Economic Competitiveness:
A Requirement for Medicare For All and Free College Tuition

Dear Mayor Schaaf,

A Short Detour to the Subject of Economic Competitiveness

For the past six years, I have written a letter to you for Earth Day in April on Sustainable Existence on Our Planet (attachment). I have not written on economic competitiveness in almost a decade* (attachment). I have been averse to writing on this subject while we are wrecking our planet as we race ahead in our tunnel-vision pursuit of economic growth. This essay will be short detour to the subject of economic competitiveness.

* I originally wrote the essay "Economic Stimulus without Industrial Policy Won't Work" in February 2009. I updated it in August 2011 to incorporate information from three new books: mainly "The Betrayal of American Prosperity " (2010) by Clyde Prestowitz and "Free Trade Doesn't Work" (2011) by Ian Fletcher and to a lesser extent "Death By China" (2011) by Peter Navarro and Greg Autry. This essay also will draw from these books by Prestowitz and Fletcher. It will also draw from "In Praise of Hard Industries" (1999) by Eamonn Fingleton.

Political Cartoon for Labor Day in the *East Bay Times*

What prompted this current detour to the subject of economic competitiveness was a political cartoon for Labor Day which appeared in the *East Bay Times* on August 25, 2019, p. A15. It appears below. I can imagine what may have prompted political cartoonist Dave Granlund to create this cartoon. He may have been in Home Depot or Ace Hardware and observed where items such as hand tools, power tools, garden tools, smoke detectors, hardware items (including brackets, hinges, hasps, and towel racks, et al.), microwave ovens, toaster ovens, bathroom scales, et al. are made: China. Or he may have been in Office Depot or Best Buy and observed where items such as flat screen TVs, computers, external drives, flash drives, mice, et al. are made: China.   Or he may have been in Petco and observed where items such as dog leashes, dog collars, dog harnesses, dog chew sticks, et al. are made: China. Or he may have been recalling that his iPhone was manufactured in China. (Dave used this iPhone to send me permission to use his political cartoon in this essay.)

Labor Day, 2019 message from President Xi of China

Our Trade Balance and Standard of Living

Mr. Granlund would not have had an issue with the goods from China if there were balance in trade between the U.S. and China: that is, what we buy from China is about equal to what sell to them. This balance is necessary over the short- to medium-term if we are to stay viable as a nation.   This requirement for viability is analogous to that of a household: for a household to maintain its standard of living, its members must earn as much they spend or borrow to cover the shortfall between earnings and spending – if they can get credit. For a nation to maintain its standard of living, it must sell roughly as much as it buys in international trade**. If a nation buys more than it sells, it can maintain its standard of living in the short- to medium-term by going into debt – that is, if its trading partners are willing to extend credit to it.

** The underlying assumption here is that nations are not self-sufficient, so international trade is necessary.

Economic Competitiveness: A Requirement for Medicare For All and Free College Tuition

Economic competitiveness underlies our prosperity. It provides the income which enables us to have a satisfactory standard of living and quality of life. Economic competitiveness enables us to maintain quality infrastructure which encompasses good roads, good public services, good parks, et al. It also enables good housing. Economic competitiveness also enables quality medical care and a quality educational system.

Medical care and education are expensive services, not "free goods." Income provided by economic competitiveness is needed to pay for them. Accordingly, wealthier nations usually can afford better quality medical care and education than poorer nations which sometimes can barely provide these services.

Analogously, affluent families usually can afford better quality medical care and education than poorer families.

Economic competitiveness enables Medicare For All, free college tuition, and the cancellation of all U.S. student loan debt. Nations which are not economically competitive cannot over the long run provide such services just by redistributing wealth from the upper to lower class. The amount of wealth from such transfers is insufficient to fund these services, and it pales in comparison to amount of wealth not being created in the country because it has lost economic competitiveness, e.g., the loss of wealth-creating manufacturing in America’s former Industrial Heartland in the Midwest.

<u>How Are We Doing in Economic Competitiveness?</u>

In the decades following World War II, the U.S. was unequivocally the richest country in the world and were pretty much number one in everything. In that era, we ran trade surpluses, i.e., we sold more than we bought in international trade. However, "our trade went into deficit in 1971. We have not run a surplus since 1975.” (Fletcher, p. 143) "Chronic U.S. trade deficits of $600 billion to $800 billion annually over many years have turned America from the world's leading creditor nation to its largest debtor.” (Prestowitz, p. 7)

Let’s look at some data. During 2013-2018, the US trade deficit in goods ranged from $689.5 billion in 2013 to $874.8 billion in 2018. The deficit widened every year except in 2015 and increased 7.9% in 2017 and 10.3% in 2018. Data for 2019 through September show that the trade deficit for 2019 will equal or exceed the trade deficit of $875.4 billion for 2018 (see following table).

U.S Trade Deficit in Goods, 2013-2018

US trade deficit in **GOODS**, 2013 through 2018			Trade in **Goods** with World, Seasonally Adjusted			
https://www.census.gov/foreign-trade/balance/c0004.html						
All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified.						
Figures are in **billions** of U.S. dollars were added by this author as were difference and % difference columns.						
	Millions of $	Dif, Yr over Yr	% incr, Yr-Yr	**Billions** of $	Dif, Yr over Yr	% incr, Yr-Yr
2018	-874,813.70	-81,403.10	10.3%	(874.8)	(81.4)	10.3%
2017	-793,410.60	-58,084.40	7.9%	(793.4)	(58.1)	7.9%
2016	-735,326.20	10,156.80	-1.4%	(735.3)	10.2	-1.4%
2015	-745,483.00	-11,000.70	1.5%	(745.5)	(11.0)	1.5%
2014	-734,482.30	-45,012.40	6.5%	(734.5)	(45.0)	6.5%
2013	-689,469.90			(689.5)		
		Millions of $		Billions of $		
% Increase, 2018-2013		26.9%		26.9%		
$ Increase, 2018-2013		(185,343.8)		(185.3)		

