and jobs doesn't help because they are the polar opposite of primary job industries (don't export and dollars don't circulate within a community). Because borrowing cannot go on forever, the dollar loses value. The U.S. has only been able to maintain the value of the dollar through building global empire that requires the dollar be the world's reserve currency (see Confessions of an Economic Hit Man by John Perkins). As the borrowing increases (i.e., as the "trade deficit" increases), there's decreasing confidence in the dollar and its value drops relative to other currencies. Because the "trade deficit" is increasing exponentially and because this cannot continue, the dollar will eventually collapse.

The increasing "trade deficit" and the consequent declining value of the dollar are symptoms of our economic decline, not causes.

In fact, a decrease in the value of the dollar would help our trade deficit, not hurt it … that is, it would if we produced much to export anymore it would make those goods more globally competitive. The causes of the losses of primary job / export industries go way beyond the value of the dollar as I describe at How the U.S. Subsidizes Offshoring of Jobs, The Trade Deficit and the Fallacy of Composition, and A Systems Thinking Perspective on Manufacturing & Trade Policy.

The last paragraph appears to be extracted from Ron Paul's Libertarian website. Libertarians do not understand that abolishing the Federal Reserve (which I agree should be done) will do exactly nothing to achieve balanced trade. In fact, if the Fed stopped its profligate printing of money, it would increase the value of the dollar and increase the cost of U.S. goods. This would increase imports, decrease exports, and make the "trade deficit" even worse. I don't mean to imply that profligate printing of money should not stop; it should. It's just that responsible monetary policy won't eliminate the "trade deficit." Other policies must change as I describe in the links above.

Why not forward this to your group for consideration?

Response:

OK. I have. Will he forward a link to my analysis to his distribution? I'd welcome coherent comments.

JUMP TO TOP

Fighting communism with "free trade" to reduce inflation and reduce wages

The excerpt below explains how "free trade" pacts were used to fight communism and reduce inflation. The effect of wage competition with low-wage countries has been to reduce inflation and instead somewhat invisibly transfer the burden to those who work for a wage by depressing wages.

It insightfully links the desire to influence foreign countries away from communism with "free trade" policy, rather than foreign aid. It's a way to provide foreign aid without taxes, instead externalizing the costs onto the nation as a whole. That allowed cutting direct taxes while imposing an indirect burden on the nation's businesses and citizens. This has been done using the rhetoric of "free trade," maintaining the appearance of the policy imposing no costs, but having a very real effect on those who work for a wage. After all, it's "free." This policy allowed direct tax cuts for the wealthy and fit perfectly with Reagan's war against those who work for a wage.

There's an irony. This was done to "fight communism", but the main benefit of this policy is now going to China ... a Communist? Capitalist? Dictatorship.

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The Domestic Effects of Linking Trade and Containment

Economics mattered to containment politics. During the Eisenhower Administration, trade policy was used as a tool to contain communism – and certain domestic sectors began to feel the effects of free trade for the first time, to their detriment.

In order to curry favor with foreign governments, the United States imported more products from Cold War allies. Thus some U.S. industries began feeling pressure from foreign competition as early as the mid-1950s. This pressure was acknowledged by the U.S. Tariff Commission, which unanimously ruled that tariff concessions on lead and zinc from Mexico, Canada, Peru, and Bolivia had "seriously injured" the U.S. mining industry. The Commission urged corrective action. But U.S. Secretary of State John Foster Dulles would not restore the tariffs on these goods, warning that to do so would have "grave consequences…(t)here would be strong popular resentment in Canada and Mexico, which will make our borders less secure. The great opportunity to combat Communism in this hemisphere, won by the success of Guatemala, would be more than canceled out. Soviet Communist leaders would be elated and would redouble their efforts to divide the free world."30 …

Concessions were also made on Japanese imports in 1954. Patrick Buchanan argues that during the Cold War, "National security became the ultima ratio, the final argument, in every trade dispute. As the free world leader, America needed allies in the Cold War. The way to bind those allies to the United States and strengthen them for the struggle was through 'trade, not aid.' In truth President Eisenhower had his priorities straight. National security was a compelling – indeed, a conclusive – argument in the early years of the Cold War. But our European and Asian allies did not need to be bribed to enlist in America's cause. They were in far greater and more immediate danger than we were from Communist aggression or subversion."32

The move to freer trade had some industries feeling pressure from foreign competition as early as the mid-1950s. As some business sectors began to struggle, some in state government began to notice the connection between imports and domestic change. "With national foreign policy being generally oriented toward free trade, the states and their governors were being increasingly affected by international economic events," writes John Kincaid.33

At the federal level, the U.S. Department of Commerce (U.S. DOC) was making its own efforts to encourage U.S. business to move into the international economy. In 1955, the U.S. Department of Commerce established the Office of International Trade Fairs.34 As the world economy's significance to the United States became evident, the U.S. Congress was granting the presidency more control over international trade negotiations. In 1962, the Trade Expansion Act (TEA) authorized the presidency, rather than Congress, to enter into GATT negotiations over the next four years, from 1963 to 1967. The so-called Kennedy Round produced major cuts in tariffs. The TEA also established the Trade Adjustment Assistance program, designed to provide financial assistance and retraining to workers and companies in distress due to increased imports, and created the Special Trade Representative, today known as the U.S. Trade Representative (USTR).35

The late 1960s were marked by inflation, which undermined economic stability at both the domestic and global levels.36 Robert Gilpin explains, "By mid-1971, the U.S. dollar had become seriously out of line with other major currencies and the differential rates of inflation between the United States and other market economies had produced a fundamental disequilibrium in exchange rates." Confidence in the dollar plummeted. The United States was experiencing its first trade deficit since 1893, prompting pressures for protectionism. The surging economies of Europe and Japan were, according to some analysts, already making the Bretton Woods system obsolete and eroding the autonomy of the United States.37

So on 15 August 1971, President Richard M. Nixon announced what Gilpin calls a new U.S. foreign economic policy." President Nixon ended the convertibility of the U.S. dollar into gold, putting the global monetary system on a "pure dollar standard." Surcharges on U.S. imports forced the Europeans and Japanese to link their currencies to the dollar. Domestic wage and price controls were enacted as a means of slowing inflation within the United States. The dollar was devalued in December of 1971. In March of 1973, in a controversial move, floating exchange rates began.38

Floating exchange rates were intended to force variety in the business cycles among industrialized nations to avoid the synchronous pursuit of expansionary or restrictive policies, and to stabilize exchange rates. While flexible exchange rates did help nations adjust to the economic crises of the 1970s, the goal of monetary stability was not reached. 39

The assumption behind flexible rates was that "domestic economic management would not be constrained by international factors," Gilpin writes. But the removal of capital controls beginning in Europe in the late 1950s and the formation of the Eurodollar market began a process of economic integration that would make the hope of domestic autonomy "increasingly unrealistic."40

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