

**KZNT 1460 Scott Stafford's Business Initiative Show, June 3, 2006 on
Colorado Springs Manufacturing Task Force and the Loss of Manufacturing**

Participating:

Dave Anderson – Manufacturing Task Force Lead

Tony Fagnant – CEO, Qualtek Manufacturing

Frank Shannon – President, Finishes LTD

Bob Powell – Consultant, exponentialimprovement.com

[Note: Due to lack of time, some of what's in this document was not covered on the air]

[Many charts updated through May on 6/27/06]

Table of Contents

[In Word document CTRL-click on a section to go directly to it]

Background & interest in the erosion of the manufacturing base	2
General trade trends	3
Many say that the U.S. just has to move up the innovation ladder, do the knowledge work, and let others do the manual labor. That won't work.	4
The kinds of jobs being created and lost.....	5
U.S. employment and unemployment	7
The jobs situation in CO	9
So there's a loss of jobs in key occupations nationwide and in Colorado. Even though "official unemployment" is low real unemployment is at least 3X "official unemployment." Wages adjusted for inflation are falling. This is related to the growing trade deficit.	12
The impact of an exponentially-increasing trade deficit & why it's important.....	14
What about the dire warnings about being "protectionist" ... warnings about how that would be wrong and damaging to the country?.....	15
There's been a loss of manufacturing and tradable goods, a loss of jobs, a growing trade deficit, and built-in biases against manufacturing here in the U.S. What's driving this trend and offshoring ... why is this happening?	15
What we think should be done	17
But some say that doing anything to interfere with "free trade" will bring on a "great depression" like the Smoot-Hawley tariff did.	19
Final comments.....	19

Background & interest in the erosion of the manufacturing base

Dave Anderson:

The Manufacturing Task Force has four main initiatives with subcommittees in Knowledge Distribution, Innovation Support, Manufacturing Excellence, and Cooperative Area Marketing. It was formed by Rocky Scott, President of the Economic Development Corporation, as the first task force of the “Springs into Action” Initiative.

Personal experience in growing electronics assembly business over 12 years, which was affected in a most unfortunate way as activity was moved offshore.

Tony Fagnant:

(comments not captured)

Frank Shannon:

I was invited to attend a meeting of the task force about a year ago and found a lot of agreement with what the direction of the task force and another association (RMTA) that I am involved with. I decided we could work together and gain some efficiencies and synergy.

I have been actively working on this subject for about two years. My efforts have been in the area of pressing our legislators to address problems with our trade policies and other issues that are negatively impacting US manufacturers, which the CS task force wasn't addressing at the time. I have agreed to support their efforts in this regard by replicating my efforts on behalf of the RMTMA (Rocky Mountain Tooling and Machining Association) members.

Bob Powell:

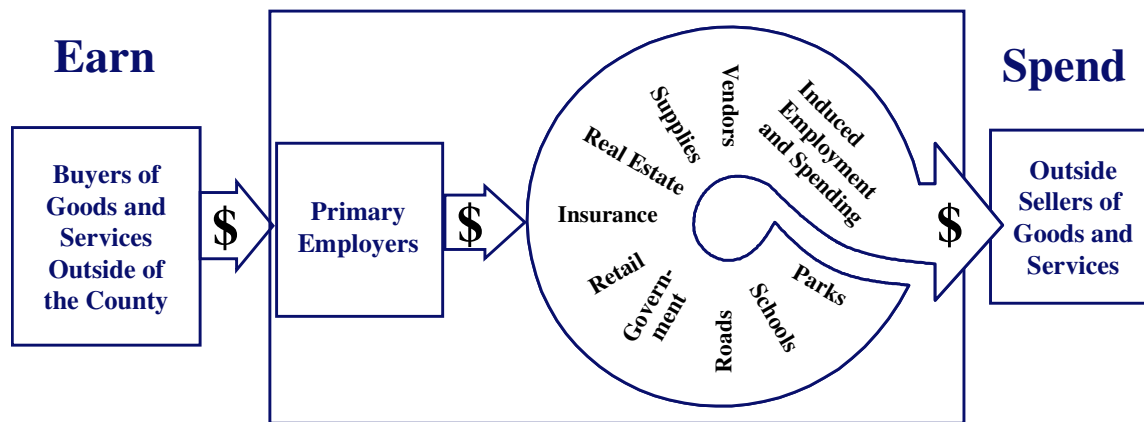
I first became interested in what's happening in the economy and the labor market when I did a study on Labor Market Economics for the EDC back in 1994. See [Labor Market Economics](http://www.exponentialimprovement.com/cms/labmkt.shtml) (<http://www.exponentialimprovement.com/cms/labmkt.shtml>).

I've been involved with the Manufacturing Task Force since its formation about 3 years ago. Since then I've become interested in understanding what's happening relative to the loss of our manufacturing base from a systems thinking and system dynamics point of view.

Rocky Scott started the task force because of his concern about the loss of its associated high-paying jobs with high multiplier effects. The strategy of the EDC has been to attract higher-paying jobs to increase the tax base to support a higher quality of life and that emphasis has continued.

Manufacturing is an important industry in Colorado Springs and the nation because manufacturers are “primary employers.” Primary employers are those that bring more dollars into the community to be re-circulated than dollars they ship out to purchase from the outside [see diagram on the next page]. For a growing economy there must be a net positive inflow of funds. The Colorado Springs Economic Development Corporation recognizes this for this region; it's rather surprising and disturbing that politicians don't recognize this is important for the nation, as well.

How Does the Colorado Springs Area Economy Work?



Primary (Basic) Employers import wealth by exporting goods and services

EDC presentation 1/28/03

General trade trends

Bob Powell:

From a column by Paul Craig Roberts:

October 20, 2004 [From First World to Third World](#) By [Paul Craig Roberts](#)

http://www.vdare.com/roberts/third_world.htm (<http://www.vdare.com/roberts/index.htm>)

... The US is ([ceasing to be a manufacturing country](#)). America has a trade deficit in almost every manufacturing product. ...

(http://www.vdare.com/roberts/economy_offshore.htm).

The US has a trade surplus in corn, cotton, wheat, scrap metal, and animal feeds. The only manufacturing products in which the US has a (small) trade surplus is airplanes and scientific instruments. ...

