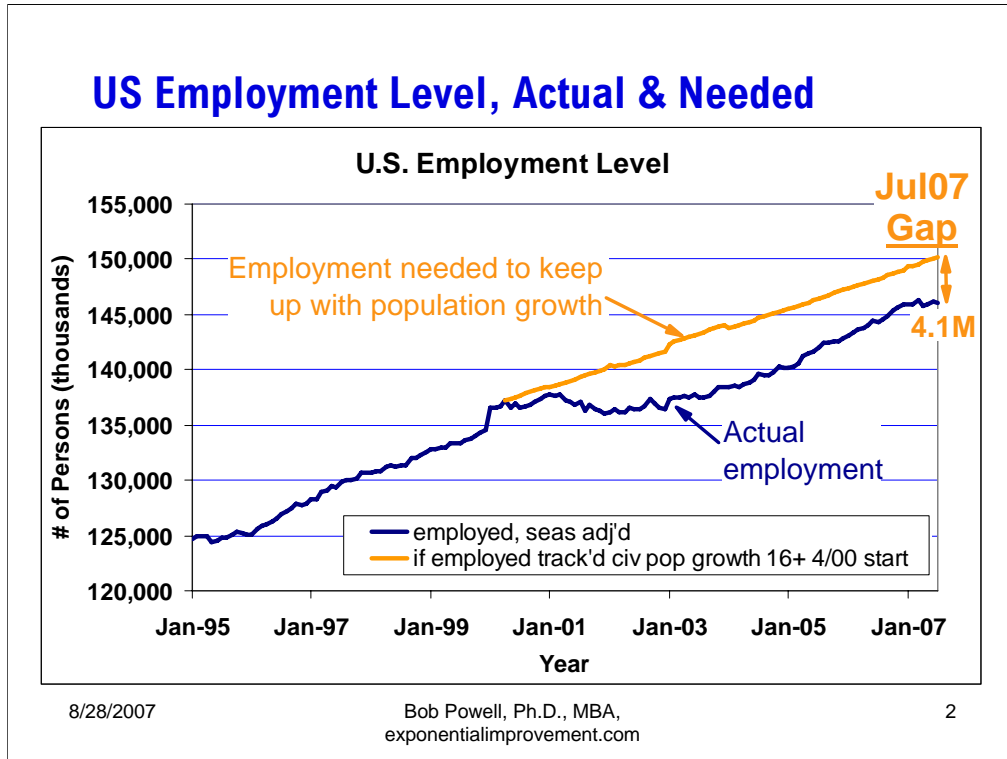


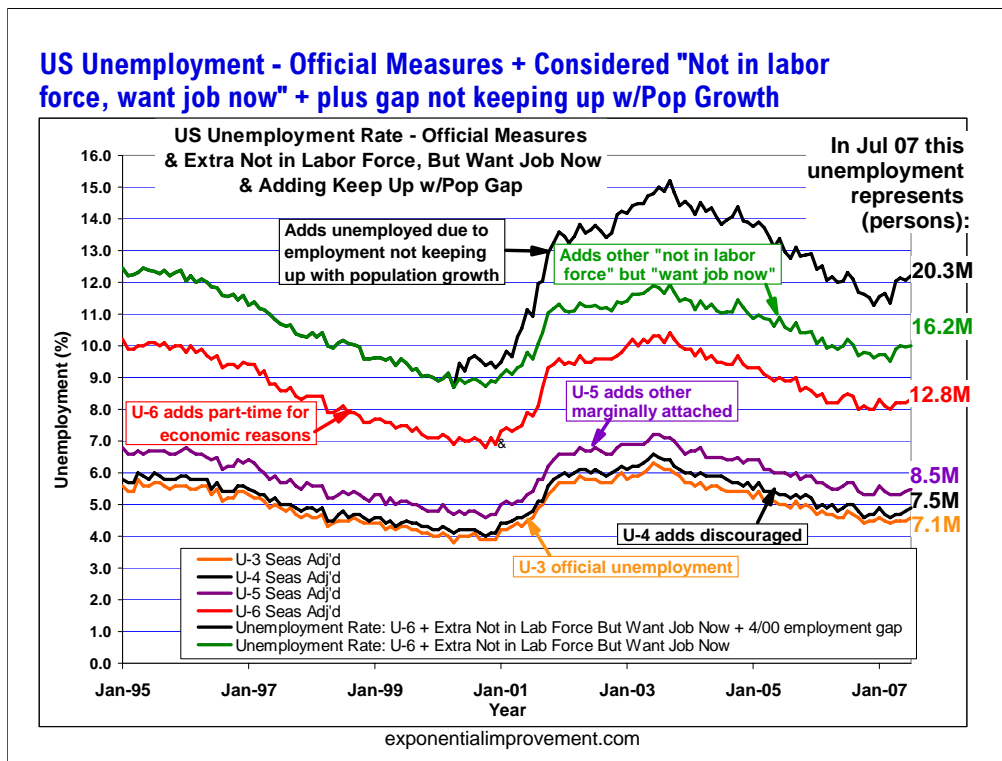
The Problem is Bigger than the Loss of Manufacturing

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6/26/07 (Modified 8/28/07)

It's a national problem for low- and high-tech ... and for any job that doesn't require touching the customer.



