FRIENDS OF THE MIDDLE
NEWSLETTER #64 — FEB. 1, 2012

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Restoring America's Manufacturing Base

(posted by Steven W. Baker / SteveB, Feb. 1, 2012)

Well, the Florida Republican Primary was certainly boring, not that I want to see Newt succeed. I just want him to have enough rope to hang himself. For some reason, that's the entertaining part., to most of us, I think. I can't go to the cock fights around the corner not expecting to see blood. Modern American politics has become much like a cock fight. Both should be illegal!

So, please allow me to turn the page to what I believe is our most pressing problem — JOBS!

I hope we're ready to start having a serious discussion on this issue and the related issues of trade, manufacturing, and monetary policy. The need is urgent, so I hope Congress can ignore the election distractions and accomplish just a few good things between now and November.

#1 — kill the Bush tax cuts! (But I don't think this will happen before the election.)

Here's another valuable resource, Dean Baker's blog and much more: http://www.cepr.net/index.php/beat-the-press/.

“A Competitive Dollar: The Missing Link in President Obama’s Manufacturing Agenda” by Dean Baker, NationofChange

Jan. 31, 2012, (http://www.nationofchange.org/competitive-dollar-missing-link-president-obama-s-manufacturing-agenda-1328028595)

In his State of the Union Address last week, President Obama announced a renewed commitment to manufacturing in the United States. While the commitment to rebuilding the country’s manufacturing base is welcome – manufacturing has historically been a source of good-paying jobs for workers without college degrees – he unfortunately left the most important item on the list off the agenda.

President Obama failed to commit himself to restoring the competitiveness of the dollar as part of his agenda for bringing back manufacturing jobs. The value of the dollar really has to be front and central in any effort to restore U.S. competitiveness since it is by far the most important factor determining the relative cost of U.S. goods compared with goods produced elsewhere.

If the dollar is 20 percent above its proper value then it is equivalent to putting a 20 percent tariff on all of our exports. If the price of U.S. made goods are 20 percent higher for people living in other countries because of an over-valued dollar, we are not going to be able to export very much.

The opposite is true with imports. The over-valued dollar is equivalent to giving a 20 percent subsidy to people who import goods from other countries. This places U.S.-made products at an enormous disadvantage competing with imports. This explains the flood of imports coming into the country over the last 15 years.

President Obama’s plans to improve education and training and provide support for research and long-term planning are all great, but if we don’t address the fundamental problem of an over-valued dollar, then his agenda will have little impact on manufacturing in the United States. This is sort of like preparing the soil and carefully watering your garden but forgetting to plant the seeds.

The idea of the dollar falling in response to a trade deficit is actually fairly basic economics. In a system of floating exchange rates, countries with large trade deficits, like the United States, are supposed to see their currency fall, which brings trade back into balance. The lower-valued dollar has little effect on the price of most goods and services people in the United States consume. It just raises the price of imports, which is necessary if we are not going to keep borrowing money to pay for the fact that we consume more imports than we export.

The trade deficit is not leading to a fall in the dollar now because the central banks in many countries (most importantly China) are buying up large amounts of dollars precisely to keep the dollar from declining and eliminating their trade surpluses and our trade deficit. President Obama must persuade these countries to change their practice or take steps to force the dollar down. If he doesn’t, then he is largely wasting our time with his “built to last” agenda.

Balanced trade would have a huge impact on U.S. labor markets. It would lead to more than 5 million new jobs in manufacturing. If we had balanced trade, as opposed to a $580 billion trade deficit (4 percent of GDP), we could get back to full employment without needing either the stimulus from large budget deficits or the boost from the demand generated by a housing bubble.

Imagine the 4.0 percent unemployment of the late 90s coming back. This would make a real difference in the lives of tens of millions of workers.

As a matter of accounting, the gap in demand created by a trade deficit can only be filled by either negative public saving (a budget deficit) or negative private saving, as we experienced with the housing-bubble-driven consumption boom. There is literally no way around this story.