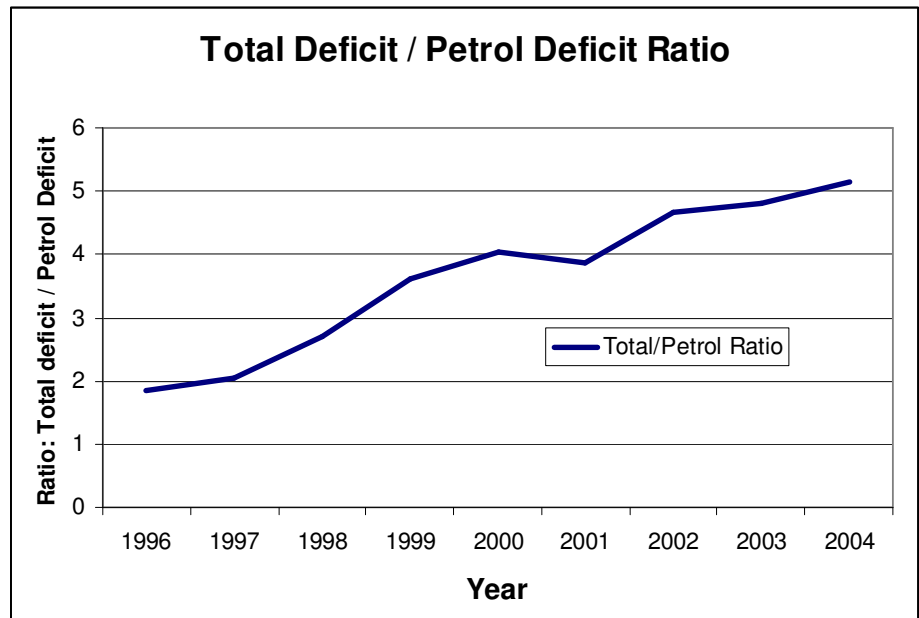
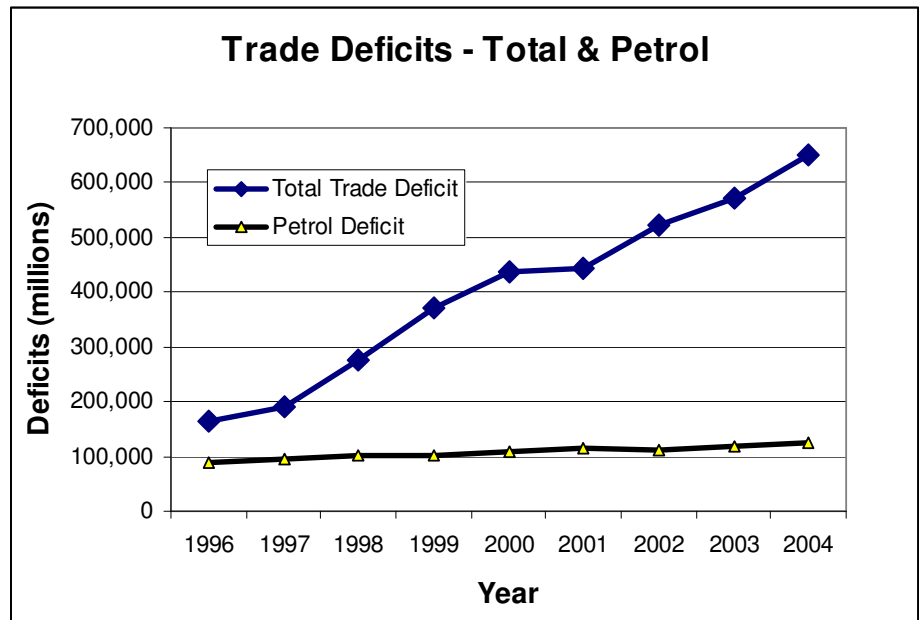
Americans no longer produce the "American goods" that they consume. American [incomes are falling](#) (http://www.vdare.com/roberts/science_or_religion.htm) as economist Joseph Stiglitz recently pointed out. When the dollar gives way, as Dallas Federal Reserve Bank President Robert McTeer [says it must](#) (<http://business.scotsman.com/index.cfm?id=1176012004>), Americans will not be able to purchase the goods and services that American firms produce abroad with foreign labor.

... "[Cheap foreign goods](#)" (http://www.vdare.com/roberts/no_think3.htm) will be beyond the reach of Americans, whose country is in rapid transformation from a superpower to a Third World economy.

Until I saw charts showing that the Petrol trade deficit is relative flat, thanks to Dave Anderson, I'd thought the increasing deficit was at least somewhat driven by increasing oil imports, but oil imports are relatively flat. In 1996 oil was half the deficit. In 2004 it was 1/5th the deficit.

So clearly, oil isn't what's driving the increases. It's offshoring ... substituting foreign labor for U.S. labor ... that's not "trade" ... it's transfer of the factors of production: land, labor & capital.

The whole terminology of "free trade" is misleading and obscures what's really going on.



Many say that the U.S. just has to move up the innovation ladder, do the knowledge work, and let others do the manual labor. That won't work.

Bob Powell: The fact is that innovation and design jobs won't save us because we don't have a monopoly on innovation. There's no magic wall between the loss of manufacturing jobs and the loss of engineering, design and information technology jobs. In fact, we're losing those, too, to India and China.

What to do? We've got to create jobs in goods producing industries ... tradable goods ... exports. Unfortunately, that's not happening. We need manufacturing ... innovation and design are built on the back of manufacturing. Manufacturing is a major customer of the IT industry.

The loss of manufacturing is a MAJOR problem as illustrated by this column:

November 8, 2005

[What America Exports: Paper, Waste and Jobs - Still No Jobs](#) By PAUL CRAIG ROBERTS

(<http://www.counterpunch.com/roberts11082005.html>)

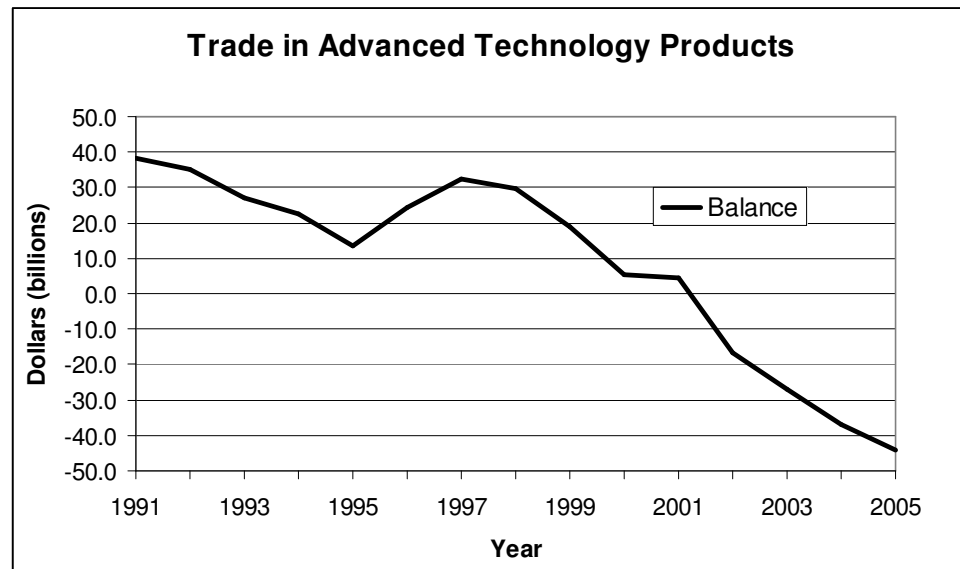
Many economists mistakenly claim that offshore outsourcing and work visas for foreigners benefit Americans by lowering costs. But no country benefits from the loss of high productivity, high value-added occupations. ...America's volume exports are paper, waste paper, agricultural products and chemicals. ...

Everyone talks about energy independence as if our future depends on it. Simultaneously, we are told that globalization is good for us in every other respect. But why is energy independence any better than manufacturing independence, or engineering independence, or innovation independence? US imports of industrial supplies, capital goods, automotive vehicles, and consumer goods all exceed US oil imports.

The fact is that it's not "any better," it's vital.

To confirm this look at the trend in trade in Advanced Technology Products (Find [Data here](#) (http://www.census.gov/foreign-trade/Press-Release/current_press_release/press.html#prior)).

So in 14 years the U.S. went from a \$40B surplus to a \$43B deficit.



The kinds of jobs being created and lost

Dave Anderson:

The loss of manufacturing is about the loss of exports in goods producing industries ... tradable goods ... it's leading to an exponentially-increasing trade deficit and the loss of high-paying jobs associated with producing those goods.

Paul Craig Roberts greatly concerned ... read his columns at [Counterpunch.com](http://www.counterpunch.com)

November 8, 2005 <http://www.counterpunch.com/roberts11082005.html>

What America Exports: Paper, Waste and Jobs - Still No Jobs By PAUL CRAIG ROBERTS

... There is a great deal of meltdown inside the US economy.

Manufacturing is hollowed out. The decline in manufacturing means decline in the engineering and other professions that serve it. Knowledge jobs are also being lost to offshore outsourcing and to H-1b, L-1, and other work visas. In October, there were 81,301 corporate layoffs.

The government does not keep records of the US jobs lost to offshore outsourcing and to work visas for foreigners. With so few jobs available in the educated professions, the future of US universities would seem to be bleak.

In [Will the US Need an IMF Bail Out?](http://www.counterpunch.com/roberts01102006.html) 1/10/06 <http://www.counterpunch.com/roberts01102006.html>

Of the 94,000 jobs [in Dec 05], 35,800 or 38% are for waitresses and bartenders. Health care and social assistance were 28% and temporary workers were 10%. These three categories of low tech, nontradable domestic services account for 76% of the new jobs. This is the jobs pattern of a poor third world economy that consumes more than it produces.

