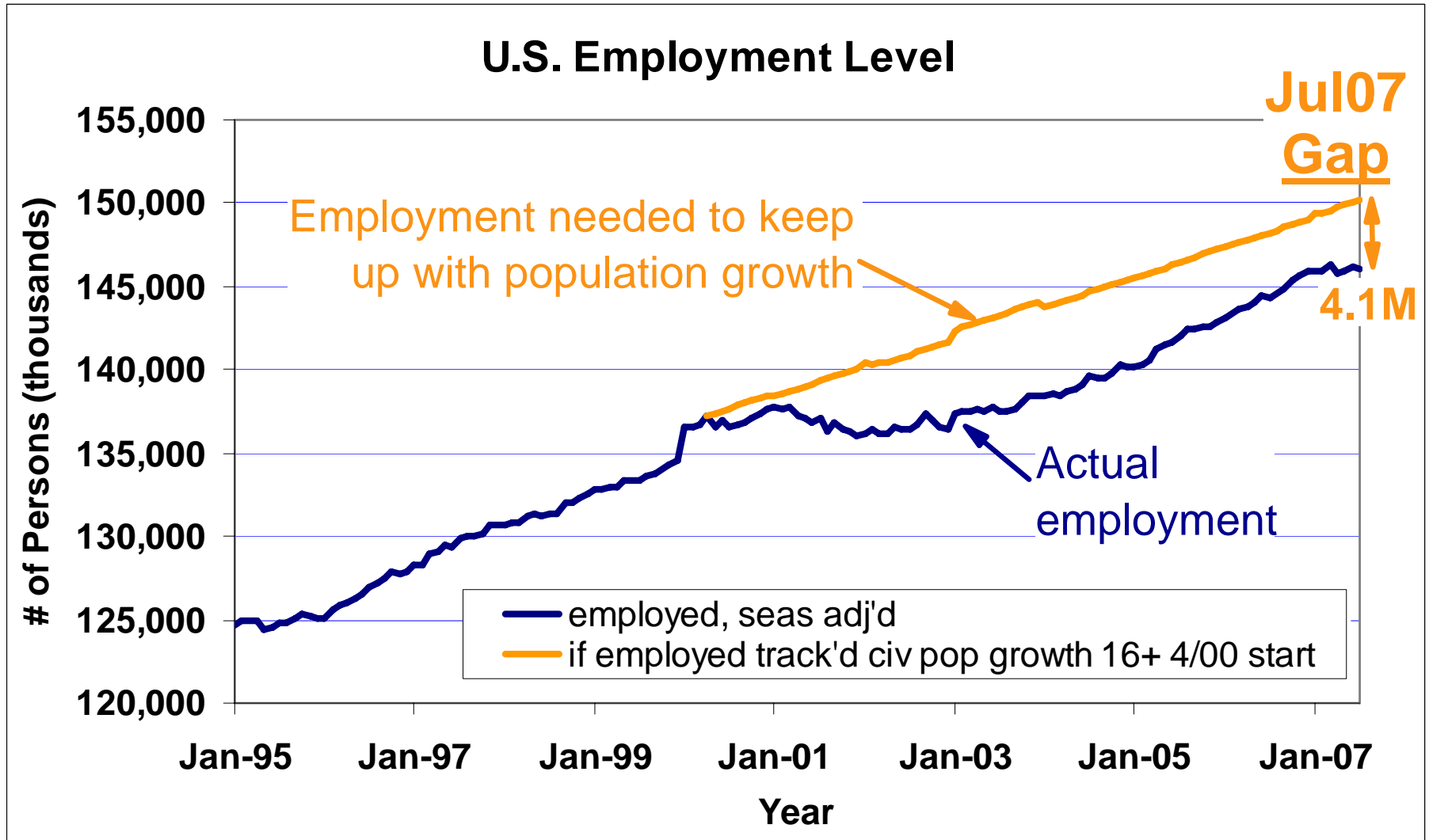


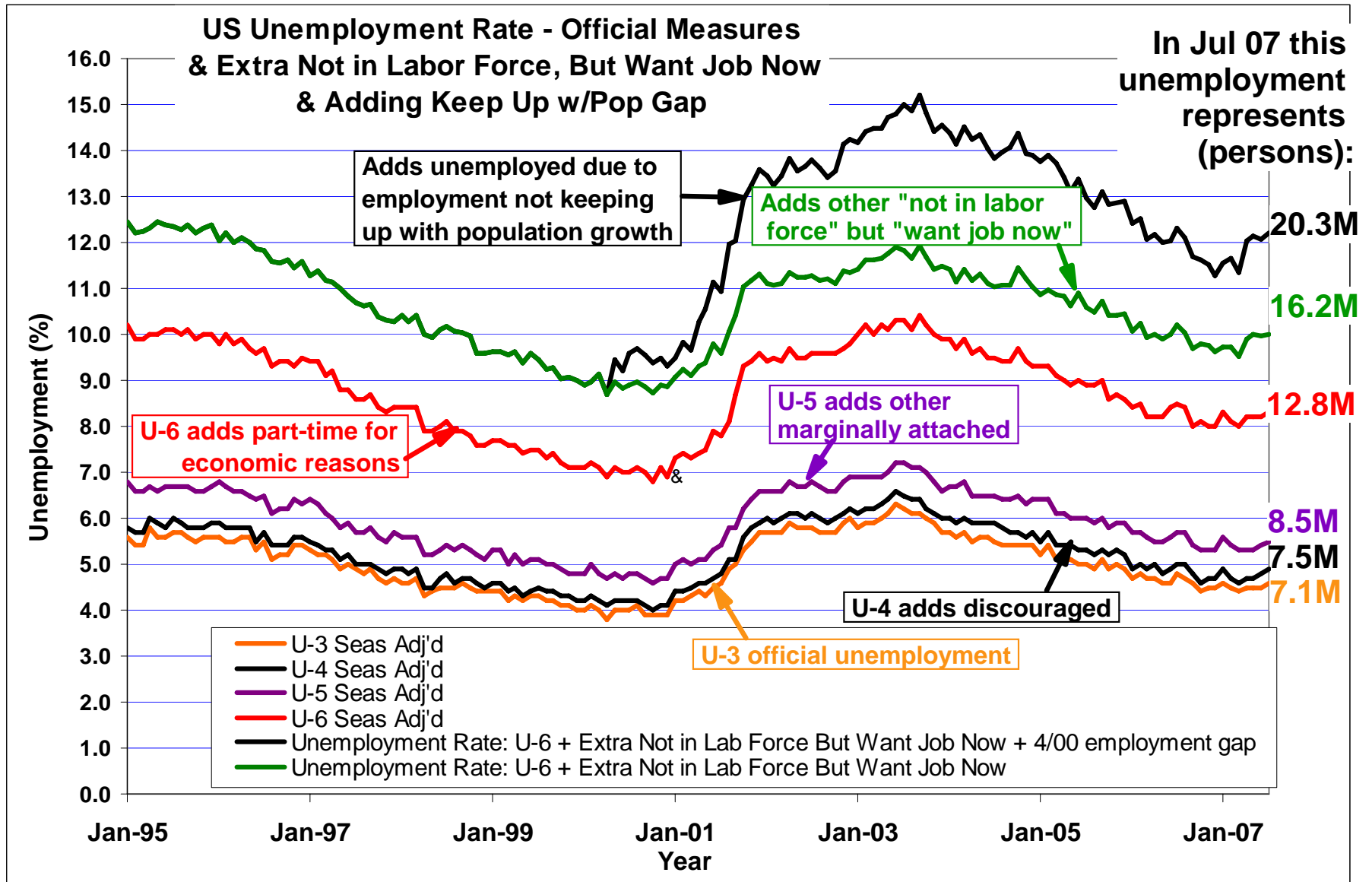
The Problem is Bigger than the Loss of Manufacturing