U.S Trade Deficit in Goods, 2019 vs. 2018 Through September

US trade deficit, 2019 vs 2018 through Sept.				
Trade in **Goods** with World, Seasonally Adjusted				
https://www.census.gov/foreign-trade/balance/c0004.html				
All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified.				
Figures are in **billions** of U.S. dollars were added by this author as were difference and % difference columns.				
	Millions of $		**Billions** of $	
	2019	**2018**	**2019**	**2018**
January	-71,918.30	-73,903.60	-71.9	-73.9
February	-69,877.00	-75,014.40	-69.9	-75.0
March	-71,804.40	-69,084.20	-71.8	-69.1
April	-70,931.50	-69,304.50	-70.9	-69.3
May	-74,801.70	-65,631.20	-74.8	-65.6
June	-74,176.60	-68,462.10	-74.2	-68.5
July	-72,382.20	-73,056.80	-72.4	-73.1
August	-73,022.60	-75,270.70	-73.0	-75.3
September	-70,546.90	-76,235.30	-70.5	-76.2
TOTAL	**-649,461.20**	**-645,962.80**	**-649.5**	**-646.0**
	Millions of $		**Billions** of $	
2019	-649,461.20		-649.5	
2018	-645,962.80		-646.0	
Dif through Sep	-3,498.4		-3.5	
% increase	0.5%		0.5%	

With what countries does the U.S. have the largest trade deficit in goods? In 2018, more than 65% of the U.S. trade deficit in goods was with China. The main U.S. imports from China were consumer electronics, clothing, and machinery.

Top Five Trading Partners with Which the U.S. Had Its Largest Trade Deficits in Goods in 2018.

Country	**U.S. Deficit in Goods**
China	$419 billion
Mexico	$81 billion
Germany	$68.2 billion
Japan	$67.6 billion
Canada	$20 billion

The U.S. goods trade deficit of $419.2 billion with China reached a new record in 2018 and was up from $375.6 billion in 2017, an increase of $43.6 billion (11.6 percent). United States trade with China is dominated by the deficit in manufactured products. (https://www.thebalance.com/trade-deficit-by-county-3306264)

U.S trade deficit in goods and services during 2013-2018.

U.S. Trade in Goods and Services - Balance of Payments (BOP) Basis
https://www.census.gov/foreign-trade/statistics/historical/gands.pdf

	Value in Millions and Billions of $			
	Trade Balance			
	Total	Increase millions $	Increase billions $	% Increase
2018	(627,679)	(77,556)	(77.6)	14.1%
2017	(550,123)	(47,141)	(47.1)	9.4%
2016	(502,982)	(4,457)	(4.5)	0.9%
2015	(498,525)	(8,941)	(8.9)	1.8%
2014	(489,584)	(28,449)	(28.4)	6.2%
2013	(461,135)			

How Long Will Our Creditors Let Us Buy On Credit?

As I wrote above, a nation, in order to maintain its standard of living, must earn roughly as much as it spends over the short- to medium-term – or buy on credit if its trading partners are willing to extend credit to it. If a household ran large deficits for almost 40 years as the U.S. has done, it would likely no longer be able to get credit. As shown above, our annual trade deficit in goods during 2013-2018 ranged from $689.5 billion to $874.8 billion in 2018. How long can the U.S. expect to live on over-extended credit? Fletcher writes, "At some point, America's giant overdraft against the rest of the world must come to an end." (p. 252)

Why do our creditors continue to let the U.S. buy on after credit after running large deficits for almost 40 years? There are two main reasons:

1. First, the U.S. has great accumulated wealth (assets) that serve as collateral for loans. This wealth was developed during America's years as a manufacturing powerhouse. Although Britain had been number one in industry at the beginning of the Industrial Revolution, "between 1870 and 1900, America surged ahead of Britain in virtually every sector of the economy." (Prestowitz, p. 59). By 1914, "U.S. per capita income was $5,307 as compared to $5,032 for Britain and $3,833 for Germany." (Prestowitz, pp. 60-61)

   World Wars I and II, which devastated Europe and Japan, were not fought on American soil. Amid the ruination after World War II, the U.S. was unequivocally the richest country in the world and its world-class manufacturing industries were unchallenged.

2. Second, major exporting nations such China, Mexico, Taiwan, South Korea, Japan, and Germany want to sell their goods in the large, lucrative American market and will let us buy on credit if that's what it takes to make their sales. Many of these countries have built up excess manufacturing capacity, and their home markets can absorb only a small part of their potential output. So, these major exporting nations will sell to the U.S. on credit and with discounts if necessary to move their output.

To restate: How long can the U.S. expect to live on over-extended credit? "At some point, America's giant overdraft against the rest of the world must come to an end." (Fletcher, p. 252) Again, this situation is analogous to that of a household: As long as a household keeps making payments against its debt, it creditors will continue to extend credit. However, when the household no longer can make regular payments and creditors begin to fear they will not get their investment back, over-extended credit to the household will end. And this applies to nations too.

I have included the two paragraphs below from the URL shown because they explain well the dangers for the U.S. of prolonged, untenable debt. (https://www.thebalance.com/u-s-trade-deficit-causes-effects-trade-partners-3306276)

Two Ways the Trade Deficit Hurts the U.S. Economy

“An ongoing trade deficit is detrimental to the nation’s economy because it is financed with debt. The United States can buy more than it makes because it borrows from its trading partners. It's like a party where the pizza place is willing to keep sending you pizzas and putting it on your tab. This can only continue as long as the pizzeria trusts you to repay the loan. One day, the lending countries could decide to ask America to repay the debt. On that day, the party is over.