America's so-called first world superpower economy was only able to create in December a measly 12,000 jobs in goods producing industries, of which 77% are accounted for by wood products and fabricated metal products—

2,600 jobs were created in computer systems design and related services, depressing news for the several hundred thousand unemployed American computer and software engineers.

August 9, 2005 *Good News! Soon You'll No Longer Need an Expensive College Education to Work in the US ...* [Watching the Economy Crumble](#) By PAUL CRAIG ROBERTS

The US continues its descent into the Third World, but you would never know it from news reports of the Bureau of Labor Statistics' July payroll jobs release.

The media gives a bare bones jobs report that is misleading. The public heard that 207,000 jobs were created in July. If not a reassuring figure, at least it is not a disturbing one. On the surface things look to be pretty much OK. It is when you look into the composition of these jobs that the concern arises.

Of the new jobs, 26,000 (about 13%) are tax-supported government jobs. That leaves 181,000 private sector jobs. Of these private sector jobs, 177,000, or 98%, are in the domestic service sector.

Here is the breakdown of the major categories:

- 30,000 food servers and bar tenders;
- 28,000 health care and social assistance;
- 12,000 real estate;
- 6,000 credit intermediation;
- 8,000 transit and ground passenger transportation;

- 50,000 retail trade; and
- 8,000 wholesale trade.

(There were 7,000 construction jobs, most filled by Mexicans immigrants.)

February 11/12, 2006

Forget Iran, Americans Should be Hysterical About This

[Nuking the Economy](http://www.counterpunch.org/roberts02112006.html) By PAUL CRAIG ROBERTS <http://www.counterpunch.org/roberts02112006.html>

No sane economist can possibly maintain that a deplorable record of merely 1,054,000 net new private sector jobs over five years is an indication of a healthy economy. The total number of private sector jobs created over the five year period is 500,000 jobs less than one year's legal and illegal immigration! (In a December 2005 Center for Immigration Studies report based on the Census Bureau's March 2005 Current Population Survey, Steven Camarota writes that there were 7.9 million new immigrants between.)

Calculations:

1.05 million new private sector jobs in 5 years

7.9 million immigrants in 5.25 years (January 2000 to March 2005)

= 7.9million/5.25 = 1.5 million immigrants/year

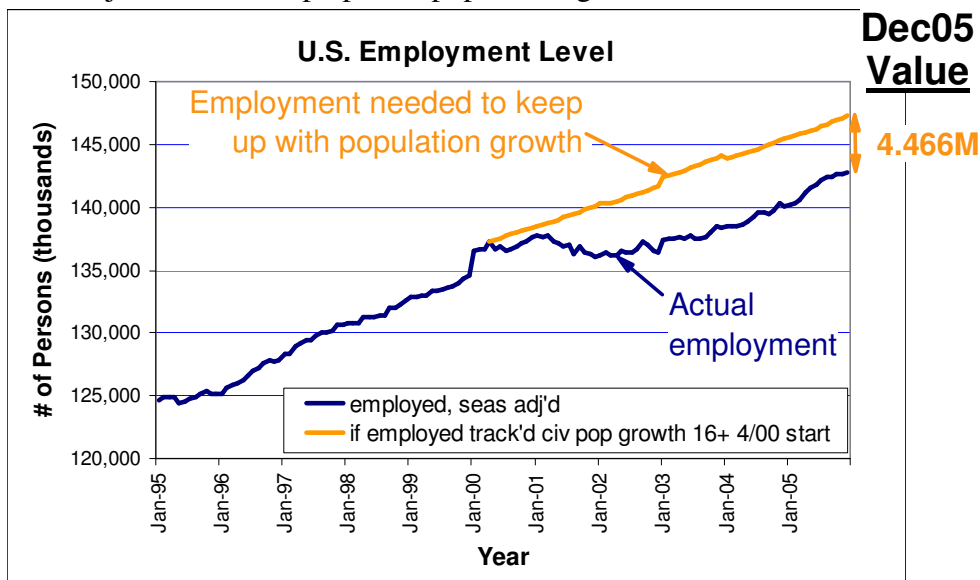
So there were 500,000 more immigrants / year than private sector jobs created in 5 years!!!

No wonder there's an uproar over immigration.

U.S. employment and unemployment

U.S Employment:

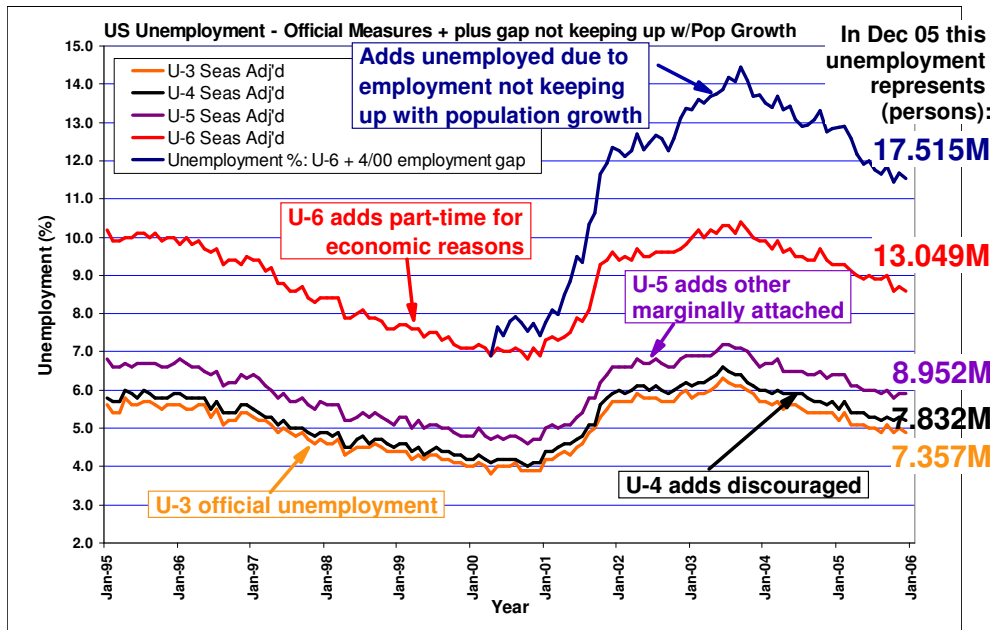
Bob Powell: The number of jobs in the nation has surpassed the peak in Jan 2001 by about 5 million jobs, but to keep up with population growth we'd need another 4.5 million jobs.



U.S Unemployment:

Unemployment in general is complicated to talk about. See chart. While Official unemployment is just under 5% (that's the measure known as U-3), if one adds the discouraged workers and part-time for economic reasons, it's closer to 9%. Taking into account that job growth hasn't kept up with population growth (the 4 1/2 M), we have about 12% unemployment. None of this takes into account the underemployed.

US Unemployment - Official Measures + plus gap not keeping up w/Pop Growth



From: [Unemployment Rate Deception](http://www.thirdworldtraveler.com/Labor/UnemploymentRate_Decep.html) (http://www.thirdworldtraveler.com/Labor/UnemploymentRate_Decep.html)

... The official unemployment rate, as calculated by the Bureau of Labor Statistics (BLS), includes only jobless people who have looked for work in the previous four weeks—the unemployed who are "in the labor force." The BLS considers people who want jobs but don't have them and who have sought work in the past year but not in the past month to be "marginally attached" to the labor force, whatever their reason for not looking. Those who give an economic reason (for example, they were previously unable to find work in their field, they feel they need more training, or they suffered discrimination in hiring) are considered "discouraged workers," a subset of the marginally attached. ...

This is important: The government doesn't count many of those "who want jobs" as "unemployed" ... official unemployment numbers are government propaganda.

If you don't believe the jobs situation is serious, in Chicago there's a graphic illustration that there's vast unemployment, understated even by these graphs. [Article: 25 thousand apply for 325 jobs at a new Wal-Mart.](http://www.suntimes.com/output/news/cst-nws-walmart26.html) <http://www.suntimes.com/output/news/cst-nws-walmart26.html>

Other sources:

"[SHADOWING REALITY](#)" (An Interview of John Williams Conducted by Kate Welling) - Mar. 11, 2006 <http://www.gillespiere.com/cgi-bin/s/article/id=779> puts unemployment at ~12% and notes flaws in other government statistics as well.