Bob Powell, Ph.D., MBA
exponentialimprovement.com
6/26/07 (Modified 8/28/07)

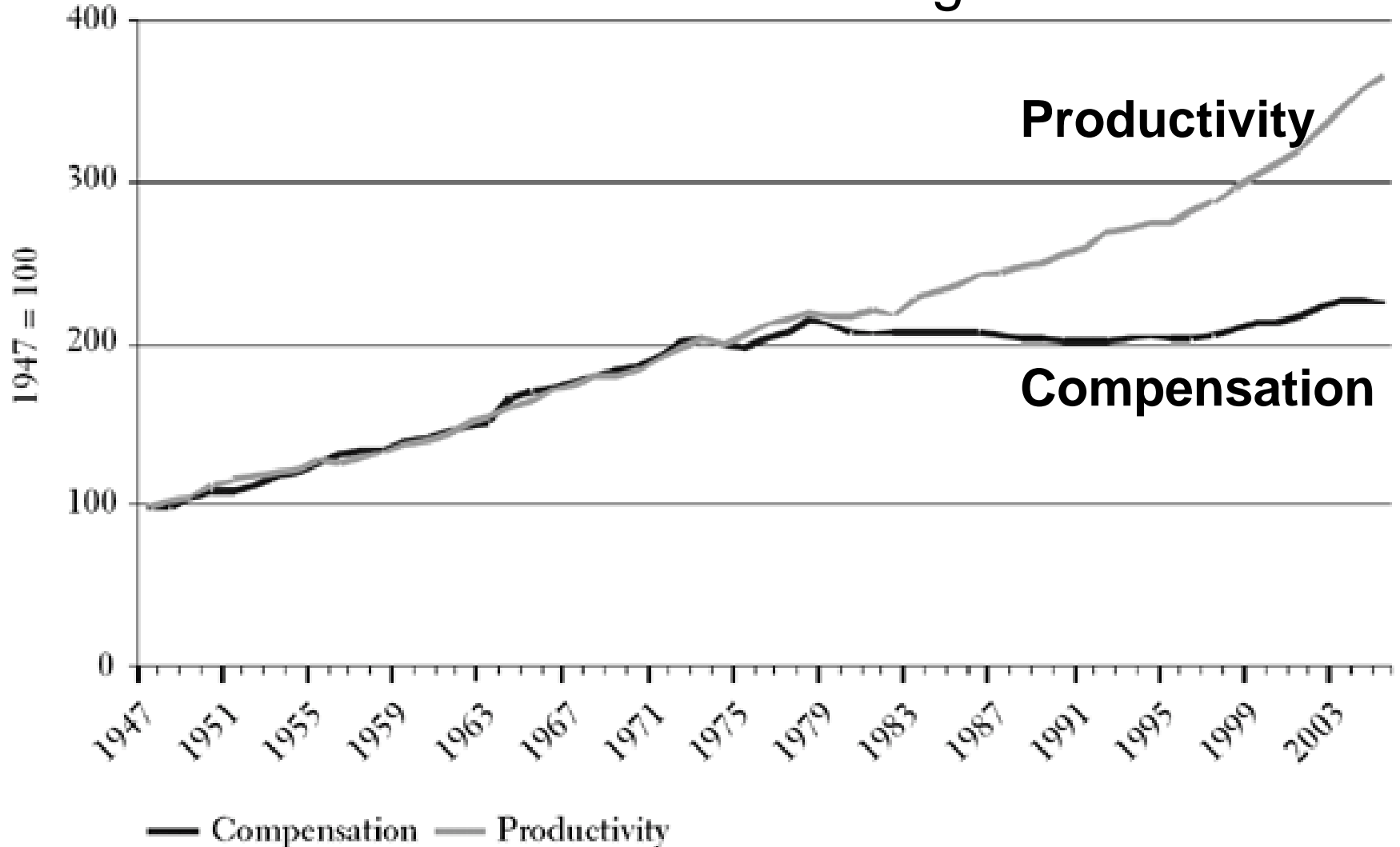
US Employment Level, Actual & Needed



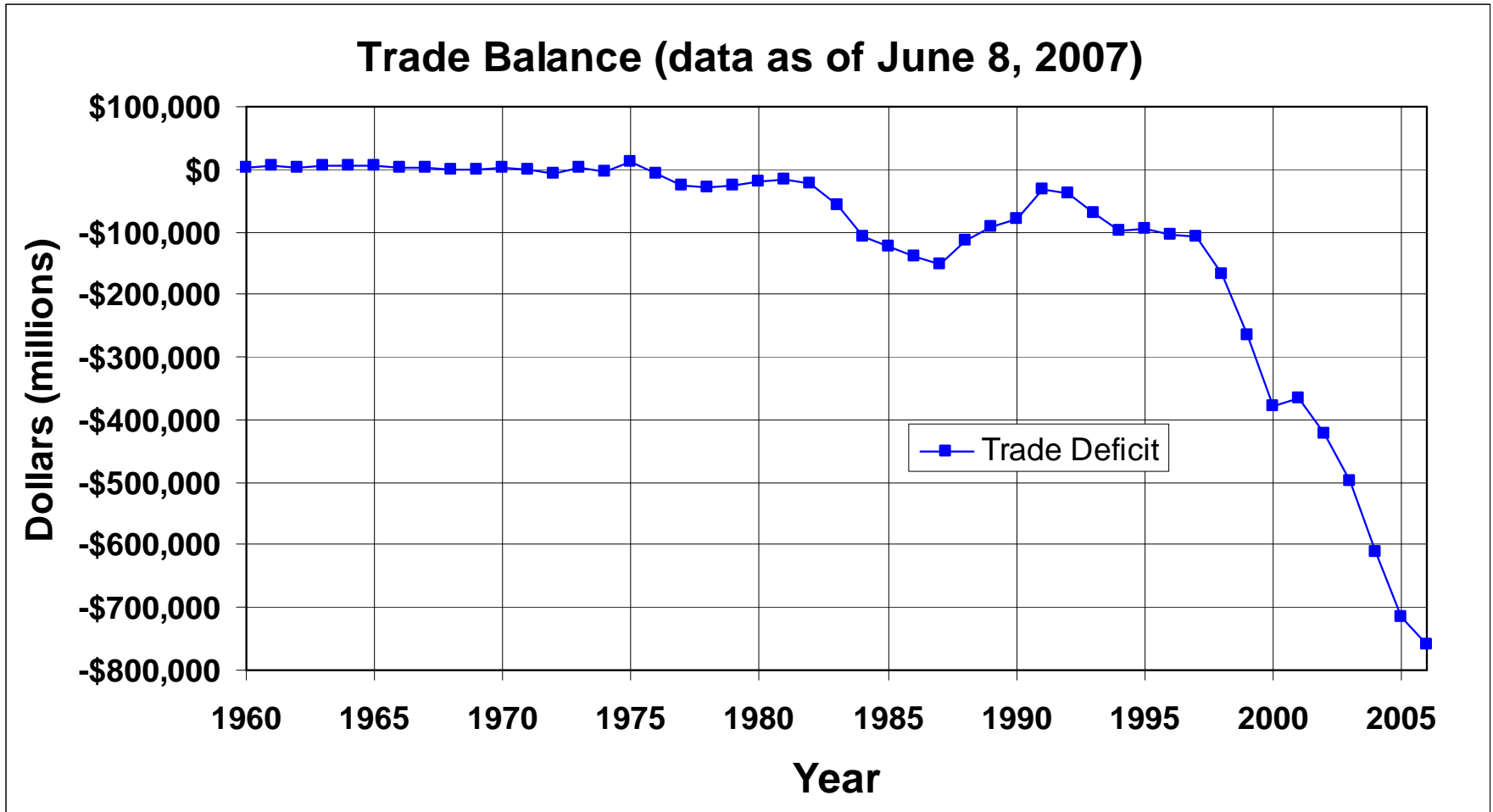
US Unemployment - Official Measures + Considered "Not in labor force, want job now" + plus gap not keeping up w/Pop Growth