“A second concern about the trade deficit is the statement it makes about the competitiveness of the U.S. economy itself. By purchasing goods overseas for a long enough period, U.S. companies lose the expertise and even the factories to make those products. Just try finding a pair of shoes made in America. As the United States loses competitiveness, it outsources more jobs and its standard of living declines.”

The above comment about “finding a pair of shoes made in America” recalled to me a New York Times report entitled “Footwear maker seeks manufacturing options”, September 9, 2019. Lena Phoenix and her husband have a thriving footwear business they founded in their home in Colorado. They have had the manufacturing of their footwear done in China. However, President Trump’s tariffs on imported goods from China have prompted them and other footwear companies to leave China. But they have not considered moving their manufacturing to the United States. “There’s no capacity,” Phoenix said. So, instead they are considering moving it to Vietnam, Bangladesh, Indonesia, or Kenya.

When Lena said “There’s no capacity,” she was referring to the loss of our Industrial Commons, the industrial clusters, networks and supply chains which work in coordination to support the manufacturing process. (The Loss of the Industrial Commons is discussed later in this essay.)

Apple also has been considering moving its manufacturing operations for iPhones out of China because of President Trump’s proposed tariffs. Like Lena Phoenix, Apple has been looking to Vietnam, India, and Indonesia. But Apple has not considered moving their iPhone manufacturing to the United States. The U.S. lacks the Industrial Commons, the industrial clusters, networks and supply chains which work in coordination to support the smartphone manufacturing process.

Only One Presidential Candidate Is Addressing Economic Competitiveness

The major Democratic presidential candidates (including Kamala Harris who dropped out), are largely focused on redistributing wealth (e.g., free Medicare For All, free college tuition, and the cancelation of all student loan debt) and on fighting racism. The incumbent, Donald Trump, is the only candidate who is focused on the wealth creation process. It is this process which enables Medicare For All, free college tuition, and the cancelation of all student loan debt. Throughout his political career, Trump has promoted the goal of Make America Great Again which includes restoring our formerly great manufacturing base which nurtured a thriving blue-collar middle-class in the decades after World War II.

Trump is wrong on a lot of things such as environmental and sustainability issues, but he is correct in his quest to boost America's economic competitiveness including the restoration of a vibrant manufacturing sector. America's economic competitiveness is what enables free Medicare For All, free college tuition, and the cancelation of all student loan debt. As written above, plans to achieve these objectives by redistributing wealth from the upper to lower classes won't work because the amount of wealth available for such transfers is insufficient; it pales in comparison to the wealth no longer being created by our formerly vibrant manufacturing sector.

Manufactured Goods for Labor Day, Black Friday, and Cyber Monday

We hear about how the U.S. has evolved into a primarily service economy. However, Americans are still buying a lot of goods. This essay began with a political cartoon by Dave Granlund showing an array of goods purchased for Labor Day. On Black Friday, a whole lot of goods were bought by Americans online and in conventional stores; the same goes for Cyber Monday.

<u>The Suitability of Manufactured Goods for Export Products</u>

A strong manufacturing base fostered a thriving blue-collar middle-class in the decades after World War II, e.g., in America's former Industrial Heartland in the Midwest. Let's consider the manufacture of a consumer durable such as a television set, a microwave oven or a sewing machine. The manufacturing process entails

- Capital (facilities, machinery, et al. including financing)
- Labor
- Materials
- Management

The process starts with raw materials and passes through various steps. At each step, value is added. The value-added of the finished product is essentially what it costs to make the product and, in this example, includes a return to capital.

The value-added to the final product by labor goes to wages/salaries for the factory/plant workers. This value-added by labor fostered a thriving blue-collar middle-class in the decades after World War II. It is critical to note that this value-added **flows to <u>where</u> the workers are located**. For example, when the Midwest had a flourishing automotive industry, the wealth from value-added by labor flowed to workers in the Midwest.

If automotive engineers had just designed the cars in Detroit, but then sent the blueprint/instructions offshore to have them manufactured, e.g., to China, the value-added by labor would have flowed to workers in China, not to workers in the Midwest. If Detroit had done this, the Midwest's formerly thriving blue-collar middle-class would not have existed.

What Detroit did **not** do in that era, Apple **does** today. Apple "designs" its iPhones in the U.S and sends the blueprint/instructions to China to have them manufactured. The value-added by labor flows to where the workers are located: China.

(Note: There is disagreement about the viability of having the design process and the manufacturing process located far from each other. I will not take up this issue in this essay other than including this item from Fletcher, p. 66, "Anyone who knows anything about real-world manufacturing knows that the factory floor and the lab form a continuous feedback loop." This point-of-view argues that the design process should be physically close to the manufacturing process.)

Difficulties With Services and Software As Export Products

(Note: This topic is covered thoroughly by Fingleton, pp. 37-67).

In the decades after World War II when the U.S. was a manufacturing powerhouse, our nation ran trade surpluses, i.e., we were making money. Since the mid-1970s, we have run large and chronic trade deficits (i.e., we buy more internationally than we sell). During this time, the U.S. has transitioned from a manufacturing-based to a service-based nation.

This transition is clearly visible in Silicon Valley which used to produce mainly high-tech intermediate and final goods such as transistors and computers, but now produces predominantly software. Two salient software/services companies in Silicon Valley today are Facebook and Google/Alphabet.

- FACEBOOK, which has about 40,000 employees in the Silicon Valley area, had 2.45 billion monthly active users as of the third quarter of 2019. During the last reported quarter, the company stated that 2.8 billion people were using at least one of the company's core products (Facebook, WhatsApp, Instagram, or Messenger) each month.