John Williams: Shadow Government Statistics [Analysis Behind and Beyond Government Economic Reporting](http://www.gillespiere.com/cgi-bin/bgn) <http://www.gillespiere.com/cgi-bin/bgn>

Excerpt:

Real unemployment right now—figured the way that the average person thinks of unemployment, meaning figured the way it was estimated back during the Great Depression—is running about 12%. Real CPI right now is running at about 8%. And the real GDP probably is in contraction. I venture that if you talked about those numbers now with the average person, they would say that they seem reasonable. If you tell them that people are playing with the official numbers, they say, “Yep, I figured that. There are no great surprises there.” I guess what I am saying is that my work shows that the economic perceptions of non-professionals actually have some real validity; there are in fact reasons for the disconnect between official statistics and what the populace is feeling. ...

November 8, 2005 <http://www.counterpunch.com/roberts11082005.html>

What America Exports: Paper, Waste and Jobs - Still No Jobs By PAUL CRAIG ROBERTS

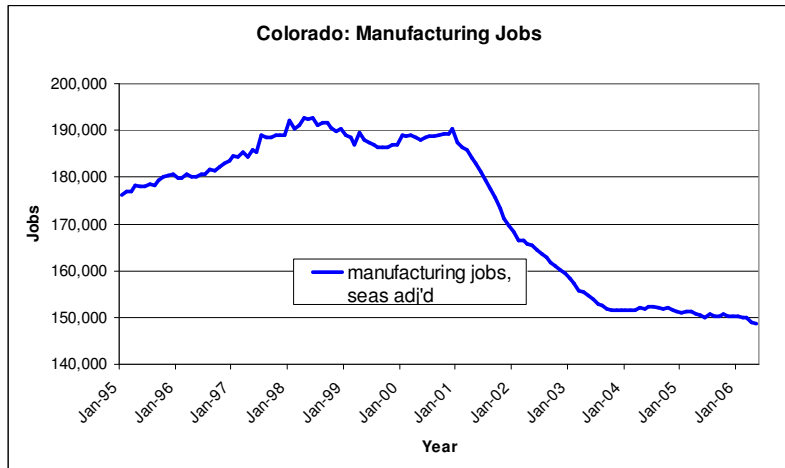
... This process of substituting foreign workers for American workers cannot go on for too long before the US consumer market dies from lack of income and purchasing power. US policymakers have no clue.

Market Watch (Nov. 4) reports that "wage growth is a chief concern of the Federal Reserve, which fears that wage pressures could imbed an inflationary psychology in the economy." This is amazing. US wages are not keeping up with inflation. Real wages are falling, and the Federal Reserve is worried about wage pressures! ...

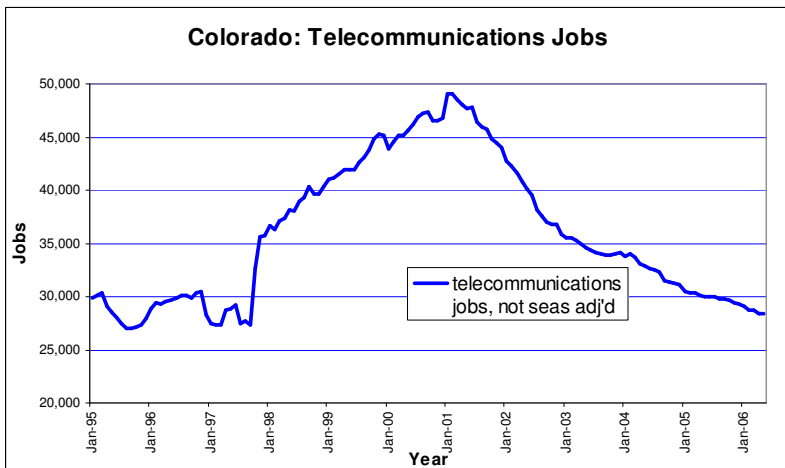
The jobs situation in CO

Dave Anderson:

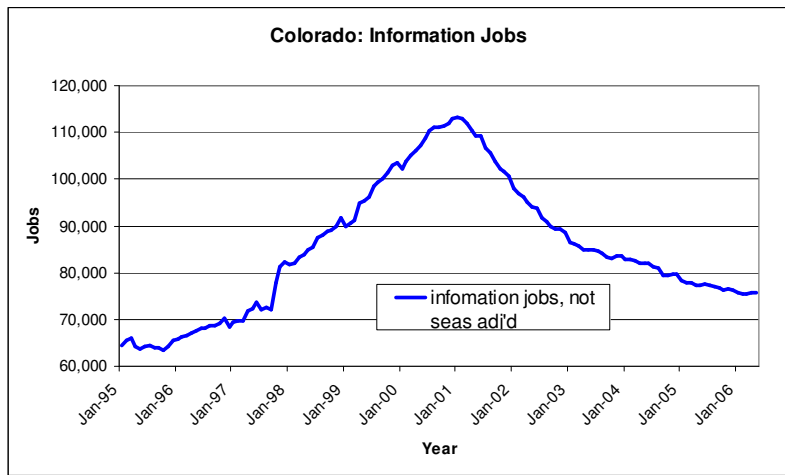
40,000 mfg jobs lost in manufacturing since Jan 2001. Still declining, but almost flat.



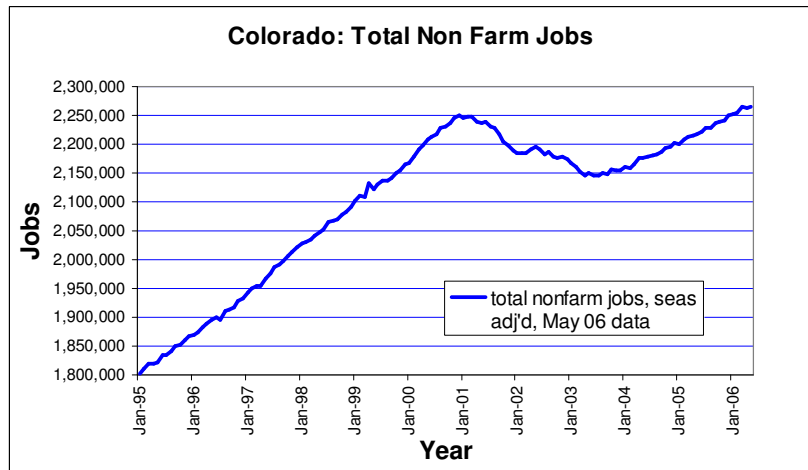
20,000 telecom jobs lost since Jan 2001 and still losing.



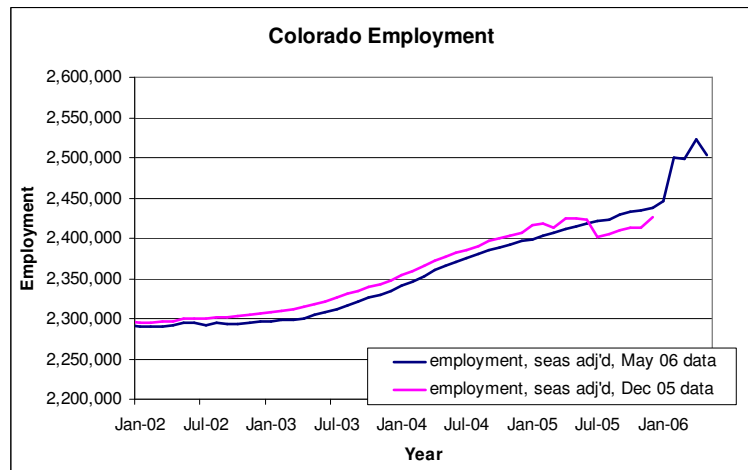
35,000 information technology jobs lost since Jan 2001



In February 2006, Colorado non-farm jobs have just reached the level back in Jan 2001



But looking at total employment, the data looks weird (see at right) ... there's a hockey stick gain of 62,000 jobs in Jan & Feb ... and 74,000 up in Feb from what was reported in Dec 05. What???