Had Compensation kept pace with Productivity, it would have been 68% higher in 2004



U.S. Trade Balance is Growing Exponentially

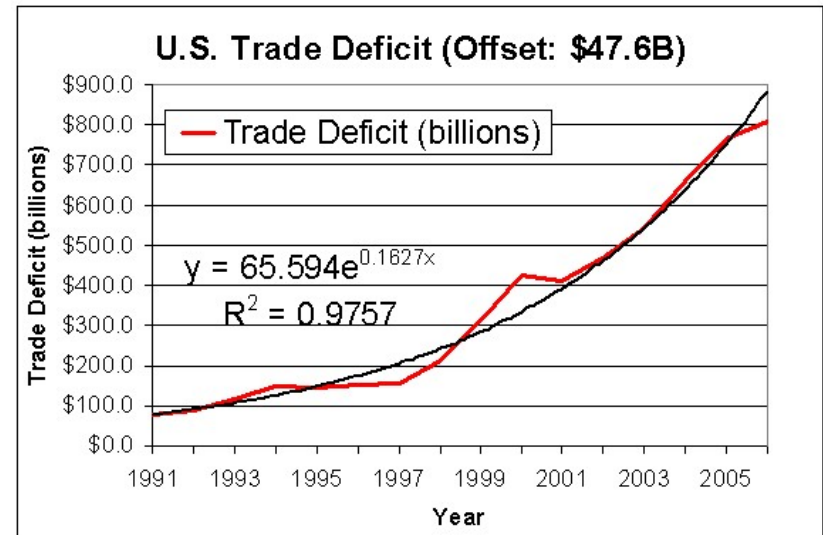
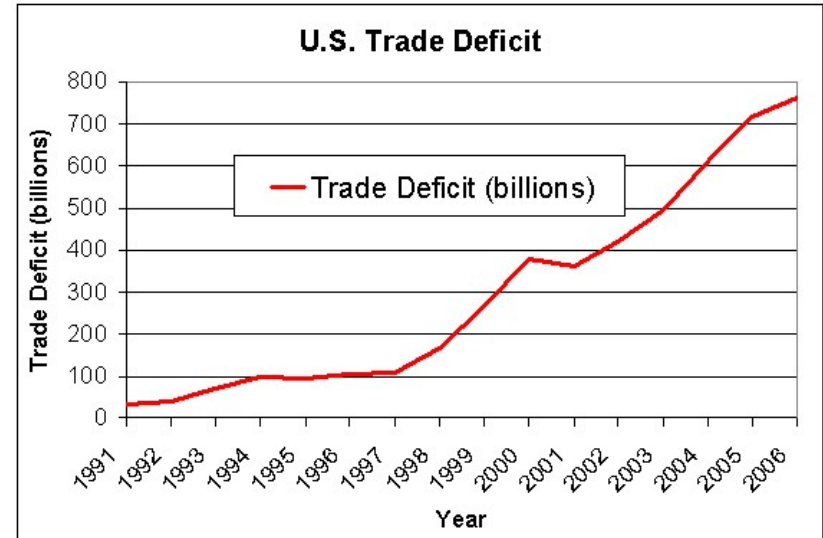


It's a National Problem

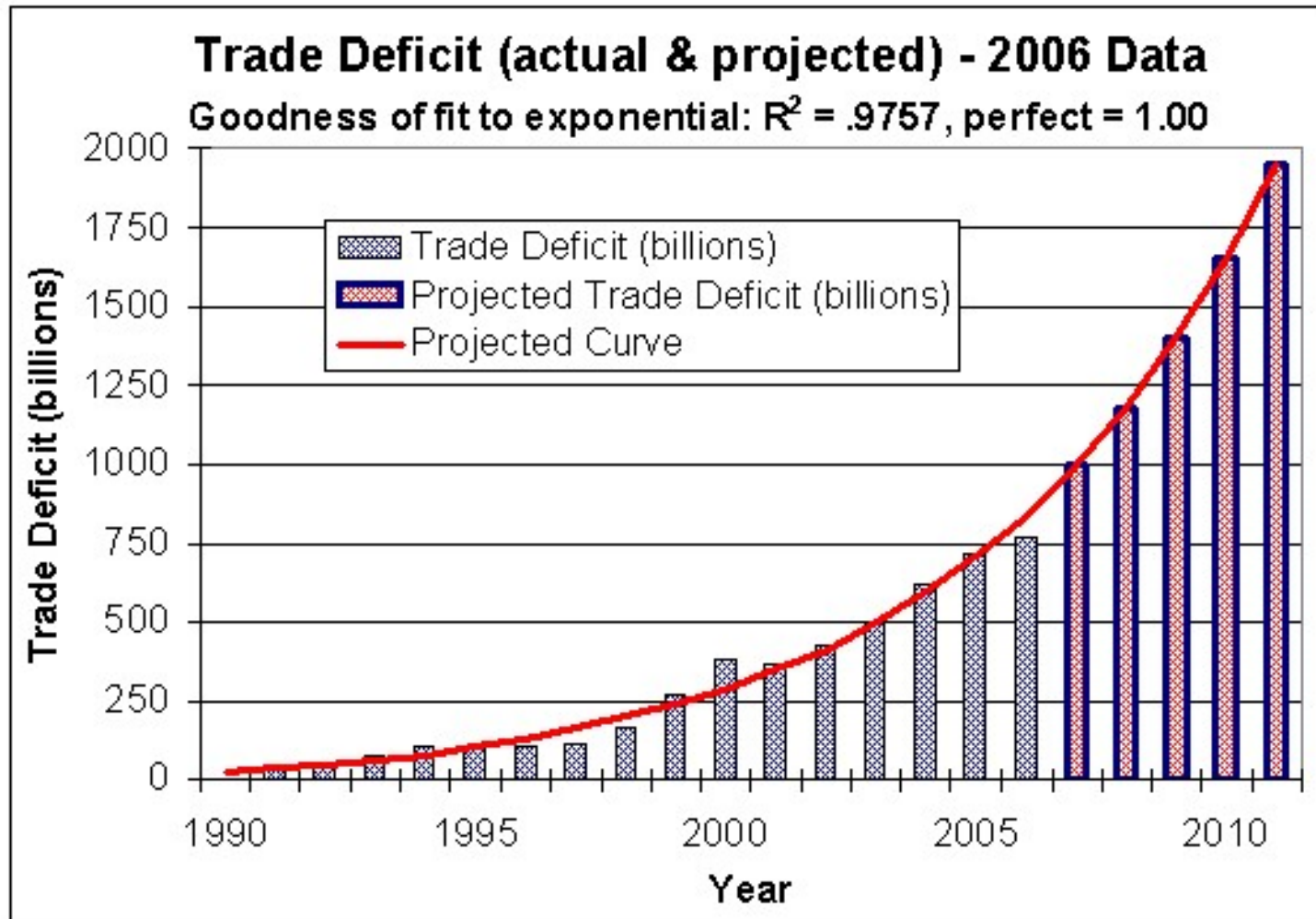
- The “Trade Deficit” is exploding due to the “transfer of factors of production,” not trade.

