The Future Is Now

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By MIKE COLLINS, President, MPC Management

Part Two of a Two-Part Series

Andy Grove (the ex-CEO of Intel) in his July 2010 Business Week article makes the point that sticking with our old free market system isn't going to work against countries that have been very successful with government policies that support manufacturing. He says the evidence "stares at us from the performance of several Asian countries in the past few decades. These countries seem to understand that job creation must be the No.1 objective of state economic policy."

He goes on to say that "these economies turned in precedent-shattering economic performances over the '70s and '80s in large part because of the effective involvement of government in targeting the growth of manufacturing industries."

America needs to commit to a job-centric economic strategy and decide to fight this global war to win. We are the only country that has a real free trade economy, and if we stick with this model, we will become a nation of John Wayne entrepreneurs getting picked off one by one by foreign snipers.

The real key to committing to a job-centric economy is not through the government, or the small and mid-size manufacturers — it is the large multinational companies. They are the ones that have exported most of the jobs and production to low-wage countries. These companies make huge campaign contributions to legislators, and have the power to defeat the "Buy America" legislation and any other legislation

they don't feel is in their best interests. Associations like the U.S. Chamber of Commerce and the National Association of Manufacturers are front groups that lobby for the multinationals, not small manufacturers. Their first priority is not the American economy, American manufacturing or the American worker: It is a "profit-maximizing business model based on exporting jobs and production facilities to low-wage countries abroad."

I believe that we are in an economic war of survival, and accepting the status quo or the old free market solutions is going to ensure that we lose. I also believe that we must fight to win, and there are many things we can do to reverse the decline of manufacturing and the future of the middle class. Here are some suggestions:

1. **Tax reductions**. Offering a general tax break for all citizens, including the wealthiest citizens, was a mistake and will not create jobs in the economy. If Congress is as interested in creating jobs as they say, they should have offered specific tax reductions to manufacturing companies and other businesses that create jobs in the U.S., bring back products from overseas and make capital investment in U.S. plants.

2. **No tax breaks**. All American manufacturers and businesses that continue to offshore products and jobs should not get any tax breaks, particularly tax breaks or subsidies for going overseas.

3. **Job creation**. Besides tax breaks, the government should announce that job creation in the manufacturing sector is the highest priority, and offer subsidies for training and tax incentives to make it happen. For every eight jobs created in manufacturing, six other secondary jobs are created in the economy.

4. **Government contracts**. The Chinese are focusing on the wind energy market, which is subsidized by the federal government. When Congressional Democrats tried to expand the "Buy America" regulations, Congress blocked the initiative. One year later, ABC news reported that 54 to 79 percent of the stimulus bill's key wind energy program had been spent overseas. U.S. companies that manufacture these systems should not be allowed to buy outside of the U.S., and get government grants or subsidies. This includes foreign manufacturers with plants in America. I suggest that all programs that are subsidized with our taxpayer dollars should only be bid by U.S. companies.

5. **Energy initiatives**. Since reducing our energy requirements has become a major goal of government, why not make it a truly American project? Any project to be energy efficient, such as wind, solar, biofuel, wave or nuclear energy, and other projects that receive government subsidies, should require manufacturing in the U.S. as a requirement for government subsidies.

6. **Technology**. The Chinese are focused on getting new American technologies whether they have to copy it, steal it or create laws to get it. In trying to keep good relations with the Chinese, the multinationals will compromise, and give the Chinese these technologies and R&D to keep their Chinese investments safe (as Pfizer just did). Innovation, technology and R&D are the lifeblood of the future economy. It is

my opinion that America should label specific advanced technologies that are significant for defense or for our competitiveness, and they should not be allowed out of the country as happened in the Reagan administration.

7. **Chinese currency**. All efforts by the government to get China to stop manipulating their currency have gotten nowhere. Countries that manipulate their currency for a cost advantage should be asked to let their currencies float and not be pegged to the dollar. This is a huge issue that gives China an unfair (and illegal) 40 percent cost advantage in manufactured goods. I don't think any negotiation is going to change it. Last September, the House of Representatives passed legislation that would give the administration more power to impose economic sanctions on countries that are manipulating their currencies to gain trade advantages. The Senate declined to debate the bill because the Senate is full of "free trade" thinkers who supported the Bush administration. Paul Krugman of the *New York Times* has suggested that a 25 percent surcharge should be levied on imports until they stop manipulating their currency. It is time to quit talking to the Chinese and do something to get their attention. Sanctions or some kind of tax on imports are the only way we are going to get realistic pricing. We should take a cue from Richard Nixon who temporarily imposed a 10 percent surcharge on all Japanese and German imports in 1971 in an effort to get them to stop manipulating their currencies.