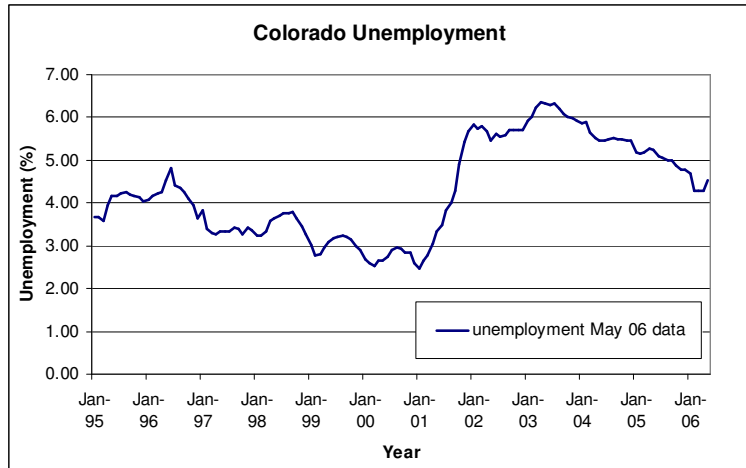


Monthly job increases:

Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06
2,760	2,826	7,507	55,013	-1,508	24,906	-19,635		

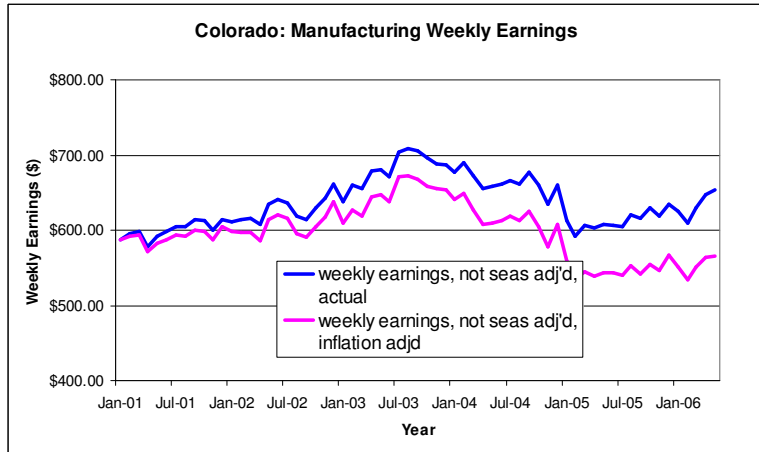
This hockey stick behavior looks really strange. Big error? Data manipulation?

“Official” unemployment is down to about 4.5%, less than the Sep 03 at 6.2%, but well above the ~2.5% in Jan 01.

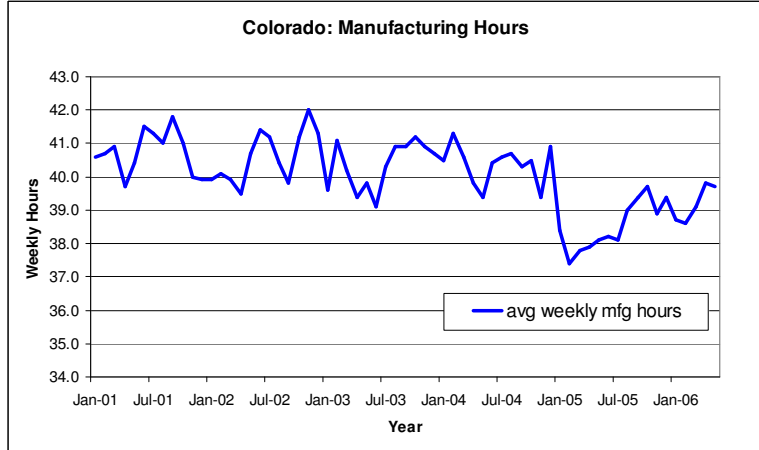


Because of our interest in the loss of manufacturing, we've looked at earnings in this industry sector.

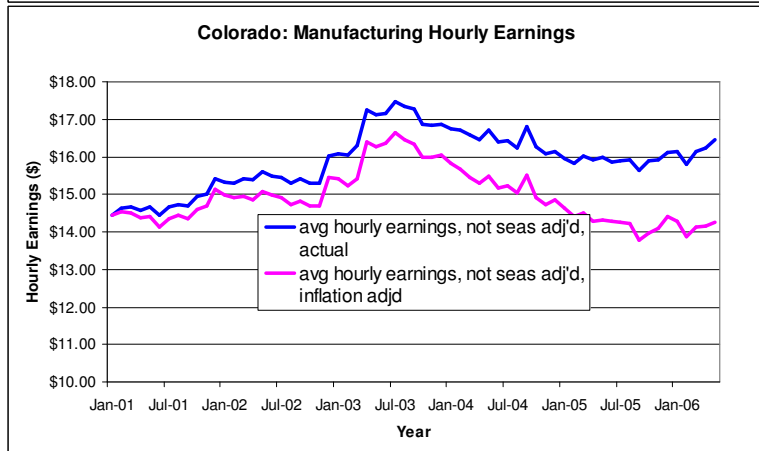
Weekly earnings are up about \$66 in May 2006 from Jan 2001. But adjusted for inflation, they're down \$21.



Manufacturing weekly hours are down from 40.6 in Jan 2001 to 39.7 in May 2006



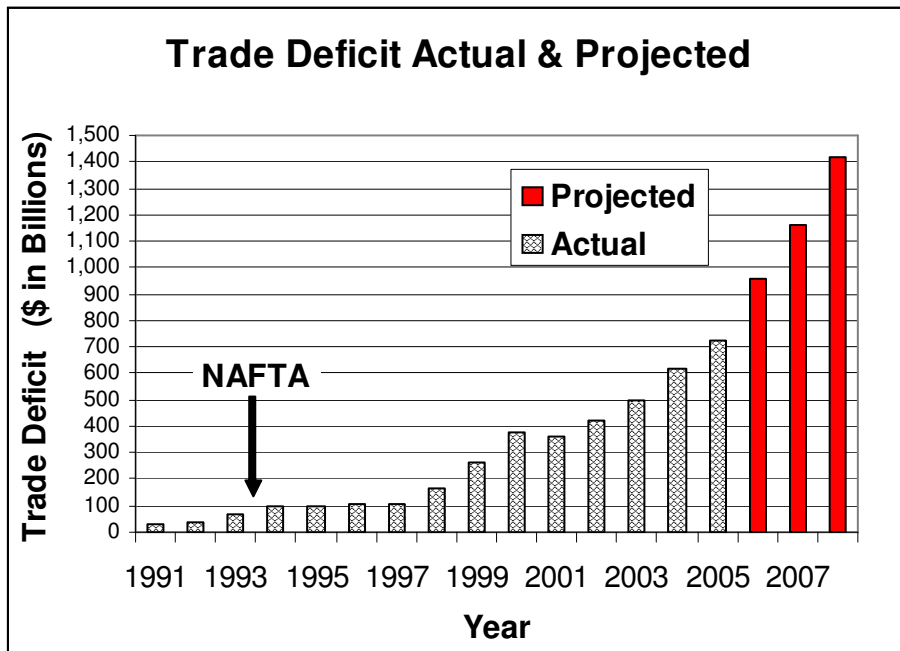
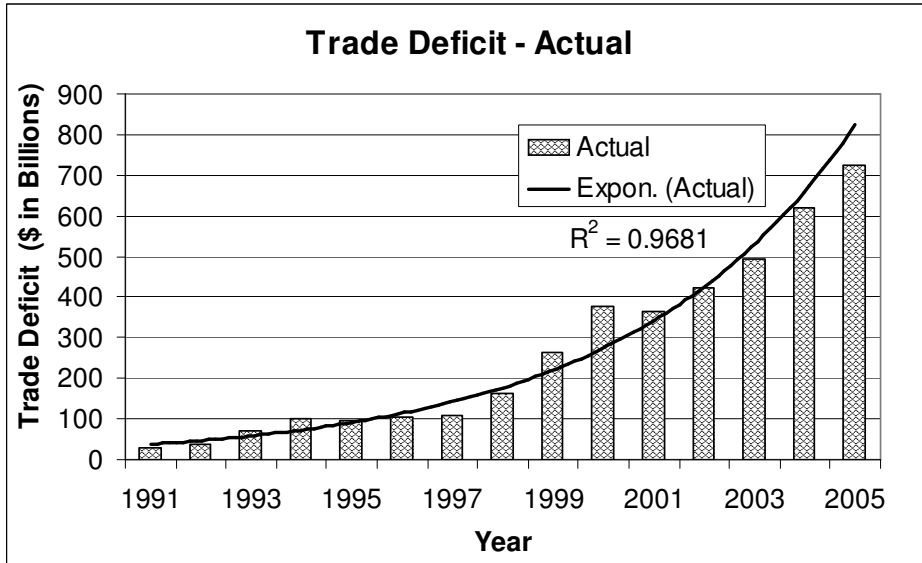
Manufacturing hourly earnings are up \$2.00 from \$14.45 in Jan 2001 to \$16.45 in May 2006, but adjusted for inflation they're down \$0.21 to \$14.24.