- Google/Alphabet, which has about 47,000 employees in the Silicon Valley area, has around 5.5 billion searches done per day or over 63,000 search queries done per second. As of February 2019, Chrome had a 62.41% browser market share globally. In February 2019, YouTube had over 2 billion monthly users.

Are the spectacular successes of Facebook and Google/Alphabet helping us to reduce our trade deficit? Apparently not. As the table above shows, our trade deficit in goods and services rose every year during 2013-2018, from $461.1 billion in 2013 to $627.7 billion in 2018.

Differences Between Goods and Software Exports

In a previous section, I discussed the manufacture of a consumer durable such as a television set, a microwave oven or a sewing machine which might have been manufactured in the Midwest when it was our Industrial Heartland. The labor component of value-added occurred in the Midwest, and after the product was exported and sold, labor's share flowed back to where the workers were located: in the Midwest.

Compare this to the exportation of software products such as Facebook or Google. Let's say the export market is China. These software products have to be modified and tailored to fit the language and culture of the importing country. This tailoring is done most effectively in that country by native speakers of the language who know intimately the language and its nuances and the culture in which they exist. The return to labor for this conversion/tailoring work flows to where workers are: China. In the example above of goods manufacturing in the Midwest, the return to labor flowed to workers in the Midwest.

The difficulties of tailoring software such as Facebook or Google to foreign markets and language/cultures such as China are shown by the stiff competition Facebook is encountering from WeChat. Wechat is the Chinese Whatsapp alternative. It has grown by leaps and bounds and encompasses all potential users of Facebook. It has evolved into the most significant social media platform of China.

Software Piracy: This factor also greatly undermines the export potential of software. It is easy and cheap to copy. Compare this to goods manufacturing: even if you can pirate the blueprint for how to manufacture the product, you still face the hard part of actually manufacturing the product. It might be easier just to import the manufactured product from the Midwest. (Fingleton covers the subject of software piracy well, pp. 40-44.)

Differences Between Goods and Service Exports

Consider again the example of the manufacturing of consumer durables in the Midwest. The labor component of value-added occurred in the Midwest, and after the product was exported and sold, labor's share flowed back to where the workers were located: the Midwest.

Compare this to the exportation of a service such as MacDonald's restaurants. Let's say again that the export market is China. First of all, what is exported to China are not tangible products but essentially recipes for making MacDonald's food offerings and directions for setting up and running the restaurant. The labor to set up and run the restaurant has to come from where the restaurant is located, China. And the return to labor flows to where the workers are located: China, not the Midwest. Presumably the equipment and furnishings for MacDonald's restaurants are also made in China; it seems unlikely that MacDonald's would ship these bulky items from the U.S. So, the value-added by labor to manufacture the equipment and furnishings for MacDonald's restaurants in China does not flow to workers in the United States.

The customer interface also has to be modified and tailored to fit the language and culture of the importing country. This tailoring is done most effectively in that country by native speakers of the language who know intimately the language and its nuances and the culture in which they exist. The return to labor for this conversion/tailoring of MacDonald's facilities and products flows to where the workers are: China. In the earlier example of goods manufactured in the Midwest, the return to labor for value-added flowed to workers in the Midwest.

These two examples show why the U.S.'s transition from a manufacturing-oriented to a service-oriented economy has not helped to reduce our untenable trade deficit; rather this transition has likely worsened it.

Loss of the Industrial Commons

Since his entry into politics, President Trump has focused on our chronic, massive and untenable trade deficit. It continues because our international trading partners continue to give us credit. How long can the U.S. expect to live on over-extended credit? Fletcher writes, "At some point, America's giant overdraft against the rest of the world must come to an end." (p. 252)

Underneath this chronic and massive trade deficit, however, more worrisome long-term structural changes have occurred to our manufacturing sector which will make it hard for us to "get back in the game." When our Industrial Heartland in the Midwest flourished, it did not just consist of isolated plants. Rather it was composed of industrial clusters, networks and supply chains which were all coordinated to support the manufacturing process. As manufacturing declined in the U.S., we have lost not just isolated factories which make the final product, but have also lost the intermediate clusters, networks and supply chains which enabled the factories to manufacture the final product.

Prestowitz discusses this issue in a section on the loss of the technologies of electronic ink and glass technologies used in consumer electronics (including smart phones) to Taiwan, Korea, Japan and China. “Much of the glass technology also left with the consumer electronics industry. As Silicon Valley entrepreneur, corporate director, and author Richard Elkus says, 'Eventually, everything is related to everything else.

"These were not just losses of market share or of a few factories and jobs. They were losses of what Harvard Business School's Gary Pisano and Willy Shih call the 'industrial commons.' Like the common pastures and fields of medieval times or the common transportation infrastructure that supports modern life, the industrial commons is the collective operational capabilities that underpin new product and process development in the United States. Their loss represents not a relative shift but an absolute subtraction from the total assets of the productive base of the economy." (p. 253)

When Apple is asked why it cannot manufacture iPhones in the U.S., its answer has to do with China’s “industrial commons.” China has built up the myriad industrial clusters, networks and supply chains which support the manufacturing of an iPhone. The U.S. lacks these entities and is so far behind in this that it will be very difficult for us to “get back in the game.”

Like the Relationship Great Britain Had with its Colonies

President Trump is correct to try to reduce our chronic and untenable trade deficit, especially with China. What can we sell to China to balance all the goods we buy from it which political cartoonist Dave Granlund observes at Home Depot, Ace Hardware, Office Depot, Best Buy and Petco? The U.S. does not make these goods, but we do produce farm goods we can to sell to China. In 2017, before the trade war started, China purchased about $24 billion a year of U.S. food and agricultural exports. Depending on how trade-tariff negotiations proceed, China could increase purchases of U.S. agricultural goods by $40 billion to $50 billion this year. Soybeans are by far the United States' largest single export to China. (Incidentally, because of its high degree of mechanization, large-scale soy farming is not very labor-intensive. Per 170 to 200 hectares only one employee is needed.)