There has been growth of U.S. employment since Jan 2000, but it hasn't kept up with population growth. This chart shows what the number of jobs would have to have been to keep up. The gap is about 4 million jobs.

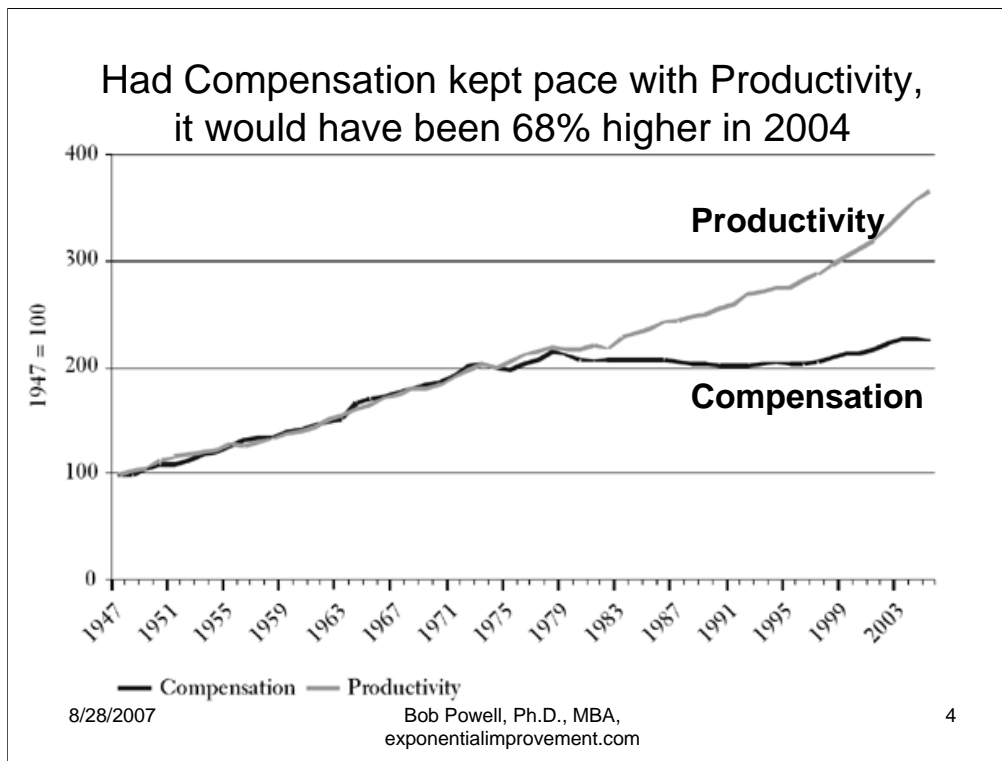


This chart shows “official unemployment” and unemployment is with other groups counted.

There’s even a nonsensical category, “not in labor force, want job now.” Real unemployment isn’t the 4.6% or so advertised, but more like 12%. Data on the Shadow Government Statistics site (google it) notes this also. That’s over 20 million people who need jobs, not 7 million. And this doesn’t even count the underemployed.

This 9 jobs and more than 10 people manipulation creates a “game” of “musical chairs that drives wages at the bottom to between subsistence level and zero. It also puts regions in competition for the jobs that are allowed which leads to “tax wars” (with escalating business subsidies) among regions and insufficient funds for infrastructure. You’re stuck in traffic for the same reason so many people are in poverty.