Unfortunately it is not clear that President Obama is prepared to push for a lower-valued dollar. Robert Rubin, the Treasury Secretary under President Clinton whose views still capture the thinking of most centrist Democrats, was the main promulgator of the high dollar policy that caused our trade deficit to explode in the first place.

There is a real class dimension to the high dollar since it means that Wall Street's money will go further when it invests overseas. It also helps to keep down inflation, Wall Street's nemesis. In other words the value of the dollar is another one of those 99 percent versus the 1 percent issues.

In short, if we actually want to see results in the form of more manufacturing jobs, rather than just a good speech, we will have to press President Obama to challenge the 1 percent. A more competitive dollar must be at center of a serious manufacturing policy. Everything else on President Obama's Built to Last agenda is just window dressing.

(Dean Baker is co-director of the Center for Economic and Policy Research in Washington, D.C. He previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell University. He is the author of several books, including *Plunder & Blunder: The Rise and Fall of the Bubble Economy, The Conservative Nanny State: How the Wealthy Use the Government to Stay Rich and Get Richer* and *The United States Since 1980*. He was the editor of *Getting Prices Right: The Debate Over the Consumer Price Index*, which was a winner of a Choice Book Award as one of the outstanding academic books of the year. He appears frequently on TV and radio programs, including CNN, CBS News, PBS News Hour, and National Public Radio. His blog, Beat the Press, features commentary on economic reporting. He received his B.A. from Swarthmore College and his Ph.D. in economics from the University of Michigan.)

Comments:

posted by BozoAdult (Jan. 31, 2012, 3:06 pm)

Hey Dean! Want to make American manufacturing more competitive? Stop allowing multinational corporations to own "our" politicians. They are the ones that write laws that foster unfair competition.

Just imagine, we try to compete with a China that allows prison and child labor. They allow no organized labor, every heavy industry undercuts the American ones because China's are subsidized and there is no concern for worker health and safety. You think China has worker's compensation? LMAO!

So Dean, don't bring that bullsh*t in here. We know that things could be corrected with the application of tariffs. Tariffs only need to offset the unfair advantages built into trade with third world nations. Enact tariffs to protect American manufacturing and jobs! Stop with the lies. Enact tariffs or admit the truth that this is a race to the bottom.

posted by John Mugge (Jan. 31, 2012 12:25 pm)

The fed is trying to devalue by printing money like it's going out of style. Other nations' central banks are buying fewer dollars and fewer US Bonds as they diversify their reserves. We are in the middle of a currency war right now. (See James Rickards' new book.) But currency wars are no way to solve the fundamental global economic problems. We need to stop these shooting wars which waste resources; war always plays havoc with the economy. And we need some other mechanism besides currency valuations to balance trade. Our manufacturing sector is such a mess right now tariffs would be justified.

FotM NEWSLETTER #64 (Feb. 1, 2012)—HYPERTEXT INDEX

20120131-01	13:35	Art	Re: Obama-Biden Petition: Ban Congressional Insider Trading! (reply to SteveG, FotM Newsletter #63)

Thanks. Good one!

20120131-02	14:43	SteveB	"The Biggest Risk to the Economy in 2012 & What's the Economy For Anyway?"

"The Biggest Risk to the Economy in 2012, and What's the Economy For Anyway?" by Robert Reich, Nation of Change

Jan. 31, 2012, (http://www.nationofchange.org/biggest-risk-economy-2012-and-what-s-economy-anyway-1328022937)

Treasury Secretary Tim Geithner, speaking at the World Economic Forum in Davos a few days ago, said the "critical risks" facing the American economy this year were a worsening of Europe's chronic sovereign debt crisis and a rise in tensions with Iran that could stoke global oil prices.

What about jobs and wages here at home?

As the Commerce Department reported Friday, the U.S. economy grew 2.8 percent between October and December – the fastest pace in 18 months and the first time growth exceeded 2 percent all year. Many bigger American companies have been reporting strong profits in recent months. GE and Lockheed Martin closed the year with record order backlogs.