Agricultural exports help to reduce our trade deficit with China, but is this the kind of trade relationship we want to have with China? This was the kind of trade relationship Great Britain had with its colonies such as India. The colonies shipped raw materials and food stuffs to England which sold manufactured goods back to them. England was diligent about keeping the secrets of manufacturing in England and not in its colonies. For example, at the beginning of the industrial Revolution, Britain protected its supremacy in textile manufacturing by prohibiting both the export of machines and the emigration of men who knew how to build and run them.

What Do Our CEOs Think About Our Trade Deficit with China?

To restate, President Trump is right in trying to reduce our untenable trade deficit. This means restoring our capability to manufacture many of the goods which American consumers, including political cartoonist Dave Granlund, now buy from China.

Trump has proposed tariffs ranging from 10% to 25% on goods imported from China. There are two main objectives of U.S. tariffs:

1. They give U.S manufacturing companies some “breathing room” help while they work to get stronger so they can compete with foreign competition like

China. When foreign manufacturers offer significantly lower prices on, for example, consumer goods than American manufacturers can offer, American consumers will buy these goods. A likely outcome of this process is that what is left of American consumer manufacturing will go out of business.

Some say that this is a positive result since inefficient firms will be replaced by more efficient firms. However, the U.S. will not remain economically viable if we allow our manufacturing sector to be decimated in this way.

Tariffs raise prices on foreign goods to give U.S. manufacturing companies some “breathing room” so they can get stronger and eventually be able to compete with foreign manufacturing companies without the help of tariffs.

The CEOs of American companies should support President Trump’s efforts to rebuild American goods manufacturing capability. However, they oppose his efforts because tariffs on imported goods, especially consumer goods, will raise prices on goods, so consumers and businesses will buy less. This will result in lower sales, less revenue, and lower profits for the CEOs’ companies, and the CEOs won’t look as good in quarterly reports. It appears that quarterly reports which are a determinant of CEO salaries are more important to the CEOs than restoring American goods manufacturing capability which President Trump is trying to do. And, of course, the CEOS say that tariffs will reduce our trade and economic growth. But this is spurious trade and economic growth underlain by prolonged, untenable debt.

2. The tariffs on imported goods, e.g., from China, are a revenue flow from China to the U.S. which can help to offset our massive and untenable trade

deficit with China, $419.2 billion in 2018: From the Wall Street Journal (https://www.wsj.com/articles/u-s-collects-63-billion-in-chinese-tariffs-through-june-11565168400)

> "The tariff hikes approved by President Trump have infuriated Beijing and escalated the U.S.-China trade war, but there has been at least one beneficiary: the U.S. Treasury.
>
> "As of June 30, the U.S. government has collected $63 billion in tariffs over the preceding 12 months, according to the latest Treasury data. What's more, the tariff bounty is on the rise.
>
> "The U.S. collected $6 billion in tariffs in June, up from $5.3 billion in May and $4.8 billion in April, after Mr. Trump's decision to raise levies on $200 billion in Chinese goods from 10% to 25%. The latter took effect gradually beginning in May, based on when goods left port in China."
>
> "The U.S. is now on a pace to generate $72 billion in tariffs annually, and could well hit the $100 billion mark Mr. Trump has touted if new 10% tariffs on $300 billion in untaxed imports take effect on Sept. 1, as threatened."

What Do U.S. Consumers Think About Our Trade Deficit with China?

To restate, President Trump is right in trying to reduce our prolonged and untenable trade deficit. This means restoring our capability to manufacture many of the goods which American consumers, including political cartoonist Dave Granlund, now buy from China.

American consumers should support these efforts. Strong consumer and capital goods manufacturing bases are what once fostered a thriving, blue-collar middle class, e.g., in America's former Industrial Heartland in the Midwest. However, it appears that American consumers have the same short-run priorities as the

CEOs discussed above. Tariffs on imported consumer goods will raise their prices. This means American consumers won't be able to buy as many of these goods, and this will "lower their standard of living." But as written above in reference to CEOs, this is a spurious standard of living underlain by prolonged and untenable debt.

President Trump Has Correctly Identified the Problem, But Not Its Cause.
To his credit, President Trump is the only presidential candidate from either party who is addressing our prolonged and untenable trade deficit, especially with China, and the severe erosion of our formerly great manufacturing base. The major Democratic presidential candidates (including Kamala Harris who dropped out), are largely focused on redistributing wealth (e.g., free Medicare For All, free college tuition, and the cancelation of all student loan debt) and on fighting racism.

However, Trump incorrectly attributes the cause of our massive trade deficit in goods with China to unfair business practices, i.e., China is cheating. (Trump's incorrect attribution of the cause may be influenced by Peter Navarro, Assistant to the President and Director of the Office of Trade and Manufacturing Policy). Trump (and Navarro) say that China is cheating, but in fact China has **consciously chosen** a different economic system than the laissez-faire based economic system of the U.S. China and most of our economic competitors (such as Germany, Japan, South Korea, and Mexico) have chosen mercantilist-based economic systems in which the government and the private sector develop **explicit** national economic strategies to achieve a desired overall structure and direction for the economy in order to foster the economic advancement of their nation. They do not leave the development of national economic strategy to private interests, e.g., the private equity players, seeking to make a profit, assuming that the "magic of the market" and the "invisible hand" will ensure a desirable outcome. Goals for national economic strategies include creating jobs, raising wages, protecting and promoting certain industries, etc.