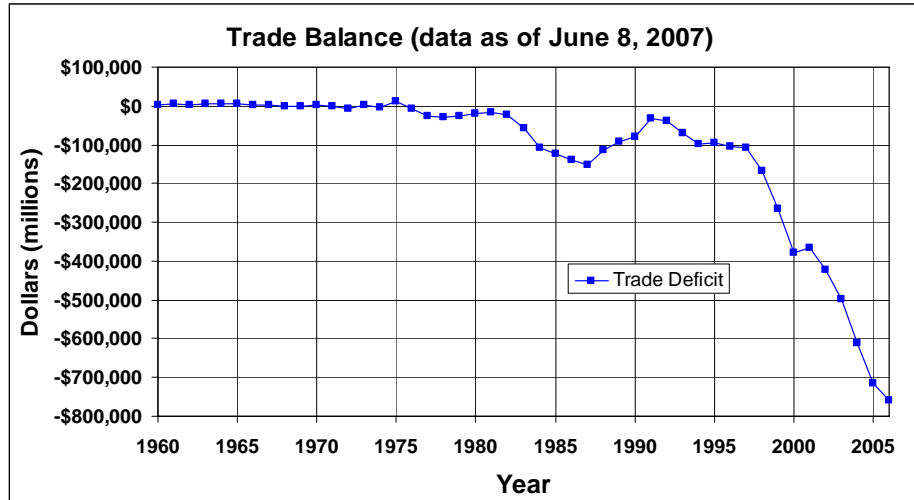
For more on this and its impact, see “There's no 'free market' for Labor” at <http://www.exponentialimprovement.com/cms/labor.shtml>.



This chart illustrates what Paul Krugman wrote in his 9/1/06 column, “The Big Disconnect,” about how “real wages - wages adjusted for inflation - ... have been declining since the 1970's.” Note productivity has continued to increase, but compensation has not. That’s because those hours of offshored work that go into products produced largely offshore and sent back to the U.S. for sale aren’t counted in standard productivity measures.

An approximate calculation $(370 - 220) / 220$ gives a **68% stagnation** in compensation compared to what it would have been if compensation had continued to track productivity ... as it had before the 1980s when Ronald Reagan began the Republican war against those who work for a wage.

U.S. Trade Balance is Growing Exponentially



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The trade deficit is growing as a result of the offshoring of work. It's increasing exponentially (literally) and is now about \$760 billion.

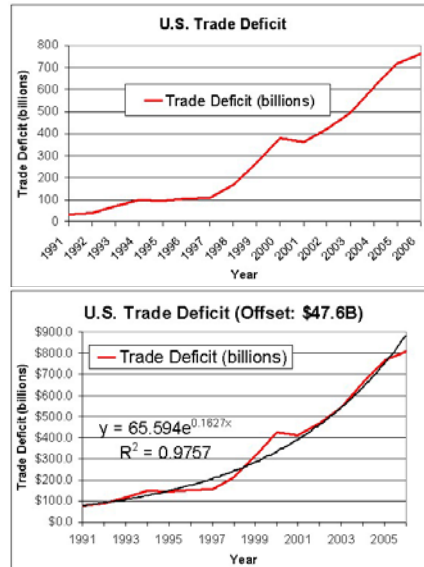
This can't continue of course ... no exponential increase can continue forever.

For more on what's called "trade," see "The Trade Deficit and the Fallacy of Composition" at <http://www.exponentialimprovement.com/cms/fallacy.shtml>.

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) :

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



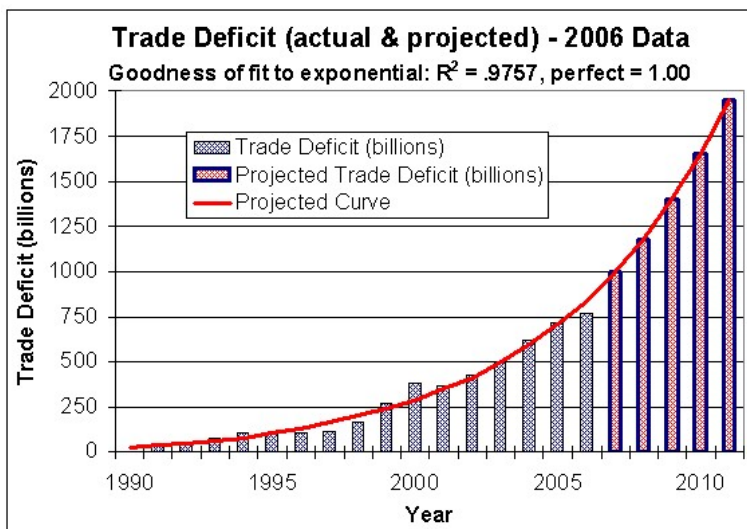
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A least square fit to an exponential function is an excellent fit to the data.
More at “The Trade Deficit and the Fallacy of Composition” at
<http://www.exponentialimprovement.com/cms/fallacy.shtml>.