Yet the percent of working-age Americans in jobs isn't much different than what it was three years ago. Yes, America now produces more than it did when the recession began. But it does so with 6 million fewer workers.

Average after-tax incomes adjusted for inflation are moving up a bit. (They increased at an annual rate of .8 percent in the last three months of 2011 after falling 1.9 percent in prior three-month period. For all of 2011, incomes fell .1 percent.)

But beware averages. Shaquille O'Neal and I have an average height of six feet. Exclude Mitt Romney's $20 million last year — along with everyone else securely in the top 1 percent — and the incomes of most Americans are continuing to slip.

Consumer spending picked up slightly in the fourth quarter mainly because consumers drew down their savings. Obviously, this can't last.

Meanwhile, government is spending less on schools, roads, bridges, parks, defense, and social services. Government spending at all levels dropped at an annual rate of 4.6 percent in the last quarter – and that's likely to continue.

Some economists worry this drop is a drag on the economy. But it also means fewer public goods available to all Americans regardless of income.

Congress still hasn't decided whether to renew the temporary payroll tax cut and extend unemployment benefits past February. If it doesn't, expect another 1 percent slice off GDP growth this year.

Tim Geithner is surely correct that the European debt crisis and Iran pose risks to the American economy in 2012. But they aren't the biggest risk. The biggest risk is right here at home – that most Americans will continue to languish.

All of which raises a basic question: Who or what is the economy for? Surely not just for a few at the top, and not just big corporations and their CEOs. Nor can the success of the economy be measured by how fast the GDP is growing, or how high the Dow Jones Industrial Average is rising, or whether average incomes are turning upward.

The crisis of American capitalism marks the triumph of consumers and investors over workers and citizens. And since most of us occupy all four roles – even though the lion's share of consuming and investing is done by the wealthy – the real crisis centers on the increasing efficiency by which all of us as consumers and investors can get great deals, and our declining capacity to be heard as workers and citizens.

Modern technologies allow us to shop in real time, often worldwide, for the lowest prices, highest quality, and best returns. Through the Internet and advanced software we can now get relevant information instantaneously, compare deals, and move our money at the speed of electronic impulses. We can buy goods over the Internet that are delivered right to our homes. Never before in history have consumers and investors been so empowered.

Yet these great deals increasingly come at the expense of our own and our compatriots' jobs and wages, and widening inequality. The goods we want or the returns we seek can often be produced more efficiently elsewhere around the world by companies offering lower pay, fewer benefits, and inferior working conditions.

They also come at the expense of our Main Streets – the hubs of our communities – when we get the great deals through the Internet or at big-box retailers that scan the world for great deals on our behalf.

Some great deals have devastating environmental consequences. Technology allows us to efficiently buy low-priced items from poor nations with scant environmental standards, sometimes made in factories that spill toxic chemicals into water supplies or pollutants into the air. We shop for great deals in cars that spew carbon into the air and for airline tickets in jet planes that do even worse.

Other great deals offend common decency. We may get a great price or high return because a producer has cut costs by hiring children in South Asia or Africa who work twelve hours a day, seven days a week. Or by subjecting people to death-defying working conditions.

As workers or as citizens most of us would not intentionally choose these outcomes but as seekers after great deals we are indirectly responsible for them. Companies know that if they fail to offer us the best deals we will take our money elsewhere – which we can do with ever-greater speed and efficiency.

The best means of balancing the demands of consumers and investors against those of workers and citizens has been through democratic institutions that shape and constrain markets.

Laws and rules offer some protection for jobs and wages, communities, and the environment. Although such rules are likely to be costly to us as consumers and investors because they stand in the way of the very best deals, they are intended to approximate what we as members of a society are willing to sacrifice for these other values.