So there's a loss of jobs in key occupations nationwide and in Colorado. Even though "official unemployment" is low, real unemployment is at least 3X "official unemployment." Wages adjusted for inflation are falling. This is related to the growing trade deficit.

Tony Fagnant: The trade deficit isn't just growing, it's growing exponentially.

Since 1991 the fit to an exponential curve is almost perfect and in 2005 it was a better fit to an exponential than it was in 2004. [$R^2 = 0.9643$ for 1991 thru 2004 > 0.9681 for 1991 thru 2005]



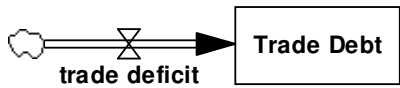
Trade deficit – statistics – trend & projection

2005 trade deficit: ~\$724B = ~6.5% of 2005 GDP (\$11,135B)

Projected 2007 trade deficit: \$1,164B = ~10% of GDP

Projected 2012 trade debt (accumulated trade deficit) = ~100% of GDP

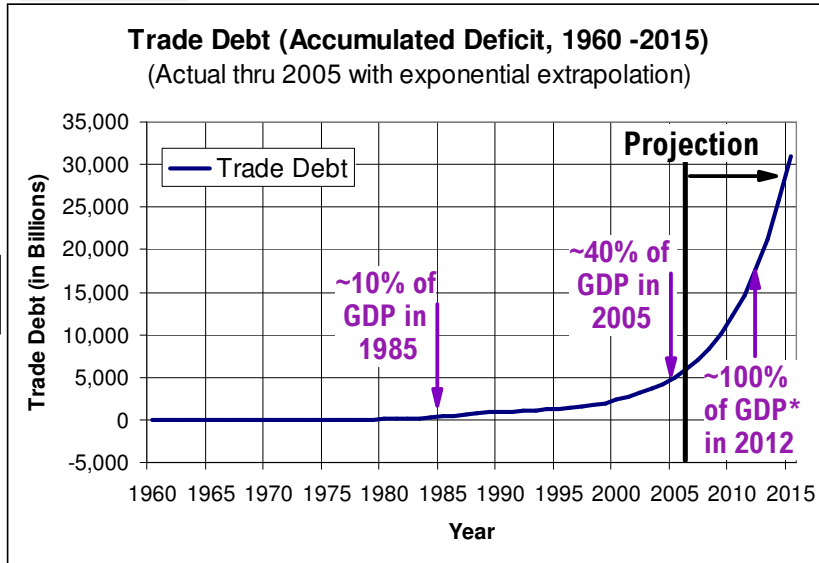
Accumulated Deficit = Debt



S
deficit data **

2005 GDP
\$12,487 billion

*2012 est.
assumes
5% / year
GDP growth

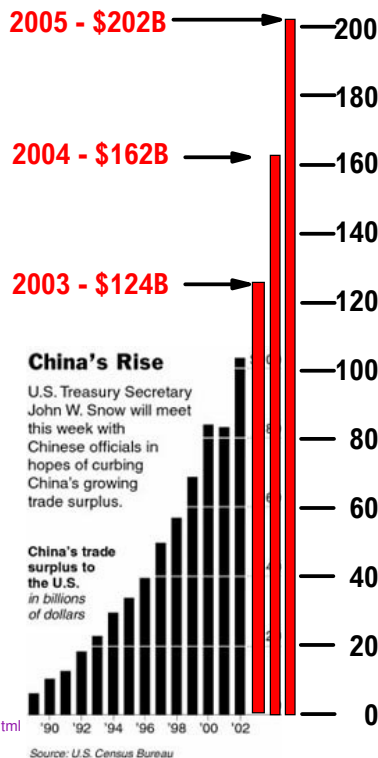


** from: <http://www.census.gov/foreign-trade/statistics/historical/gands.txt>

The trade deficit with China is reaching ever-increasing highs.

Trade with China

- 1980 - China first got Most Favored Nation (MFN) status
- MFN renamed to NTR (Normal Trade Relations)
- 2000 - China granted Permanent NTR (PNTR)
- Dec 2001- China granted Entry into WTO



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>

The impact of an exponentially-increasing trade deficit & why it's important

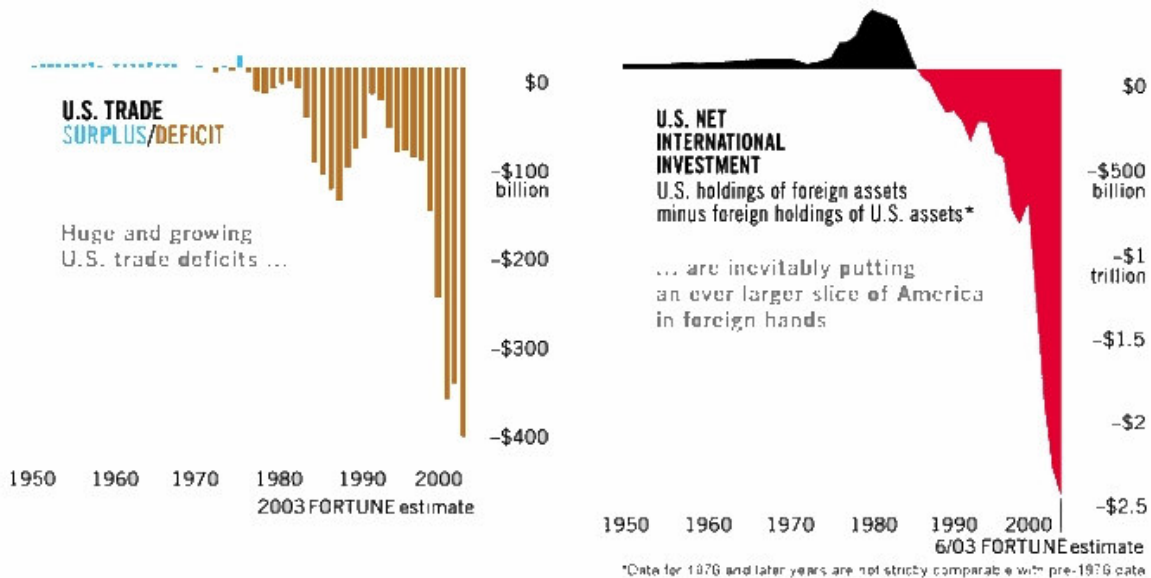
Frank Shannon: Why is this important? Our nation has lost 14% of our manufacturing base since the early 1990's. We have a trade deficit that is out of control. Our nation is spending \$1.4 million dollars A MINUTE on foreign goods that we can't offset in tradable goods. I don't see how this can be sustained. I don't believe the US can sustain our life style without creating wealth by making more tradable goods.

The Bush administration doesn't understand why the public thinks the country is on the wrong track when they keep reminding us that the economy is in good shape. Most of the people I know understand that when the US is not making enough tradable goods to balance our trade – this is not a good thing. They also know someone or know of someone who knows someone who has lost their good paying IT position or manufacturing job and is under-employed.