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



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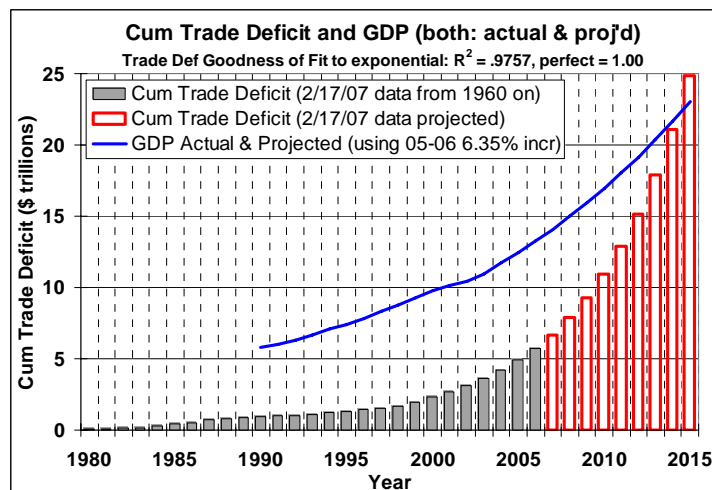
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Showing official and projected values.

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

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



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Sometime around 2012 to 2014, the U.S. cumulative trade deficit will equal the U.S. GDP. This means Americans would have to work for a year, with nothing going to themselves, but everything going to pay back the money we've borrowed and buy back the companies, roads, ports, etc. that have been sold to foreign countries. This is an economic earthquake waiting to happen.

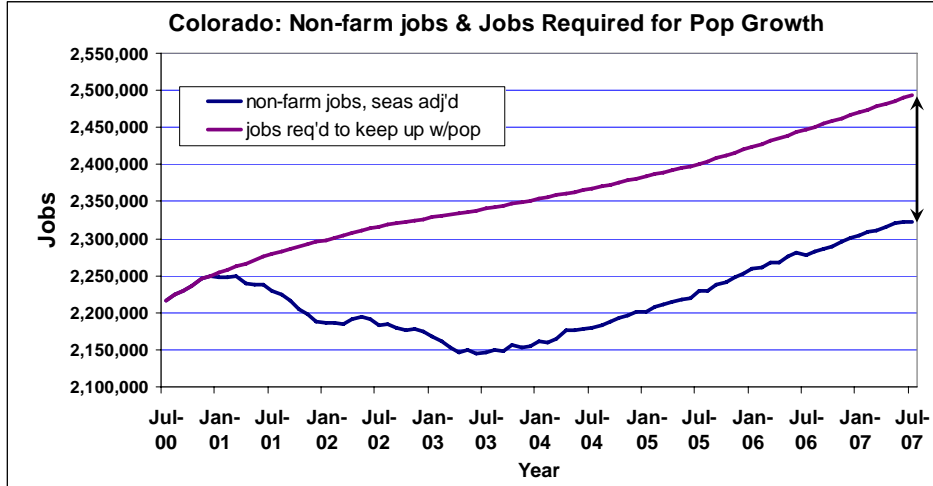
For some reason the U.S. Census Bureau, [Foreign Trade Division](http://www.census.gov/foreign-trade/www/press.html), <http://www.census.gov/foreign-trade/www/press.html>, sometime between 11-Mar-05 and 8-Jun-07, lowered the 2005 trade deficit by \$9,245B (now it's \$714.4B instead of \$723.6B) and lowered 2004 by \$5B. That makes about a 2 year difference in the projection. Don't like the numbers? Just change them. And do you really believe the GDP has been up 6.35 percent each of the last two years? I don't, but that's what the BEA data shows. It's likely the values must be decreased by inflation.



The offshoring of jobs has consequences in the U.S. and in Colorado. This graph shows that as of July 07, Colorado has gained over 72,700 jobs since Dec 00.

But look. The rate of job growth is much slower than the rate of job growth prior to 2001. Jobs are recovering in Colorado, but the rate of job growth is much slower than the rate of job growth prior to 2001. Job grow now is *much slower* than in the 90s: ~2.2%/yr vs ~4.1%/yr.

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



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Colorado's population has continued to grow.

This is the same graph over a shorter period with an added curve showing that another 171 thousand jobs are needed to keep up with population growth (arrow at right indicates the gap).