8. **Fear of Chinese retaliation**. Naysayers to these suggestions will say beggars can't be choosers. Since we are borrowing so much money from the Chinese, they might retaliate by dumping their holdings of American securities. Here are four reasons we should not fear retaliation

- It is true that their dumping of U.S. assets would decrease the value of the dollar, but it would increase our exports.

- A sudden decrease in the dollar would also decrease the value of China's American assets. Therefore, they would lose a lot of money.

- In a world awash with savings, we could borrow from other countries.

- America is importing 8 percent of China's GDP in terms of middle class consumer products (like copy machines, DVD players and appliances). They could not sell these products to their people because their middle class cannot afford them yet. China would be stuck with huge inventories and risk mass unemployment.

9. **Germany's export policies**. Germany is the leading exporter in the world and we are now No. 3. Their workers are paid as well or better then American workers, and their costs are just as high. So what are they doing that we aren't doing? First of all, to keep their trade in balance, they add a VAT tax to most imported goods. They also protect their economy with non-tariff barriers, such as agricultural and manufacturing subsidies, quotas, import restrictions, market access restrictions restrictive regulations and total bans on certain products. This isn't a supportive statement for protectionism, but Germany has a balanced trade and is No. 1 in the world. What are we going to do?

10. **Tariffs**. All tariffs on specific U.S. industries or products should be reciprocated by the U.S until the tariffs are dropped. If we can balance our trade, tariffs would disappear.

11. **Trade deficit and exports**. Without fair prices I believe that we have no chance of doubling exports or improving the trade deficit. One way or another, we must reduce our trade deficit and be able to export on a level playing field. The Obama goal of doubling exports is a goal without teeth. Manufacturing is the key to exports and we must have a level playing field to have a chance to increase our exports. The good news is that there is a World Trade Organization rule, which allows trade deficit countries to apply import duties to balance their trade. What are we waiting for? Balancing our trade deficit by getting the Chinese to price their products at true cost could bring millions of manufacturing jobs back to the U.S.

12. **Training programs**. We need advanced skills training for the manufacturing employees of the future. I think we need journeyperson training programs. The Department of Labor has come up with money for training for two different acts. In 2008, the largest training budget was for the Workforce Investment Act, totaling $4,063,556,159. The Department of Labor also authorized a High-Growth Job Training Program. Out of a total of 188 grants valued at $220 million, only about $2 million went to a competency-based apprenticeship system for metalworking, which is at the heart of advanced manufacturing. Most of the money went to industries ranging from hospitality and retail to healthcare and information technology.

Despite these significant budgets for education and training, it does not appear that much of the money is being used to train the highly skilled workers needed for manufacturing. This is the fault of manufacturers that must contact these programs or attend workforce investment board meetings. The government has supplied almost $5 billion for training, and manufacturers need to wake up and get their fair share.

The Obama administration has appointed a job creation commission led by Jeffrey Immelt, chairman of General Electric, and other managers of multinational corporations. Is this going to be allowing the fox into the chicken house or will they actually do something for their country? If you look at General Electric's job history from 1999 to 2008, they cut 1,903,400 jobs domestically and created 2,358,000 jobs overseas. GE was hardly alone in eliminating domestic jobs. A very high percentage of Fortune 500 companies have done the same thing.

Obama is right about one important fact in appointing the jobs commission, the multinational companies are the key to job creation and the turnaround of American manufacturing. The big question is whether GE or any of the other companies on the commission will see their job as patriotic devotion to America, manufacturing and workers, or will they fall back on their fiduciary responsibility to their shareholders? If the commission is going to walk its talk and convince me to believe that they are really interested in creating U.S. jobs in manufacturing, they will have to stop sending jobs and production overseas as a first step. The next step is to bring back some of the plants and production lines they have exported.

I see the problems described in this two-part article as growing just like the mortgage crisis, meaning that for many years it was business as usual, and we all kept marching towards the cliff. Then one day the financial industry went over the cliff and pulled all economies of the world with it. I believe we are living on borrowed time. If we don't make decisions on these problems in the near future, a major course correction will be forced on us.

Manufacturing is floating down the economic river towards the falls. We are at a point in which we either paddle desperately to shore or go over the waterfall. There is little that can be done once the economy is in free fall.

I believe there are many things we can do to create new jobs, increase exports and increase our standard of living, but we must quit talking and take bold action.

The future is now.

Michael P. Collins is the author of the book, Saving American Manufacturing*. You can find related articles on his website at www.mpcmgt.com* [1]*. To read Part One, click here* [2]*.*

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