- The increase is very close to exponential (offset used to get best fit to an exponential function) :

$$R^2 = .976 \text{ (Goodness of Fit, Perfect = 1.00)}$$

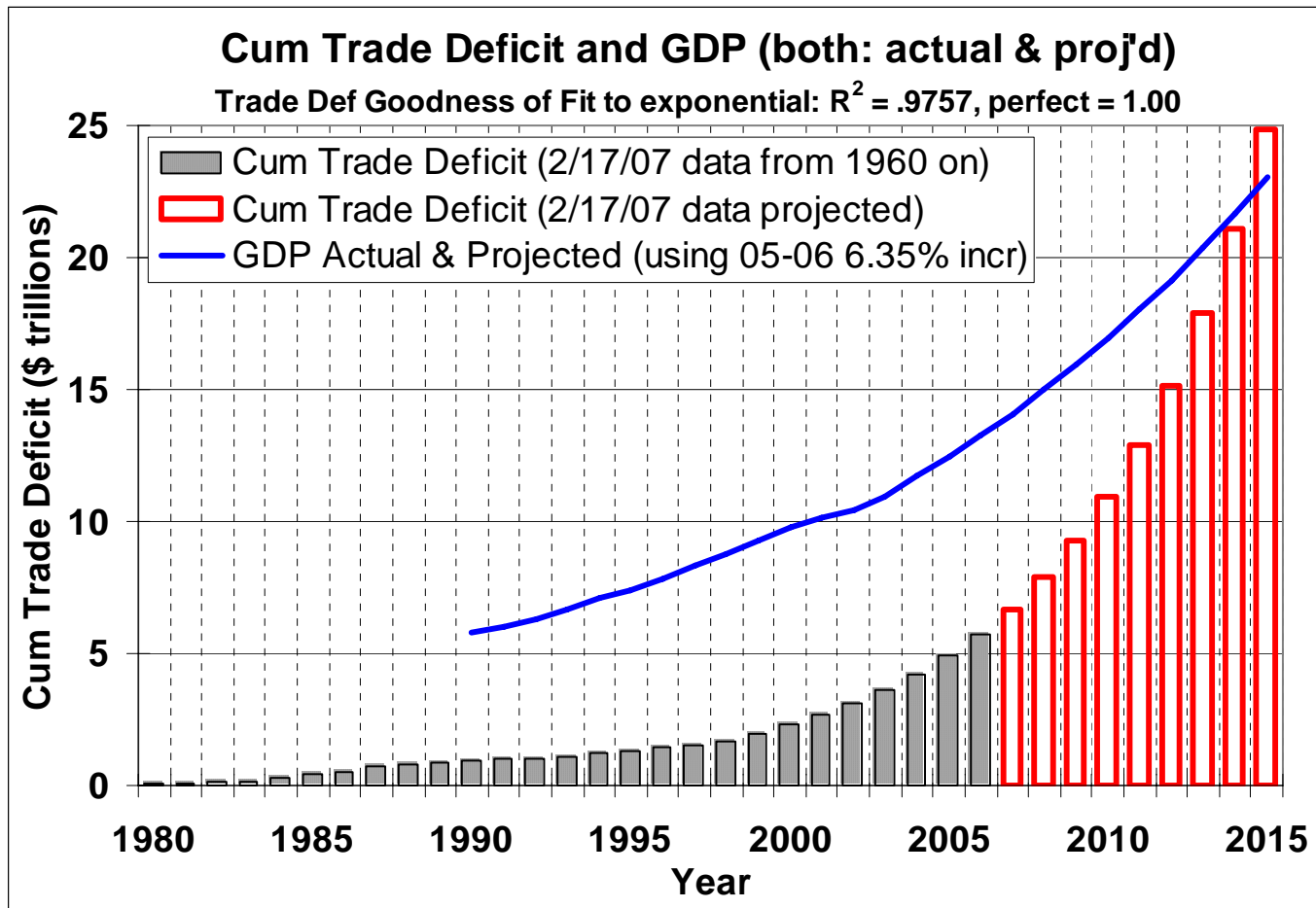