Mfg lost: -44,100 Jobs since Jan 01
- 46,600 since Apr 98 ... that's 24%



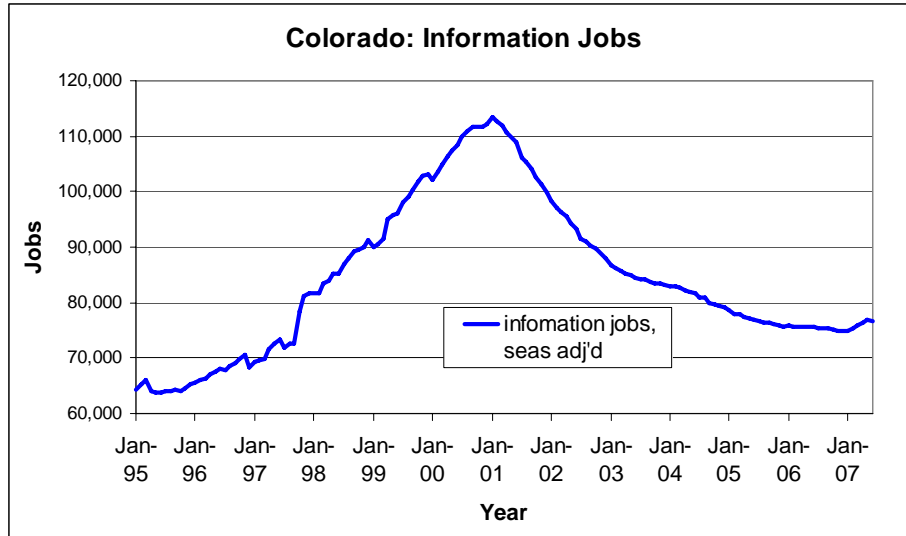
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Colorado has lost over 44 thousand manufacturing jobs and the number of jobs is still falling.

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

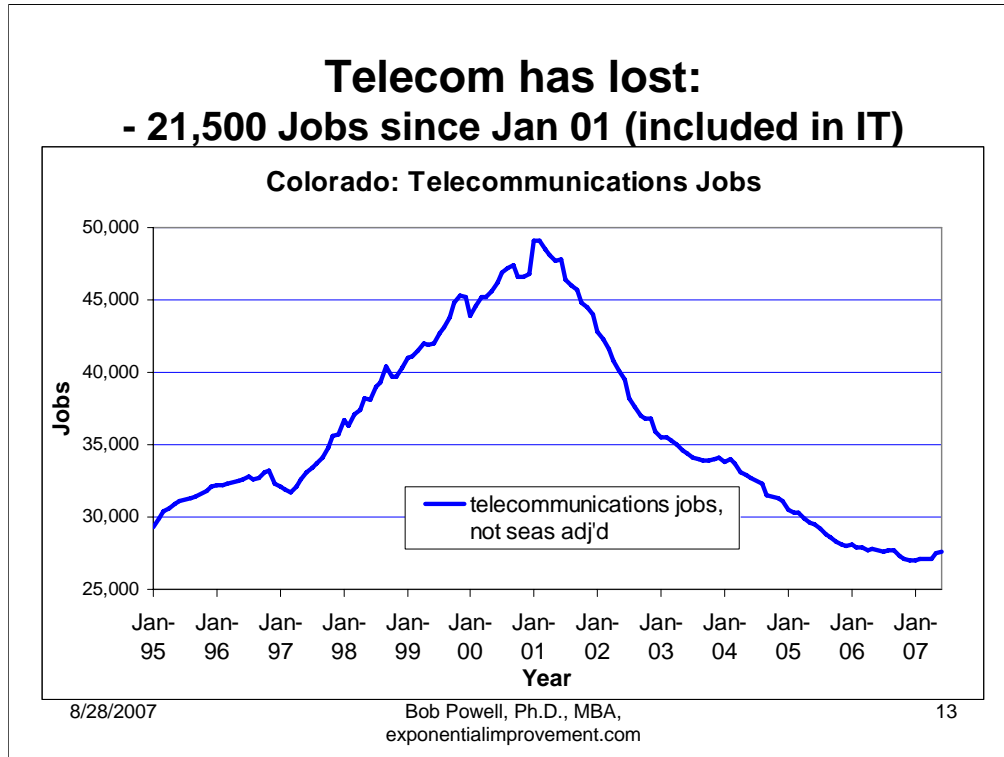


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And Colorado is losing Information Technology jobs, too. Remember, these are the jobs for which many who lost their manufacturing jobs retrained.