Prestowitz gives an example of national economic strategy in China:

"A small but fundamental point to note in this connection is that in contrast to most American government leaders who are lawyers or economists, most Chinese leaders have been educated as engineers. They preside over the development of a continuing series of five-year economic visions and plans by government ministries that do intensive analysis of the history and plans of other successful developing countries like Korea, Singapore, Ireland, and Japan. They think strategically about which industries will achieve rapid economies of scale, about the linkages that enable one industry to foster another, about the most desirable sector-by-sector structure of the entire economy. Based on this analysis, they allocate tax, investment, training, and other resources and incentives to guide and induce development along the desired lines." (p. 259)

So, when China decides which industries to target and which not to target ("picking winners and losers"), it is done after thorough and extensive analysis. The philosophy of Ronald Reagan, which continues to dominate American economic policy, is that “picking winners and losers" doesn't work and that the "magic of the market" and the "invisible hand" will always do a better job than government economic planners (bureaucrats) meddling in the economy.

It is noteworthy that national economic strategies utilize collaboration between the government sector and the private sector, **and this is true for China also**. Contrary to popular belief, China has a strong private sector. From Forbes, (https://www.forbes.com/sites/rainerzitelmann/2019/09/30/state-capitalism-no-the-private-sector-was-and-is-the-main-driver-of-chinas-economic-growth/#357172ed27cb)

“A working paper from the World Economic Forum stated that “China’s private sector - which has been revving up since the global financial crisis - is now serving as the main driver of China’s economic growth. The combination of numbers 60/70/80/90 are frequently used to describe the private sector’s contribution to the Chinese economy: they contribute 60% of China’s GDP, and are responsible for 70% of innovation, 80% of urban employment and provide 90% of new jobs. Private wealth is also responsible for 70% of investment and 90% of exports.” Today, China’s private sector contributes nearly two-thirds of the country’s growth and nine-tenths of new jobs, according to the All-China Federation of Industry and Commerce, an official business group.”

The U.S Used To Have Successful National Economic Strategies Like China

The Trump administration says that China is cheating because it follows a national economic strategy. But, in fact, the U.S. successfully followed a national economic strategy until the mid-1950s (except during the 1920s when laissez-faire policies were followed). Prestowitz shows that indeed we used to follow a national economic strategy (mercantilist policies) starting as far back as the early nineteenth century when our young nation was trying to "catch up" with Britain which was the world's dominant industrial country at the time.

"Called the American system, it consisted of government policies and programs aimed at developing advance infrastructure and protecting and subsidizing development of intellectual property and manufacturing industries. This, of course, was antithetical to the free-market, laissez-faire policies about to be adopted by Great Britain. But American was aiming to catch up and eventually surpass Britain." (p. 45)

Our economic strategy worked: "...between 1870 and 1900, America surged ahead of Britain in virtually every sector of the economy. (Prestowitz, p. 59)

After World War II, "the United States was number 1 in virtually everything." (Prestowitz, p. 73) Concerned about the spread of communism, our focus shifted from economic strategy to geopolitics.

"Meanwhile, for most of the rest of the world, recovery from wartime devastation was the overwhelming priority. Especially for Germany and Japan, and later for the so-called Asian Tigers (South Korea, Taiwan, Singapore), developing competitiveness trumped geopolitics, which they were glad to leave to Americans. Or, perhaps it would be more accurate to say that becoming competitive was their form of geopolitics." (Prestowitz, p. 73)

Even as our emerging competitors were adopting mercantilist economic strategies, we moved away from these same strategies which had helped our nation become rich and powerful, and we moved toward laissez-faire. Whereas before our nation worked to protect and nurture its industries, we now moved toward open trade. Prestowitz writes,

"As the new world leader, the United States could also now see that a revitalized Europe and Japan or a stable Middle East offered potential long-term benefits that could justify making short-term economic concessions. With the advent of the Cold War, trading technology and access to the U.S. market for the right to station troops in a critical country began to look smarter than on insisting on narrow reciprocity and on maintaining complete U.S. industrial and technology leadership.

"This conclusion was greatly facilitated by the fact that American industry had become more dominant than any other country's had ever been. In a world of unregulated free trade, American CEOs, like their British predecessors in the nineteenth century, were convinced they could not fail to win every time. Similarly, American labor also thought it would be a big winner because it was far and away the world's most productive workforce. Thus, by 1950, after nearly a century and a half, Alexander Hamilton was out, and Adam Smith and David Ricardo were in." (p. 84)

This shift to a laissez-faire role for the U.S. government in economics accelerated and became more prominent when Ronald Reagan was president (1981-1989). The Great Communicator* popularized the economic school of thought that “picking winners and losers" doesn't work and that the "magic of the market" and the "invisible hand" will always do a better job than government economic planners (bureaucrats) meddling in the economy. Reagan’s economic philosophy continues to dominate American economic policy which views national economic strategies like those which China, Germany and Japan successfully follow as meddling in the economy. (*Reagan's effectiveness as a public speaker earned him the moniker, "Great Communicator.")

The Great Irony of Saying China Is Cheating
Because It Successfully Uses What We Claim Doesn’t Work

Ronald Reagan was opposed to national economic strategies because he thought they don’t work, not because he thought they were wrong or illegal. (In fact, the U.S. used them legally and successfully for nearly a century and a half.) A skilled public speaker, Reagan convinced the American people that government economic planners (bureaucrats) are not effective at “picking winners and losers" and that the "magic of the market" and the "invisible hand" will always do a better job. However, when China or Germany or Japan or South Korea successfully follow national economic strategies, which we abandoned because we claim they don’t work, the Trump Administration says that China et. al are cheating.