But technologies for getting great deals are outpacing the capacities of democratic institutions to counterbalance them. For one thing, national rules intended to protect workers, communities, and the environment typically extend only to a nation's borders. Yet technologies for getting great deals enable buyers and investors to transcend borders with increasing ease, at the same time making it harder for nations to monitor or regulate such transactions.

For another, goals other than the best deals are less easily achieved within the confines of a single nation. The most obvious example is the environment, whose fragility is worldwide. In addition, corporations now routinely threaten to move jobs and businesses away from places that impose higher costs on them – and therefore, indirectly, on their consumers and investors – to more "business friendly" jurisdictions. The Internet and software have made companies sufficiently nimble to render such threats credible.

But the biggest problem is that corporate money is undermining democratic institutions in the name of better deals for consumers and investors. Campaign contributions, fleets of well-paid corporate lobbyists, and corporate-financed PR campaigns about public issues are overwhelming the capacities of Congress, state legislatures, regulatory agencies, and the courts to reflect the values of workers and citizens.

As a result, consumers and investors are doing increasingly well but job insecurity is on the rise, inequality is widening, communities are becoming less stable, and climate change is worsening. None of this is sustainable over the long term.

Blame global finance and worldwide corporations all you want. But save some blame for the insatiable consumers and investors inhabiting almost every one of us, who are entirely complicit. And blame our inability as workers and citizens to reclaim our democracy.

This article was originally posted on Robert Reich's blog: http://robertreich.org/.

20120131-03	18:10	SteveG	Poster: “Admit It: You Now Want to Live in Canada”

20120131-04	18:56	Jim	“Social Justice Quiz 2012: Thirteen Questions”

Interesting comparisons:

“Social Justice Quiz 2012: Thirteen Questions” by Bill Quigley and Sam Schmitt, Nation of Change

Jan. 31, 2012, (http://www.nationofchange.org/social-justice-quiz-2012-thirteen-questions-1328020073)

(The truth about social justice.)

1. The combined pay of the 299 highest paid CEOs in the US is enough to support how many median salary jobs?

 45,000? 83,000? 102,325?

2. The median net worth of black households in the US is $2,200. What is the median net worth of white households in the US?

 $4,400? $44,000? $97,000?

3. The US Department of Housing and Urban Development issues a national survey every year listing fair market rents for every county in the US. HUD also suggests renters should pay no more than 30 percent of their income on housing costs. In how many of the USA's 3068 counties can someone who works full-time and earns the federal minimum wage pay 30% of their income and find a one-bedroom apartment at the fair market rental amount?

19? 368? 1974?

4. How much must the typical U.S. worker earn per hour to rent a two-bedroom apartment if that worker dedicates thirty percent of his income, as HUD suggests, to rent and utilities?

$9.39? $14.63? $18.46?

5. The wealthiest 1 percent of the US has a net worth which is how many times greater than the median or typical household's net worth?

50? 150? 225?

6. Which of these countries puts the highest percentage of their people in jails and prisons?

China? Iran? Iraq? Germany? Russia? USA?

7. In 2012, the US will pay out about $620 million for old age Social Security benefits to 45 million families. How much is budgeted for military spending by the US in 2012?

$310 billion? $620 billion? $836 billion?

8. The US is number one in the world in military spending. How much more does the US spend compared to the top 15 countries in the world in military spending?

More than any 2 other countries combined? More than any 5 other countries combined? More than all the rest of the 15 top military spending countries combined?

9. How many people in the world live on less than $1.25 a day?

150 million? 500 million? Over 1 billion?

10. How many people in the world live without electricity?

500 million? One billion? One and half billion?

11. The US government donates over $30 billion a year in official development assistance (foreign aid) to poor countries. Where does that rank the US government in percentage of giving among the richest 23 countries?

First? Tenth? Nineteenth?

12. The US government donates over $30 billion a year to poor countries. How much do US consumers spend on pets and pet supplies each year?

$10 billion? $30 billion? $67 billion?

12. The poverty rate among children in the US is over 20 percent. How does US compare with the rest of the 30 nations surveyed by the Organization for Economic Cooperation and Development?