It's a Serious National Problem and the Trend is Unsustainable

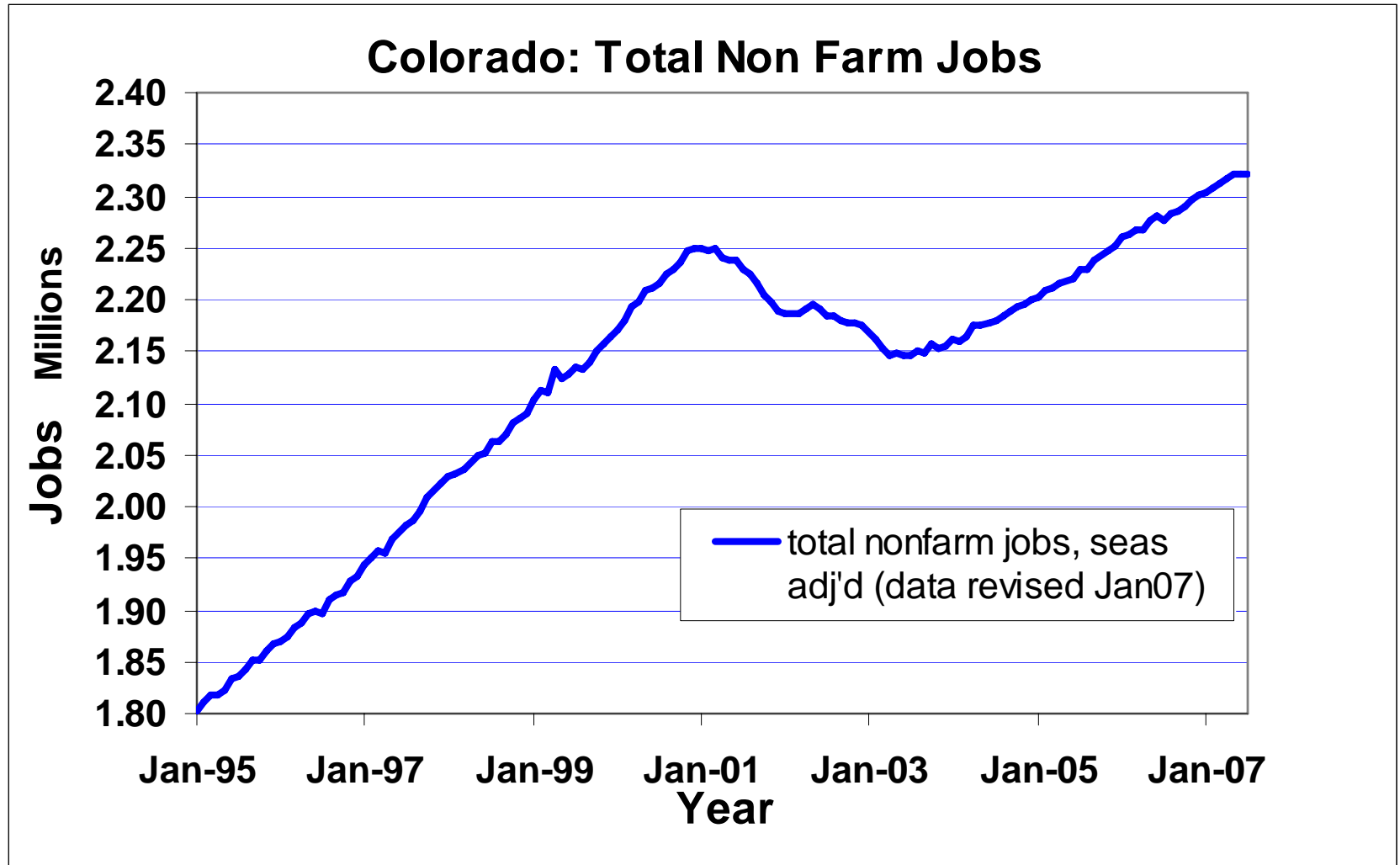


By 2014 the Cumulative Trade Deficit Will Equal U.S. GDP

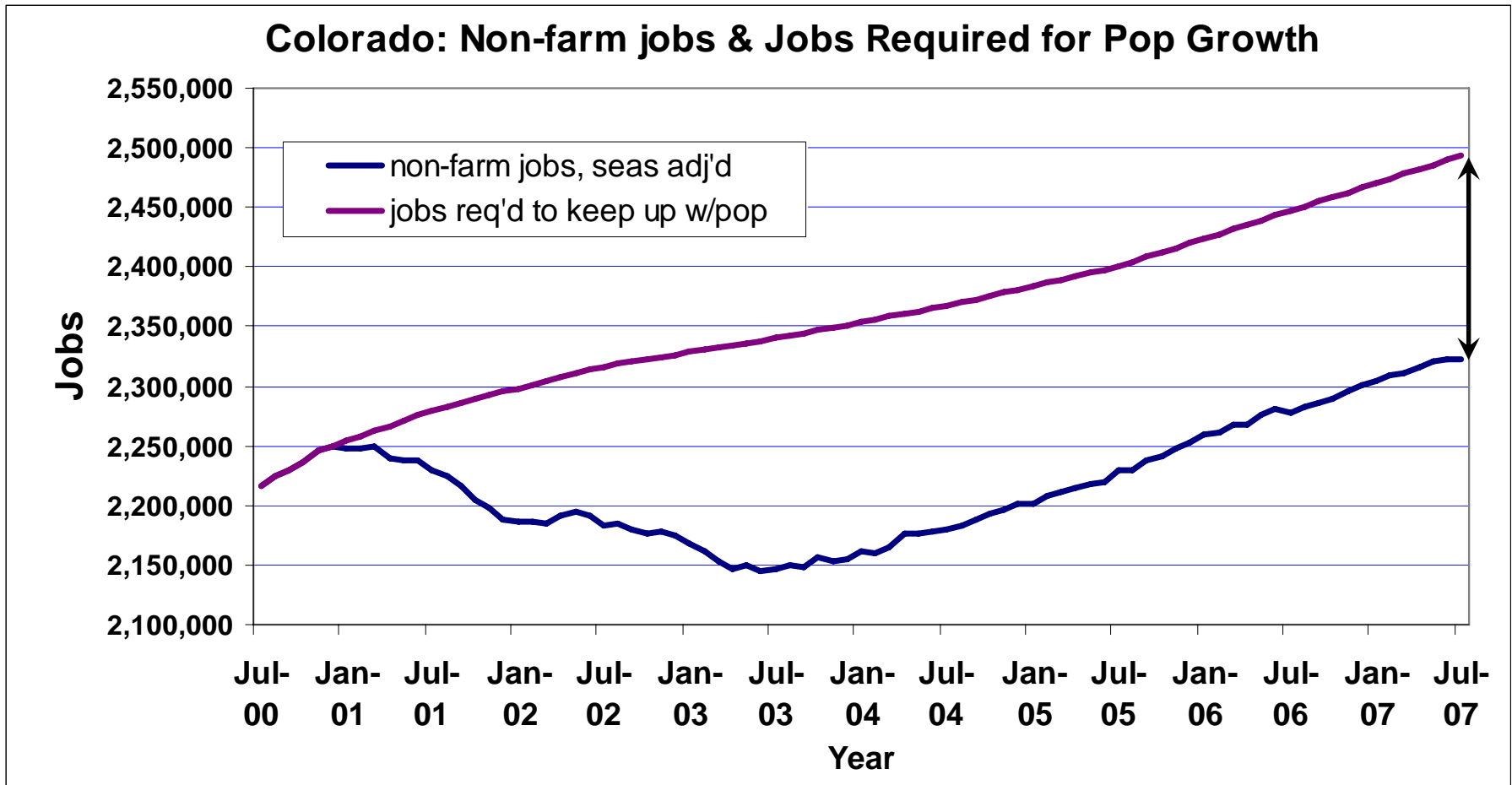
Using last year's data it was 2012; official values reduced