I have personally seen people who were engineering managers at customers of mine or set up men at machine shops who are stocking shelves at WalMart and Home Depot. I am tired of seeing competitors and customers in our industry closing up shop. I am also concerned about relying on foreign competitors providing equipment and systems vital to our defense.

Not covered on air: Another major impact is that we're selling off America. In Warren Buffett's November 10, 2003 article in Fortune on [America's Growing Trade Deficit Is Selling the Nation Out From Under Us. Here's a Way to Fix the Problem - And We Need to Do It Now](http://www.fortune.com/fortune/investing/articles/0,15114,525644,00.html) <http://www.fortune.com/fortune/investing/articles/0,15114,525644,00.html>

(This link to the original Fortune article no longer gets there ... so it's also available [here](http://www.exponentialimprovement.com/cms/uploads/BuffettTradeDeficitFortune.pdf) <http://www.exponentialimprovement.com/cms/uploads/BuffettTradeDeficitFortune.pdf>), he has chart that show both the increasing trade deficit and the increasing foreign holdings of U.S. assets.



And we need to think about what would happen if the Chinese pulled back, even a bit, on their lending?

“Heavily dependent money markets would go into cardiac arrest.”

Indispensable, untouchable China By Robert Kuttner, Boston Globe | April 22, 2006

Dollar crash, high interest rates, severe economic recession at least, very possibly a depression.

What about the dire warnings about being “protectionist” ... warnings about how that would be wrong and damaging to the country?

Frank Shannon: I heard Bob refer once to what is happening as reverse protectionism. That struck a cord with me. In other words, we are giving away the “goose that lays the golden egg”. We have a hole in our bucket and I don’t see any action to repair it.

Nobody I know working on trade policy issues wants to restrict trade or protect US producers by eliminating any natural advantages that foreign countries have such as low wages. The market will address those in due course. However, there are many non-market advantages that other countries enjoy that need to be changed or at least looked at.

Some of these are: Chinese Currency Manipulation -- China is exempt from Countervailing Duty laws because they are a non-market economy. Do you really believe they are a non-market economy today?

Our tax policy places a large part of the tax burden on producers – almost all foreign countries tax consumption. This is a huge advantage.

Before outsourcing it mattered little how we taxed our consumers – directly or indirectly by having corporations collect taxes from the consumer and pass those costs on to the consumer. Since consumers ultimately pay all taxes, the only benefit to indirect taxes is to hide the total costs of government and the social safety net.

If we taxed consumers directly for the cost of government and the social safety net, consumers would revolt. So, politicians have found ways to hide most of the taxes imposed on US consumers by placing the burden on producers.

[See [How the U.S. Subsidizes Offshoring of Jobs](http://www.exponentialimprovement.com/cms/offshoresubsidies.shtml) for a more <http://www.exponentialimprovement.com/cms/offshoresubsidies.shtml>.]

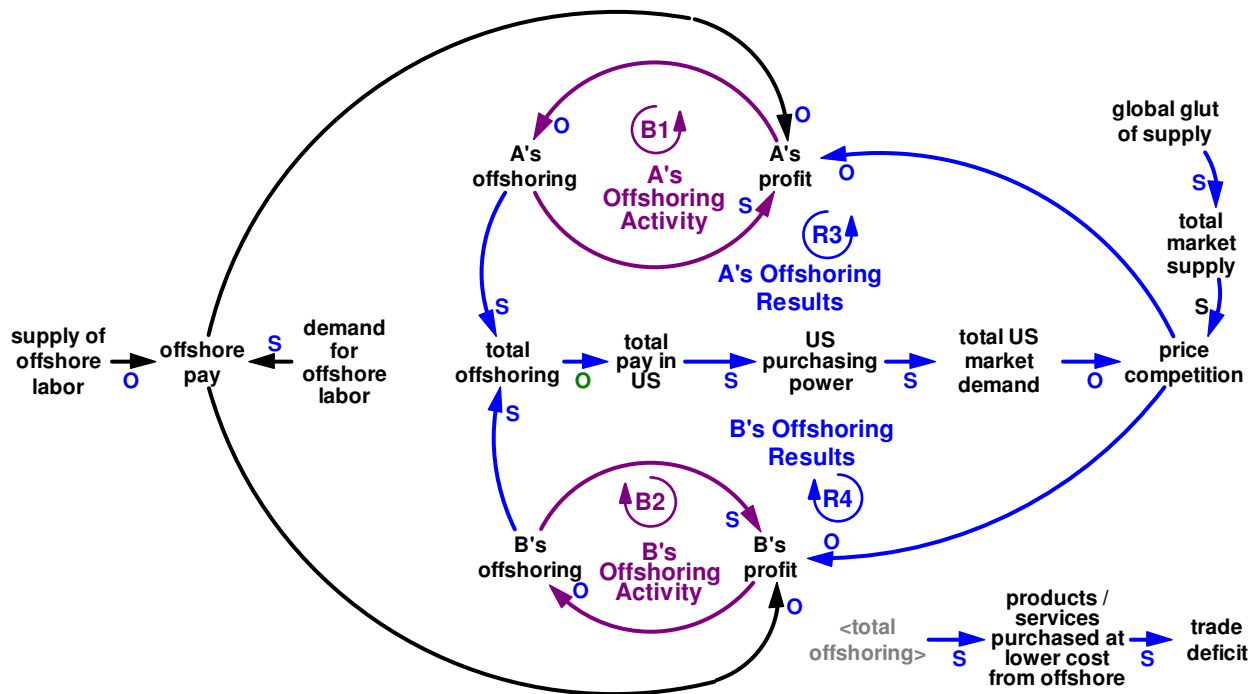
[... not covered on air ...]

Second, the issue isn’t simply “protectionism.” Most people approve of protections for private capital, such as intellectual property, ... few want a “free market” with no protections for that ... that would be a “lawless market” ... not a “free market.” But somehow many don’t want to see the same kind of protections for labor and environment; but that’s also desirable if we want to prevent further erosion of U.S. living standards.

There’s been a loss of manufacturing and tradable goods, a loss of jobs, a growing trade deficit, and built-in biases against manufacturing here in the U.S. What’s driving this trend and offshoring ... why is this happening?

Bob Powell: The Structure of Offshoring

[... the diagram on the next page is a systems thinking causal loop diagram ... see [website](#) for an explanation of how to read them.]



Above is the “structure” driving what’s happening. It’s an example of The **"Fallacy of Composition"**: *Acting as if what's true for a part is true for the whole.* We’re caught in a way of thinking that’s false. The basic idea is that there are situations where individually logical actions are collectively irrational ... and collective action through government is required. Offshoring is one of them.

Example: "Trade" & Offshoring of Jobs

Note: It's not "trade." It's "transfer of the factors of production." “Labor arbitrage”

The environment: Low offshore wages in a world economy with enormous labor supply compared to demand. Plus great price pressure due to a global glut of overcapacity & supply.

Individual logic: Under price pressure any U.S. corporation can offshore jobs to reduce costs and increase profits. That works for it.

But it brings on collective failure:

- When one corporation offshores, it increases price competition.
- This logically drives other and more & more corporations to offshore labor.
- Yet when all do, none have lower costs than others and they're no better off than before relative to competing in the U.S.
- Increased low-wage competition reduces U.S. wages ... remember real (adjusted for inflation) U.S. wages are falling and high-paying jobs are being lost.
- This shrinks U.S. purchasing power.
- It erodes U.S. market demand.
- And further increases price competition, creating pressure for even more offshoring.
- As long as offshore pay is lower than in the U.S. & there's a global glut of capacity, this "reinforcing feedback" will power offshoring.
- Result: an exponentially increasing U.S trade deficit.
 - 2005 trade deficit: ~\$724B = ~6.5% of 2005 GDP (\$11,135B)
 - Projected 2007 trade deficit: \$1,164B = ~10% of GDP

What can't go on forever will stop! Dollar crash & inflation.