First? Tenth? Twenty-sixth?

<u>Answers to Social Justice Quiz 2012:</u>

1. The combined pay of the top 299 CEOs is enough to support 102,325 average jobs. Source: Corporate Paywatch.

2. The median net worth of white households in the US is $97,900. Source: Economic Policy Institute.

3. Except for eleven counties in Illinois and another eight in Puerto Rico, there is no county in the US where a one bedroom fair market rate apartment is available to a person working full-time at the minimum wage. Source: The National Low Income Housing Coalition.

4. The typical worker must earn $18.46 an hour to rent a two bedroom apartment. Source: National Low Income Housing Coalition.

5. In the last numbers reported, the top 1 percent had net worth 225 times greater than the median or typical household's net worth, the highest ever recorded. Source: Economic Policy Institute.

6. The rate of incarceration per 100,000 people is: USA 730, Russian 534, Iran 334, China 122, Iraq 101, and Germany 86. Source: International Centre for Prison Studies, University of Essex.

7. $836 billion. Over $713 billion on military programs and another $123 for veterans affairs. Source: US Office of Management and Budget, Fiscal Year 2012.

8. The US spends $100 billion more on our military than the next highest 15 countries combined. More than China, UK, France, Russia, Japan, Saudi Arabia, Germany, India, Italy, Brazil, South Korea, Australia, Canada and Turkey combined. Source: Stockholm International Peace Research Institute, 2011 Yearbook.

9. 1.4 billion people live on less than $1.25 a day. Source: United National Development Program, Human Development Report 2010.

10. One and half billion people, more than one of every five people in the world, live without electricity. Source: United Nations Development Program, Human Development Report 2011.

11. US government ranks 19th out of 23 countries in assistance to poor nations, giving about two-tenths of one percent of US gross national income to poor countries. Source: Global Issues: Foreign Aid for Development Assistance.

12. US consumers spend $67 billion each year on pets, pet products and services. Source: US Census Bureau 2012 Statistical Abstract.

13. The US poverty rate among children ranks the US 26th among 30 nations in the rate of poverty among children. Source: Poverty among children. OECD.

20120131-05	19:15	SteveB	Fw: Constitutional Amendment Undoing *Citizens United* (from MT Sen. Jon Tester)

from Montana Senator Jon Tester (D):

Free and fair elections are the bedrock of our democracy. That's why I'm supporting a constitutional amendment to undo the U.S. Supreme Court's 2010 Citizens United decision.

This controversial decision undermines Montana values, allowing corporations to spend unlimited money on our elections with no transparency or accountability. Under this ruling, even foreign corporations can influence our elections.

Corporate interests should not have the power to buy an election. Like most Montanans, I know corporations aren't people. A century ago, in the wake of rampant political corruption wrought by the Copper Kings, the people of Montana passed a law limiting corporate influence over our elections. The Montana Supreme Court recently upheld our state's historic law, and I strongly support their decision.

It will take a constitutional amendment to overturn the U.S. Supreme Court's *Citizens United* decision. I believe this step is the right thing to do to uphold Montana's values and put our democracy back in the hands of people, not wealthy corporations.

Please feel free to share your thoughts. As always, I'm interested in hearing from you: senator@tester.senate.gov.

20120131-06	23:44	SteveG	"Current Laws Would Slash Federal Deficit, Analysts Say"

If the federal government continues the gridlock, the deficit will take care of itself. Interesting!

"Current Laws Would Slash Federal Deficit, Analysts Say" by Lisa Mascaro, *LA Times*

Jan. 31, 2012, (http://www.latimes.com/news/nationworld/nation/la-na-cbo-deficits-20120201,0,1929376.story)

(The annual deficit would be cut in half by next fiscal year if Congress allows laws to stand that would let Bush-era tax cuts end and impose deep budget cuts, the Congressional Budget Office reports.)

(WASHINGTON) Here's one way Congress can trim the nation's record deficits: Do nothing.