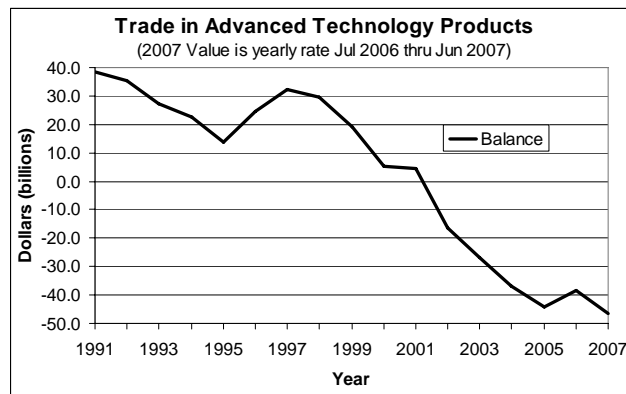
Since these slides were originally presented, I discovered these jobs are included in the Information Technology job numbers.

Of course, the same thing is happening to telecommunications jobs. Colorado, and the U.S., is losing many, if not most, of the good jobs.

These graphs makes it clear that, when there aren't enough jobs to keep up with population growth, retraining and "getting more skills" isn't going to solve the problem.

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



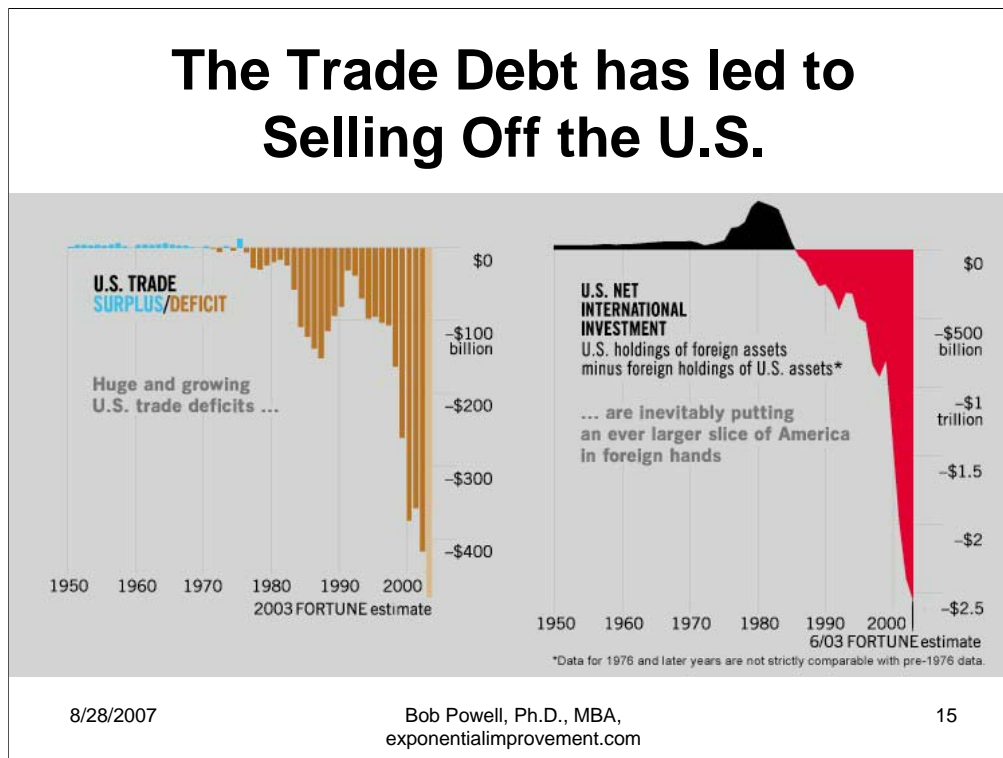
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The U.S. has gone from a positive \$40B to a -\$47B Advanced Technology Products "trade" balance over a span of 17 years. More and more value-added production has shifted from the United States to its poorer trading partners. This chart should put a nail in the coffin to contain the belief that the U.S. can retain high value-added production. It's disturbing that this focus continues to be recommended in the face of what's happening.

Find link to data at http://www.census.gov/foreign-trade/Press-Release/current_press_release/press.html#prior