Labor Day Essay Not Completed Until Mid-December 2019

I was inspired to write this essay on our nation’s economic competitiveness around Labor Day, September 2, 2019 after seeing Dave Granlund's political cartoon in the *East Bay Times*. At that time, the impeachment proceedings against President Trump were not on the horizon.

Meanwhile, three and a half months have passed as I have written this essay in bits and pieces. Why has it taken so long? Because I am busy like the rest of you. I work full-time as a statistician/programmer. I am married and have a family life, and my wife and I go out dancing at least once a week. Also, I play piano in a jazz and pop piano trio (piano, bass and drums), and we give monthly benefit concerts. So, there has not been much time to write this essay. Now as I finally finish it, the impeachment proceedings dominate the horizon, so, I will comment on them.

A major question in the impeachment proceedings is did President Trump require an inappropriate quid pro quo from the Ukraine in return for U.S. foreign aid. First a brief look at U.S foreign aid.

U.S. Foreign Aid Has Always Required a Quid Pro Quo.

The term "quid pro quo" (which means "something for something" in Latin) is in the news today. The United States is accused of requiring an inappropriate quid pro quo in exchange for our foreign aid to the Ukraine. In fact, U.S. foreign aid has always required a quid pro quo. Our foreign aid is not charity; Americans have expected to get something in return for it.

If it were pure charity, it would go the poorest, neediest countries. The five poorest countries in the world, measured by GDP per capita, are the Democratic Republic of Congo, Mozambique, Uganda, Tajikistan and Haiti. But none of these countries are among the top recipients of US foreign aid. Most aid goes instead to Israel, Egypt, Jordan, Afghanistan and Kenya for reasons of geopolitics and trade.

During the Cold War (1947-1991), the United States provided billions of dollars of foreign aid with the **quid pro quo** of stopping the spread of communism, preserving an environment in which our form of market capitalism could flourish, and maintaining our access to strategically important areas. In 1978, President Jimmy Carter agreed to provide Egypt with billions of dollars in foreign aid with the **quid pro quo** that it made peace with Israel. In 2004, President George W. Bush created the Millennium Challenge Account which provided foreign aid with the **quid pro quo** that recipient countries adopt a political system like ours: free speech, free assembly, rule of law, property rights, etc.

Half of all international development aid is “tied”, meaning that recipient countries must use it to buy goods and services from the donor nation, a quid pro quo. As the USAid website used to boast: “The principal beneficiary of America’s foreign assistance programmes has always been the United States. Close to 80% of the US Agency for International Development’s contracts and grants go directly to American firms.” Aid has “created new markets for American industrial exports and meant hundreds of thousands of jobs for Americans”. Long before Trump entered the White House, USAid was exacting the **quid pro quo** of “putting America first”.

U.S. Foreign Aid to the Ukraine Has Also Required a Quid Pro Quo.

The Ukraine has been the recipient of substantial foreign aid from the United States. It has been a primary recipient of Farm Service Agency (FSA) assistance with total U.S. assistance since independence (i.e., from the Soviet Union in 1991) of more than $3 billion. U.S. foreign aid to the Ukraine in 2017 was $511 million (source: USAid).

What quid pro quo did the U.S. require for its foreign aid to the Ukraine? For one thing, the Obama administration demanded a crackdown on corruption in the Ukraine, especially that involving former government officials profiting in the lucrative gas industry. Obama picked Vice President Joe Biden to lead the administration's anti-corruption efforts.

By 2015, frustration was mounting in Kiev over the slow efforts by the Western-leaning president, Petro Poroshenko, to stamp out corruption. During a 2015 speech before the Ukrainian parliament, Biden called for the country to root out corruption and said, "The Office of the General Prosecutor desperately needs reform."

Biden later recounted telling Poroshenko more bluntly that the United States would withhold a billion-dollar loan guarantee if action was not taken against Shokin [Ukrainian Prosecutor General Viktor Shokin whom U.S. and European officials believed was not sufficiently aggressive in investigating corruption].

"I looked at them and said: 'I'm leaving in six hours. If the prosecutor is not fired, you're not getting the money,' " Biden said during a 2018 speech before the Council on Foreign Relations. "Well, son of a bitch. He got fired. And they put in place someone who was solid at the time."

(https://www.washingtonpost.com/world/national-security/the-gas-tycoon-and-the-vice-presidents-son-the-story-of-hunter-bidens-foray-in-ukraine/2019/09/28/1aadff70-dfd9-11e9-8fd3-d943b4ed57e0_story.html)

U.S. Military Aid to the Ukraine Also Requires a Quid Pro Quo.

The Trump Administration like the Obama Administration has been concerned about corruption in the Ukraine and how the foreign aid we provide to them is used. In July, 2019 Trump requested that Ukrainian authorities investigate the activities of Hunter Biden (Joe Biden's son) in the Ukraine and issued a hold on military aid scheduled to be sent to Ukraine until such investigation was done.

Were there valid grounds for requesting this investigation of Hunter Biden's activities in the Ukraine? The following information from a Washington Post article of September 28, 2019 appears to indicate that there were valid grounds.

(The article was entitled, "The gas tycoon and the vice president's son: The story of Hunter Biden's foray into Ukraine https://www.washingtonpost.com/world/national-security/the-gas-tycoon-and-the-vice-presidents-son-the-story-of-hunter-bidens-foray-in-ukraine/2019/09/28/1aadff70-dfd9-11e9-8fd3-d943b4ed57e0_story.html)

"When then-Vice President Joe Biden's son joined the board of an obscure Ukrainian gas company half a decade ago, it was a stunning coup for its owner, a former Ukrainian minister working to remake the company's image as he faced a money-laundering investigation.

"For Hunter Biden, the job came with risks: Ukraine was in the throes of political upheaval, and there was building scrutiny of former government officials profiting in the lucrative gas industry. His father was the face of the Obama administration's effort to get Ukraine to crack down on corruption.