Tony Fagnant: At one time, people said that “what’s good for GM is good for the U.S. economy as a whole.” From a global perspective, for reasons that Frank discussed a few moments ago, domestically-based manufacturing operations are at a great disadvantage. Foreign-based producers have lower wages, lesser benefits, and tax advantages – while still able to obtain “American pricing” in the marketplace. These global capital deployers are acting in a rational fashion, maximizing returns to capital. And returns to capital for our large public companies are as high as they have ever been, while the proportion of labor in Gross Domestic Product is sliding to the lowest level. Interests of the global capital deployers are no longer the same as those of the nation as a whole.

Dave Anderson: Henry Ford’s dictum about paying \$5 per day has been turned on its head. Mr. Ford set high pay so that the Ford workforce could afford to purchase the products that Ford manufactured. While it is true that there are economic benefits from lower prices, resulting from imports of foreign manufacture, we have poor measures of the reduction in national purchasing power that result from this substitution. The engineer or production worker laid off as the result of offshoring ends up finding a lower wage, lesser benefit position in retail, hospitality or government. Long-term, this reduction in national purchasing power will work its way around to erode returns to capital, at the same time that it diminishes tax receipts and increases social support costs.

What we think should be done

Dave Anderson: Push all the buttons, but recognize that the one competitive advantage that we have in the US is our freedom. We can affiliate freely, dedicate our time and capital – and change what we are doing quickly and without many restrictions. This is the reason that I believe America has been considered more innovative, and why – despite so much in our troubled economic climate that should lead funds elsewhere – it has been possible to fund the massive Federal fiscal and international trade debt.

We need to create new incentives to develop technology in the U.S., and new models of innovation and commercialization processes. A number of communities and state-level organization around the country are trying to create collaborative ‘innovation ecosystems.’ The Colorado Springs Manufacturing Task Force has, as the theme behind all of our activities is ‘Collaborate to Compete,’ been on this track as well with our four sub-committee initiatives.

Tony Fagnant: Rather, success is more likely in the marriage of one with process knowledge with another’s market concept, in a factory setting where utilization of excess capacity can minimize production cost. Additional support is available through university technology transfer initiatives.

Frank Shannon: There are myriad bills in both houses of congress attempting to restore some balance in our trade policy mostly with respect to China.

Very little has taken place to work towards a balance or will take place until the Bush administration recognizes there is a problem. Dave and I as well as others have met with our legislators to try to get some action. However, the administration has stopped every attempt to get China to follow trade protocols and laws. Many legislators are informed now as they have

been hearing from manufacturing for years about this. Some are making noises and may stand up to the administration but not much has happened as a result. So the pressure builds and the administration dithers and they don't understand why they are so unpopular. I believe this is the main reason why the public sees the country is on the wrong track in spite of the drum beat from the administration that the economy is doing just fine.

As elections draw near, I am hopeful that politicians that do not want to fall on their swords for the president will get more serious about this issue.

Bob Powell: Frank is correct to emphasize political action ... this isn't just a failure of action, it's mainly a failure of thinking ... caught in a "fallacy of composition" where we think that when individuals doing the right things will work out for the whole. It not true.

Lou Dobbs is correct on trade:

Wednesday, April 19, 2006; Posted: 6:57 p.m. EDT (22:57 GMT)

[Dobbs: Hu's visit shows who's in charge](http://www.cnn.com/2006/US/04/19/dobbs.hu/index.html) By Lou Dobbs, CNN <http://www.cnn.com/2006/US/04/19/dobbs.hu/index.html>

... But the Red Storm [China] cannot be blamed for its continued manipulation of its currency, for its record \$202 billion trade surplus with the United States or for buying up American businesses and hard assets around the globe while restricting access to its market and economy.

The fault lies entirely with the U.S. government, our lack of strategy and our failed policies. This administration and U.S. multinational corporations have lost sight of the national interest. This administration and the Republican-led Congress have [Government has] permitted the dismantling of America's manufacturing base and created a dependency on China for our clothing, computers, consumer electronics and a host of other products that is greater than our dependency on foreign oil.

Make no mistake: Our leaders are the fools, and China's leaders are not to be blamed for taking advantage of this administration's commitment to faith-based economic theories and so-called free trade that permits the Chinese access to the world's richest consumer market while China denies our businesses access to its emerging market.

We can only blame ourselves and our business leaders for offshoring production to China. ... [and] for permitting the transfer of our knowledge base in technology to China. And ... for shipping middle-class jobs to China in search of lower labor costs.

In fairness to business leaders, it's not a corporation's job to look out for the nation. It's government's job ... it's NOT DOING IT.

The solution: [Warren Buffett's "Import Certificates" mechanism](#) for balanced trade (described in the section above on "The impact of an exponentially-increasing trade deficit & why it's important."

Describe: You as a foreign country buy from the U.S. and you get Import Certificates to sell back to the U.S. If you don't want to sell to the U.S., you can sell your Import Certificates to another party. This would create balanced trade. That's going for the desired outcome rather than attempting to level the playing field by juggling so many factors ... like currency manipulation, subsidies, tariffs, tax loopholes, transfer pricing schemes, etc. ...

Of course any major change like this should be phased in over 10 or so years to allow markets to adjust.

But some say that doing anything to interfere with “free trade” will bring on a “great depression” like the Smoot-Hawley tariff did.

Bob Powell: The concern about a "Smoot-Hawley tariff war" perpetuates the myth that the Smoot-Hawley tariff contributed to the Great Depression. I'm not a fan of Pat Buchanan, but in *The Great Betrayal* (1998) he quotes an economist who points out that:

"... from 1929 to 1933, America's GNP fell from \$104 billion to \$56 billion, a loss of \$48 billion. However, net exports fell by only \$700 million, and domestic spending declined by \$47.3 billion. In other words, net exports decreased by 1.5 percent of the fall in GNP, as domestic demand fell by the remaining 98.5 percent! It is patently absurd to fuss over that 1.5 percent fall and overlook the other 98.5 percent." p. 249.

Plus, the Smoot-Hawley was passed AFTER the depression began.

The Smoot-Hawley myth is an example of Jay Forrester's observation (he is the founder of the field of system dynamics) that in dynamically complex systems we are very adept at discovering a proximate cause of our problems that is obvious, logical, and *wrong*.

The great depression was brought about by excessive speculation and tax cuts that led to a growing gap between the wealthy and the poor ... tax cuts that fed speculation. That's a lot like what's happening now.

Final comments

Dave Anderson: Although the problem has been identified, as a people we have not demonstrated the ability to address the issues successfully. To maintain an economic future similar to what the two previous generations have enjoyed, we MUST generate 50% more tradable goods. Lack of industrial policy and blind acceptance of free trade concepts threatens the viability of our economy.

Tony Fagnant: Everyone needs to be looking for opportunities to marry process knowledge with market concepts. A recent Business Week article on innovation pointed out that [“In the 1990s, innovation was about technology and control of quality and cost. Today, it's about taking corporate organizations built for efficiency and rewiring them for creativity and growth. There are a lot of different things that fall under the rubric of innovation. Innovation does not have to have anything to do with technology.”](#)

Frank Shannon: As manufacturers we need to do everything we can to revitalize manufacturing in Colorado and the US. For every manufacturing job created several others are created to support that job. The EDC's need to keep working on the health of those of us still left and some of us need to fight for fair treatment with regard to trade policy. We can't keep running our economy on consumption alone. Our legislators need to understand the depth of this problem and take steps toward balanced trade.

The best competitive advantage that we have in the US is our freedom. Our greatest asset is that given a fair fight, we have always met the challenge. We will do it again.

Bob Powell: The story about “Pandora’s Box” is that she opened it and all manner of curses and ills were leashed upon the world. Hope was what was left. This is generally interpreted as being a solace to mankind ... but I think it’s a curse like all of the others, in that it represents wishful thinking without action. It’s a curse.

The economic Pandora’s box of globalization has been opened, and my fear is that “hoping things will work out” for the economy is a barrier to adopting the policies that are required and to taking the forceful actions that are needed to avoid the approaching disaster.

Unfortunately, it’s my view that either we adopt something like Warren Buffett’s Import Certificates Mechanism to create balanced trade or else we face economic disaster of worldwide proportions.

Some say such concern is overly pessimistic and call those who say there’s a big problem, “Cassandras,” for being pessimistic and forecasting doom. However, they forget Cassandra was right!