Colorado +72,700 Jobs since Dec 00



But Jobs Gap to Keep Up with Population Growth = 171,260 jobs

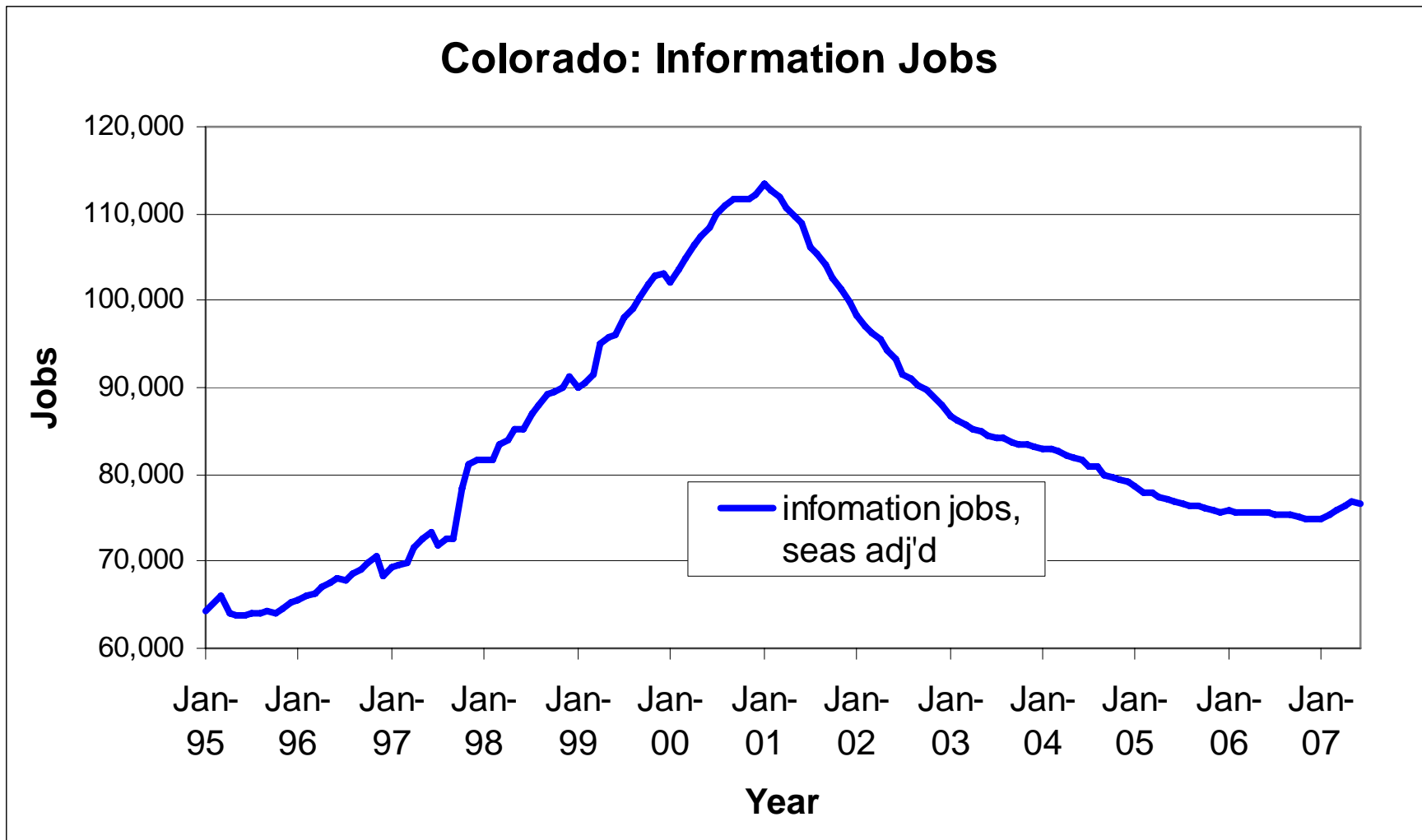


Mfg lost: -44,100 Jobs since Jan 01

- 46,600 since Apr 98 ... that's 24%

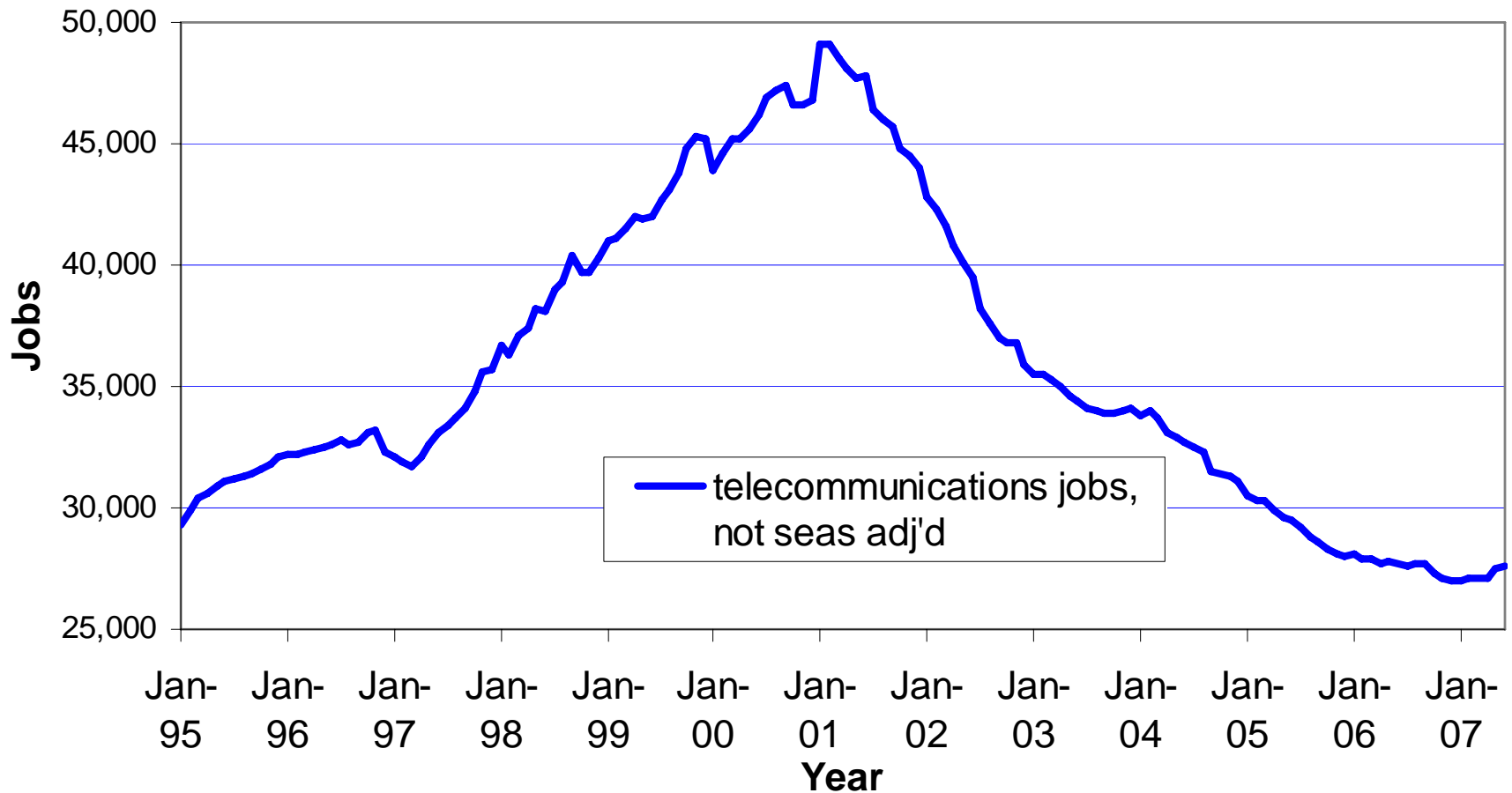


IT has lost: - 37,100 jobs since Jan 01 ... that's 31% of these jobs



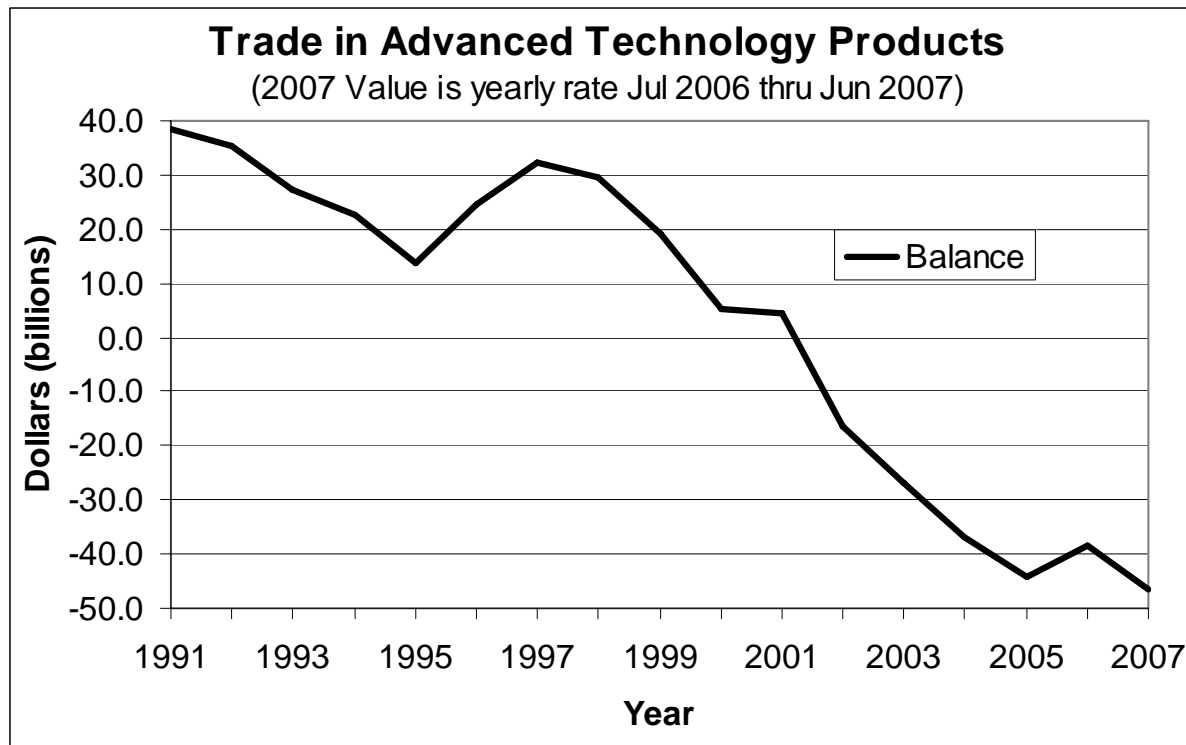
Telecom has lost: - 21,500 Jobs since Jan 01 (included in IT)

Colorado: Telecommunications Jobs



It's a High Tech National Problem

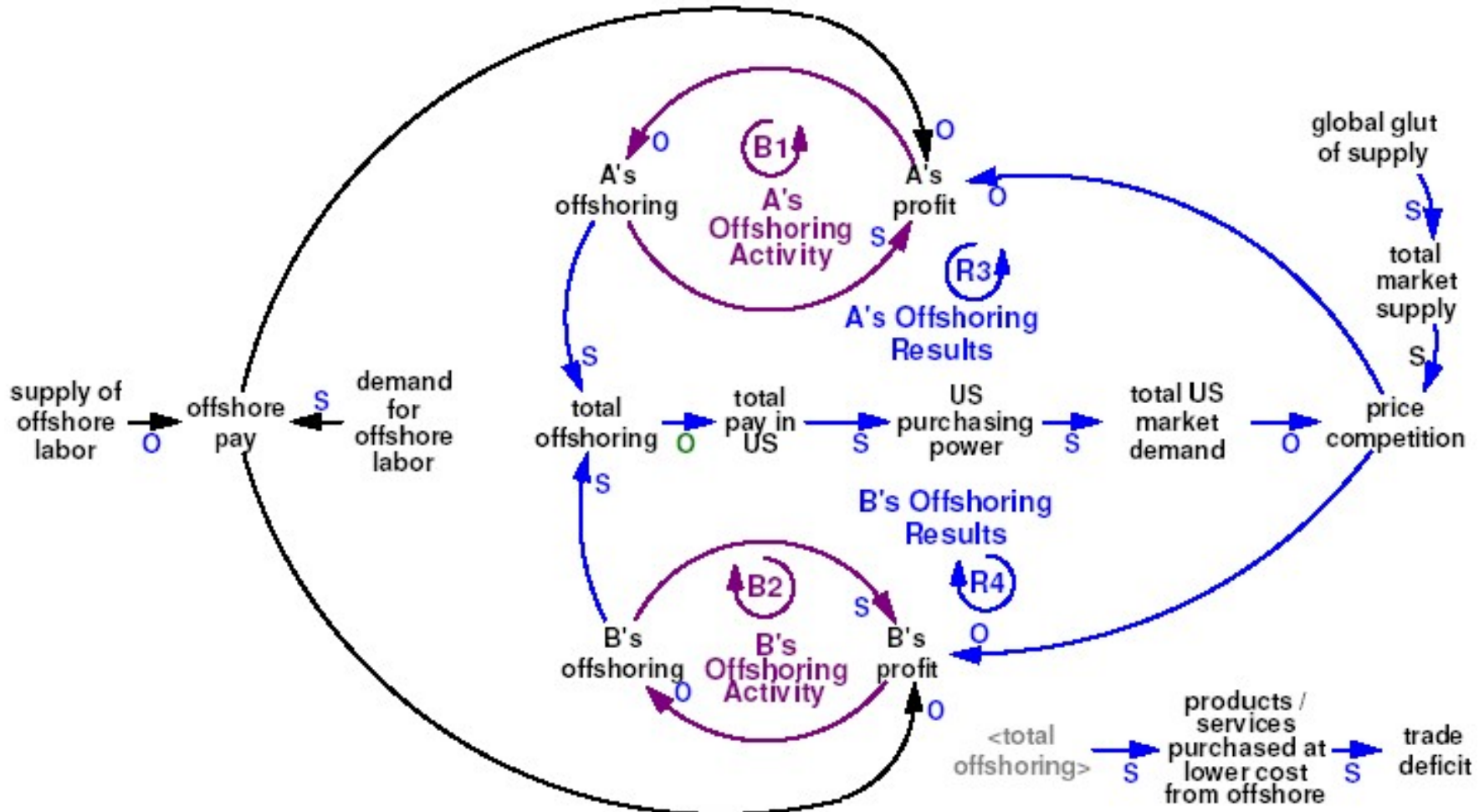
- There's no "High Tech Salvation." The Advanced Technology Products "Trade Balance" is negative & declining. +\$40B to -\$47B in 17 years



The Trade Debt has led to Selling Off the U.S.



The Structure of Offshoring driving an exponentially-increasing trade deficit



What to Do for “Trade”

- Stop “free trade” (i.e., “lawless trade”) that’s really “transfer of the factors of production.”
- Phase in over a number of years [Warren Buffett’s “balanced trade” policies](#) using his Import Certificates mechanism.
- For explanations & recommendations see [A Systems Thinking Perspective on Manufacturing & Trade Policy](#)

What to Do for “Trade” (cont’d)

- Eliminate NAFTA-type “trade policies” that, along with U.S. farm subsidies, are destroying the Mexican economy and causing illegal immigration.
- It’s not an “illegal immigration” problem. It’s an “illegal employer” problem.
- Pay a living wage for farm work; lots of people will do it:
 - Pay now: $\$0.40 / 32 \text{ lbs} = \$0.0125 / \text{lb}$ for tomatoes
Picking 2 tons = 4000 lbs = $\$50.00/\text{day}$.
That's 1 1/4 cents / lb in wages.
 - Paying $\$500/\text{day}$ and increases the cost per pound of tomatoes by $\$0.1125 / \text{lb}$ That would mean the price of tomatoes would increase from $\$1.99 / \text{lb}$ to $\sim \$2.10 / \text{lb}$
 - Lots of people would work for $\$500/\text{day}$.

What Else to Do?