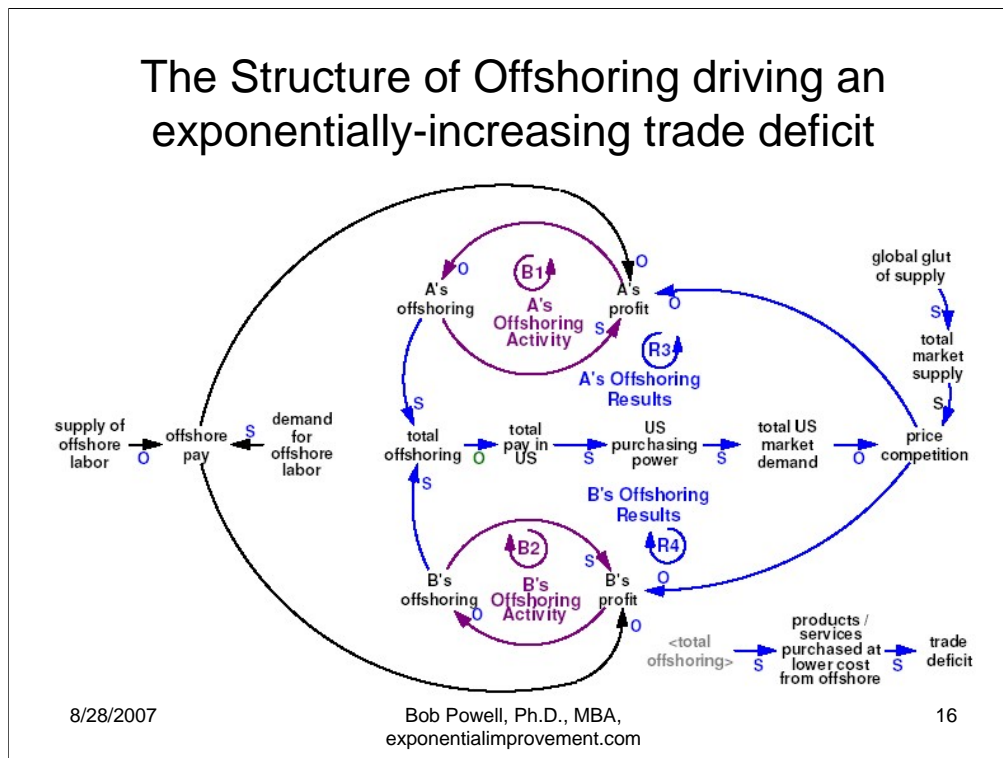
A major impact of the trade deficit is that we're selling off America.

This is a chart from an article by Warren Buffett. Find a link to this "must-read" at "The Trade Deficit and the Fallacy of Composition" at <http://www.exponentialimprovement.com/cms/fallacy.shtml>.

The chart refers to "international investment," which sounds good, but what this really means is that more and more U.S. assets (companies, roads, buildings) are being sold to foreigners. This means the profits earned aren't staying in the U.S. to fuel the economy; it's draining the economy.

Often there's "good press" about how many jobs are being "created" by this Foreign Direct Investment. But really, most of the jobs are just being reclassified as jobs at foreign-owned companies instead of jobs at U.S. companies. They're not being "created."

The Structure of Offshoring driving an exponentially-increasing trade deficit



The exponentially-increasing trade deficit is a result of Logical Individual Logic that's Collectively Irrational

Each company's logical offshoring adds to total offshoring, which also has the effect of lowering pay in the U.S. (see references below). This in turn reduces U.S. purchasing power and total U.S. market demand, which increases price competition ... leading to pressure for even more offshoring.

So every company logically offshores to cut costs, but when all do, none have lower costs than others and they are no better off than before in competing in the U.S., the world's largest and most profitable market ... for the time being, until we finally kill off the goose that laid the golden eggs.

In addition, U.S. purchasing power erodes, undermining the whole. As long as offshore pay is lower than in the U.S. and there's a global glut of capacity, the individually logical decisions on the part of corporations will power this "reinforcing feedback." Offshoring increases products & services purchased from offshore and in turn results in an exponentially-increasing trade deficit.

Eventually, as offshoring continues, demand for offshore labor will increase, but there will be a long delay before demand for offshore labor exceeds supply. This will keep offshore wages low for decades, if not a century. If there were to be a world equilibrium of pay, one might expect the equilibrium would be at the weighted mean between U.S. and China pay. Because there are so many Chinese workers compared to U.S. workers and because their pay is so low, the equilibrium would be a very low pay indeed.

See how the American Chamber of Commerce and World Bank are opposing an increase in working conditions and pay in China at "Are there government & business entities that oppose improving working conditions and wages?"
<http://www.exponentialimprovement.com/cms/consdia.shtml#7>

Some maintain that as economic conditions improve offshore and pay rises, the world will purchase more goods from the U.S. This won't be true because pay will only rise very slowly and they will also purchase from low-cost sources, not from the U.S.

Long before we reach such equilibria, the U.S. economy will collapse due to the exponentially-increasing trade deficit as the rest of the world decides to stop taking U.S. dollars for their goods. In response the Federal Reserve will have to raise interest rates to maintain borrowing, because large and growing government deficits and debt won't allow the U.S. to pay off the loans.