Keeping Congress gridlocked on budget issues would cut the projected annual federal deficit in half by the next fiscal year and set the trend on a downward path for years to come.

Legislation already on the books, if left alone, would do several things: Tax cuts passed under President George W. Bush's administration would expire Dec. 31, generating more revenue. And deep budget cuts passed as part of last summer's debt ceiling deal would be automatically triggered, slashing spending in 2013.

Pain would come with the progress, however. If Congress agreed to let such politically difficult choices stand, the short-term effect would curtail the nation's modest economic growth. The unemployment rate would rise back above 9% next year, a result of substantial reductions to the federal workforce and sluggish demand, according to the latest report from the Congressional Budget Office.

This is the Catch-22 facing Congress and driving the presidential campaign. Tea party members want to reduce government spending. Democrats want to raise taxes on the affluent. And economists warn that sudden budget cuts or tax increases can damage a recovering economy. How lawmakers balance the competing interests will be at the crux of the debate that has become the nation's defining domestic issue.

"On the one hand, if policymakers leave current laws unchanged, the federal debt will probably recede slowly," said Douglas W. Elmendorf, director of the CBO, in releasing the annual Budget and Economic Outlook for the next decade.

"On the other hand, changing current laws to let current policies continue would boost the economy and allow people to pay less in taxes and benefit more from government programs in the next few years — but put the nation on an unsustainable fiscal course."

One thing is certain, the CBO advised: Making decisions sooner rather than later is preferable, even if lawmakers agree to phase in the changes over time to soften the damage.

"There's no substantive advantage to waiting to decide what policy changes we will make," Elmendorf said Tuesday. "To the contrary, the longer we wait as a country to make the sort of choices that we have to make, the harder it will be to make them, because more debt will have accumulated and people will have less time to plan how they will react to the various changes."

Although the issues covered in the CBO report are driving the national debate on and off Capitol Hill, they have not spurred lawmakers to act. Substantive action isn't expected until a lame-duck session of Congress after the November election.

Party leaders wasted no time cherry-picking from the report. Republicans said the gloomy economic outlook represented the failed policies of President Obama, who took office amid the most significant economic downturn since the Depression.

"This president inherited a bad situation and he has made it worse," said Sen. John Barrasso of Wyoming, a member of the GOP leadership.

Democrats argued that raising taxes on wealthier Americans must be part of any deficit reduction strategy.

"We have to get our fiscal house in order by reaching a big and balanced deficit reduction plan this year," said Rep. Steny H. Hoyer of Maryland, the No. 2 Democrat in the House. "Such a plan requires both getting a handle on spending and raising revenue."

But even if Congress leaves the tough laws on the books this year — thereby halving the projected 2012 deficit of $1.1 trillion — the gain would be short-lived, the CBO said. Raising taxes and cutting spending alone cannot solve the problems of the nation's $15.2-trillion debt load.

By the middle of the decade, deficits would begin to curve upward again, largely as a result of an aging population and the related costs of Medicare and Social Security.

Resolving that issue is what Elmendorf called the "fundamental challenge." The GOP has proposed offering the next generation of seniors a fixed-price stipend to buy private health insurance — a proposal from Rep. Paul D. Ryan (R-Wis.) that was panned by much of the public and used as a Democratic campaign issue against Republicans who supported it.

The nation's gross domestic product is projected to grow by 2% this year — better than in the recent past — but the economy is only about halfway through the effects of the downturn, the report said.

Douglas Holtz-Eakin, a former CBO director who has advised Republicans, suggested that members of Congress brace themselves for the inevitable year-end budget battles.

"Deep breath," he said. "December could be quite ugly."

20120131-07	23:59	SteveB	Photo: 'Goodbye, Moon!'

http://gizmodo.com/5645030/watch-the-super-harvest-moon-today

Harvest Moon Setting over Arizona (2010)

—Friends of the Middle,
Steven W. Baker (SteveB), Editor/Moderator

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FriendsOfTheMiddle@hotmail.com