Stop “Reverse-Protectionism”

- No corporate deferring tax payments on income indefinitely from foreign subsidiaries.
- No tax loopholes, such as moving headquarters to a tax haven.
- No R&D and other investment tax credits for companies that move manufacturing off shore ... the U.S. doesn't fully benefit.
- No flawed transfer pricing schemes to avoid U.S. taxes
- No allowing corporations to write-off the cost of shutting down a factory in the U.S. when it transfers the work to a foreign country.
- No allowing corporations to write-off the cost of bringing new foreign employees to the U.S. and requiring its U.S. employees, as their last duties before being fired, to train the foreign employees.
- Include labor & environmental standards in trade pacts.
The costs of environmental degradation and injuries to workers are externalized onto the public at large. Without standards, democracy is undermined: individuals don't value and "purchase" clean environment & workplace safety, governments do; if a government isn't a democracy, it doesn't represent the interests of its citizens.

Good News on “Trade”

- From the Media Matters Report, [“The Progressive Majority: Why a Conservative America is a Myth”](#)
- All 37 2006 Democratic House & Senate candidates won who promoted "fair trade" (not "free trade"); none lost.
- Trade is a hot-button issue
The March 2007 NBC news/Wall Street Journal poll showed that 48% of Americans believe the U.S. is harmed by the global economy.
Only 25% believe the U.S. benefits.
- Note: The 48% is correct.

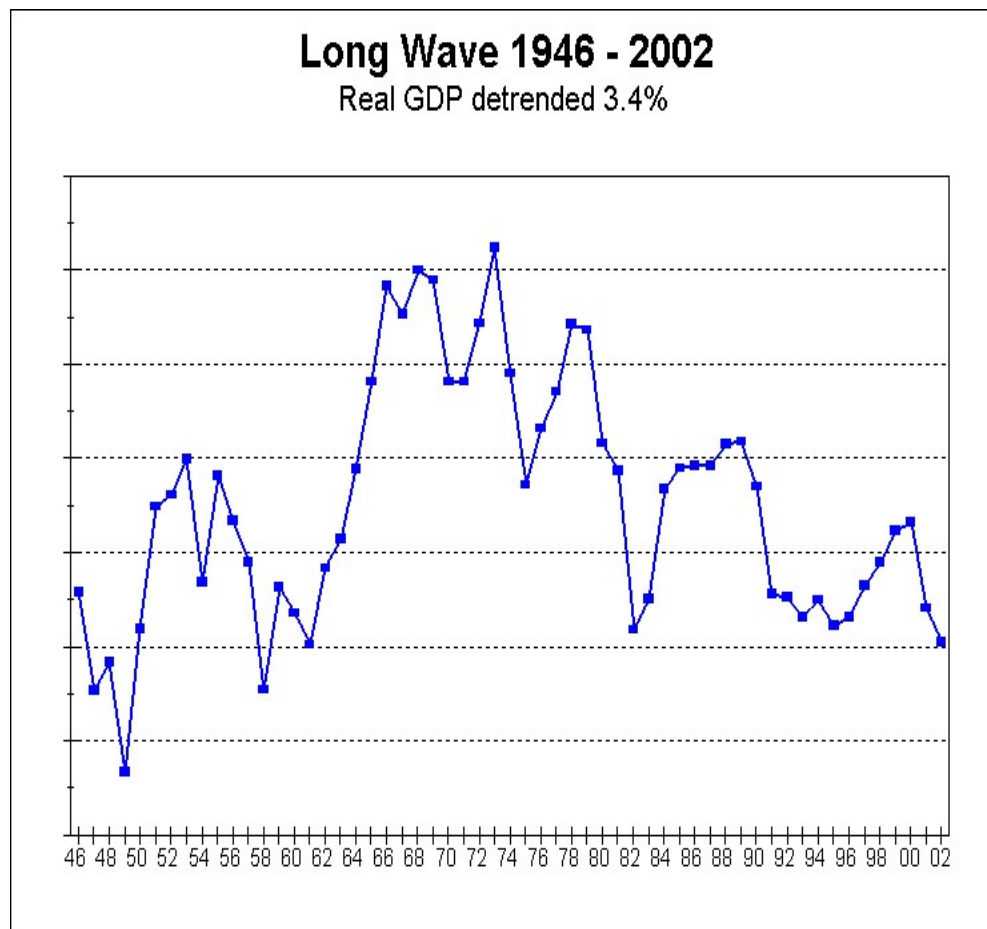
What Else to Do?

Single Payer Health Insurance

- To remove the cost from employers and make them more competitive.
- To cut out the insurance-company middle-men bureaucracy. And UnitedHealth's William McGuire's cash-and-stock paydays that have topped \$100 million in recent years -- and he still has stock options valued at \$1.6 billion.
- To overcome adverse selection (a market failure) and insure 46 million uninsured Americans (16%) including 8 million uninsured children (11%).

What to Do for Taxes

- At this point in the trough of the “[long wave](#),” where capacity to provide supply exceeds demand, tax policy should promote demand, not investment.



Even some Republicans realized tax cuts needed on lower incomes

- [Split in Ranks of Business and G.O.P. on Tax Cuts](#)

11/29/02 By EDMUND L. ANDREWS ... excerpt:

- ... a growing number of business and political leaders, including at least one influential industry group, want to funnel more money to lower- and middle-income taxpayers in an effort to generate more demand for goods and services. ...
- The Business Roundtable, an organization of chief executives from large corporations, startled many of its normal allies last week by arguing that tax breaks for individuals would be more helpful than tax breaks for business.
- Indeed, the Roundtables top recommendation was one favored by many Democrats: bolstering tax relief for low- and middle-income families by temporarily cutting payroll tax contributions for Social Security and Medicare.
- There is substantial overcapacity in the economy, so we dont need more capacity right now, said John J. Castellani, the president of the Business Roundtable. We felt it would be more prudent and effective to stimulate consumption. ...

What to Do for Taxes (cont'd)

- Tax what we don't want (e.g., pollution).
- Greater taxes on wages discourages work (i.e., greater than on capital gains, dividends, & interest).
- Don't use sales taxes ... discourages the sale of goods; promotes wealth inequality because it puts "resistance" in the "transfer circuit."
- Have a progressive tax system to overcome "path dependence", also known as "Success to the Successful."

What to Do for Taxes (cont'd)

- The Orwellian-named "[Fair Tax](#)" is really a massive and enormously regressive "sales tax."
- A 23% tax-inclusive rate = 30% tax-exclusive rate.
- The Treasury Department concluded that using the retail sales tax to replace only the income tax and provide a cash grant for low incomes would require at least a 34% tax-exclusive rate.
- A 2000 study conducted by the Congressional Joint Tax Committee (JTC) 36% in order to achieve long-term revenue neutrality. A 36% tax-inclusive rate is a 56% exclusive tax rate.
- "Fair Tax" proponents assume there will be no cheating ... no black market tax evasion in a retail sales tax.
- See my ["Fair Tax" analysis](#)

The Fair Tax Proponents

- John Linder (R-GA) and Neal Boortz' co-authored the “Fair Tax” plan.
- Lest anyone think Boortz & Linder understand the economy, here’s [Linder’s misguided position on “trade”](#) on his website:

“America must return to our tradition of global leadership for expanded free trade, and not retreat into the mistaken protectionism of the past. We must work to open markets, eliminate tariffs and barriers, and ensure that our nation remains at the forefront of global economic success.”

The Future without Action

- Trade deficit exponentially increasing
- Dollar sell-off ... value drops
- Hyperinflation
- Fed raises interest rates to “fight inflation” and “protect the dollar.”
- Shut down economy ... more Job Loss
- Great Depression