This growing trade deficit is the root of the controversy over selling US ports to a UAE company. That wasn't, and still isn't, about "good foreign direct investment in the U.S." (see Buffett's chart above showing increasing foreign holdings of U.S. assets). It's about selling off parts of the US economy (including companies, buildings and toll roads) to take back some of the dollars from foreign hands to stave off the collapse of the dollar.

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](#)

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Phasing in Warren Buffett's Import Certificates mechanism as being the only way to bring about "balanced trade." To deal with the exploding "trade deficit," Buffett has proposed an Import Certificates mechanism to create balanced trade to deal with what he describes as "a shifting maze of punitive tariffs, export subsidies, quotas, dollar-locked currencies, and the like."

Buffett's Import Certificates mechanism: If a country purchases from the U.S., then it can sell that amount back to the U.S. If it does not want to sell to the U.S., it can sell its Import Certificates to another country that does want to sell to the U.S.

This is a market-based mechanism that would produce **the desired outcome: balanced trade**. Balance is necessary because anything out of balance will be ... WILL BE ... brought back into balance. The more out of balance it's allowed to become, the more severe the correction will be.

Find “A Systems Thinking Perspective on Manufacturing & Trade Policy” at <http://www.exponentialimprovement.com/cms/fostermfg.shtml>.

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/day.
That’s 1 1/4 cents / lb in wages.
 - Paying \$500/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/day.

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This is a surprising result. I had to do the calculations several times before I believed it. The story is that we wouldn’t be able to afford fruits and vegetables if we didn’t have cheap labor. It’s simply not true.

Find “Farm Policy Failure” at

<http://www.exponentialimprovement.com/cms/farm.shtml>.

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.

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We have a long way to go before becoming “protectionist.” It’s imperative that we end these policies that force jobs out of the U.S.

Find “Why Offshoring is Economically Unsustainable” at
<http://www.exponentialimprovement.com/cms/offshoresubsidies.shtml>

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.

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Fine “The Progressive Majority: Why a Conservative America is a Myth” at <http://mediamatters.org/progmaj/report>.

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%).

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On “Single Payer Health Insurance” see

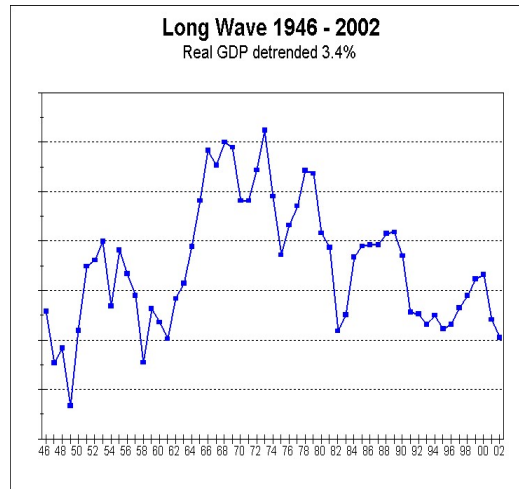
<http://www.exponentialimprovement.com/cms/healthinsurtabor.shtml>.

On “adverse selection” see

<http://www.exponentialimprovement.com/cms/healthinsur.shtml>

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.



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On the “long wave” see
<http://www.exponentialimprovement.com/cms/longwave.shtml>.

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 Roundtable's 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 don't 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. ...

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Find "Split in Ranks of Business and G.O.P. on Tax Cuts" at
<http://www.nytimes.com/2002/11/29/business/29TAX.html>.

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."

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Learn about "path dependence" at "Wealth Happens" at
<http://www.exponentialimprovement.com/cms/wealthhappens.shtml>.

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](#)

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Find information on "Fair Tax" at <http://mediamatters.org/items/200605260004>.

Also see my "Fair Tax" analysis at

<http://www.exponentialimprovement.com/cms/fairtax.shtml>.

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."

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Many promote the myth that Smoot-Hawley and other "trade barriers ... triggered the Great Depression of the 1930s." GNP did fall by 46 percent between 1929 and 1933. But net exports fell by only \$0.7 billion while domestic spending fell by an enormous \$47.3 billion; that's 1.5 and 98.5 percent of GNP, respectively. Blame the Great Depression on the 1.5 percent problem? Absurd. The problem was the collapse of a speculative bubble like the one we have now.

See Linder position on "trade" at
http://linder.house.gov/index.cfm?FuseAction=Issues.Detail&Issue_id=88.

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

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This is our future ... a hyperinflationary “Great Depression” ... **if we don't get a populist president and congress to reverse these trends.** John Williams at Shadow Government Statistics agrees (again, google it ... great site).

Sorry to say, it may be too late and we may be doomed anyway, but if we're to have a chance at all, **John Edwards is the guy.**