"The region was so unsettled that one of Hunter Biden's investment firm partners at the time — former secretary of state John F. Kerry's stepson — believed that joining the board of Burisma Holdings was a bad idea and ended his business relationship with Biden and another partner, his spokesman told The Washington Post."

"Hunter's decision entangled him in a country that Transparency International had ranked among the world's most corrupt, a place where business executives have co-opted prosecutors and manipulated the courts to enhance their financial interests."

Another reason the Trump Administration may have requested that the Ukraine investigate the activities of Hunter Biden is that it was unclear what experience and skills Hunter brought to the Ukrainian gas company Burisma. This is also the question Ukrainian Prosecutor General Viktor Shokin had. He “told The Post earlier this year that he believes he was ousted in March 2016 because he was investigating Burisma. If he had been allowed to remain in the job, he would have questioned Hunter Biden’s qualifications to be a board member, he said, noting that ‘this person had no work experience in Ukraine or in the energy sector.’”

The information above indicates that there were valid grounds for the Trump Administration to request that Ukrainian authorities investigate the activities of Hunter Biden with the Ukrainian gas company Burisma.

Did President Trump Request the Investigation of Hunter Biden for Political Gain?

Did Trump request the investigation of Hunter Biden to hurt his father Joe Biden’s campaign to be elected President in 2020? This is an absurd question. If Donald Trump is the Republican candidate and Joe Biden the Democratic candidate in 2020, voters will vote or not vote for Joe Biden based on his record and platform, not because of what his adult children have done. Joe Biden is the potential Democratic presidential candidate, not Hunter Biden. Hunter Biden is 49 years old and has been his own person for many years.

This is particularly true of Hunter’s role at the Ukrainian gas company Burisma. In a statement to The Post earlier this year, Hunter Biden said, “At no time have I discussed with my father the company’s business or my board service.” Joe Biden echoed the sentiment recently, speaking in Iowa. He said, “I have never spoken to my son about his overseas business dealings.”

Hunter Biden told the New Yorker that his father alluded to his Burisma job just once.

When Hillary Clinton ran against Donald Trump in the 2016 presidential elections, she ran again him, not against his adult children. And Trump ran against Hillary, not Chelsea. To restate: Voters vote for presidential candidates based on their record and platform, not because of what their adult children have done.

Ironically, if Donald Trump is the Republican candidate and Joe Biden the Democratic candidate in the 2020 presidential election and if Trump brings up the subject of corruption in the Ukraine, Biden can retort, citing his strong record there. Biden "was the face of the Obama administration's effort to get Ukraine to crack down on corruption." During a 2015 speech before the Ukrainian parliament, Biden called for the country to root out corruption and said, "The Office of the General Prosecutor desperately needs reform." Joe Biden said he got results.

Economic Competitiveness: A Requirement for Medicare For All and Free College Tuition

As I wrote near the top of this essay, our economic competitiveness underlies our prosperity. It provides the income which enables us to have a satisfactory standard of living and quality of life. Economic competitiveness enables Medicare For All, free college tuition, and the cancellation of all U.S. student loan debt.

We have lost our economic competitiveness, especially in the manufacturing of consumer goods. To maintain our standard of living, we buy these goods on credit from our economic competitors such as China, Germany, and Japan and continue to incur a prolonged, growing and untenable trade deficit. President

Trump is the only presidential candidate from either party who is actively and consistently addressing these issues.

Trump is right about the problem, but wrong about its causes. He incorrectly attributes the cause of our massive trade deficit in goods with China to unfair business practices, i.e., China is cheating. But, in fact, China has **consciously chosen** a different economic system than the laissez-faire based economic system of the U.S. China and most of our economic competitors (such as Germany, Japan, South Korea, and Mexico) have chosen mercantilist-based economic systems in which the government and the private sector develop **explicit** national economic strategies to achieve a desired overall structure and direction for the economy in order to foster the economic advancement of their nation. They do not leave the development of national economic strategy to private interests, e.g., the private equity players, seeking to make a profit, assuming that the "magic of the market" and the "invisible hand" will ensure a desirable outcome. The U.S. successfully employed national economic strategies for nearly a century and a half, but they have been out of fashion with us for several decades.

<u>The Impeachment Hearings Are a Distraction</u>

The presidential candidates of both parties and other politicians in Washington should be focusing on how we can restore the economic competitiveness of the U.S. and reduce our prolonged, growing and untenable trade deficit. However, they are distracted from this task by the impeachment hearings against President Trump because he requested that Ukrainian authorities investigate the activities of Hunter Biden with the Ukrainian gas company Burisma. The Ukraine is front and center in the impeachment hearings, but it is not a big U.S. trading partner. The Ukraine ranked 67th among our (two way) trading partners in goods in 2018.

Topics like economic competitiveness, trade deficits, and national economic strategies are not flashy and headline-grabbing items like the impeachment hearings which also offer the Washington players a chance to shine on a national/international stage. U.S voters will have the opportunity to vote Trump out of office in less than a year, November 3, 2020. In the meantime, our representatives in Washington should drop these distracting impeachment hearings and concentrate instead on what we can do to restore our economic competitiveness and reduce our prolonged, growing and untenable trade deficit. If we can't accomplish these goals, we will not be able to afford Medicare For All, free college tuition, and the cancellation of all U.S. student loan debt.

William E. Jackman, PhD
Statistician/SAS & SQL Programmer
Oakland, California
December 15, 2019

Acknowledgements
Thanks to Dave Granlund for the use of his political cartoon.

Thanks to Clyde Prestowitz, Ian Fletcher, Eamonn Fingleton, and Peter Navarro and Greg Autry for their research and analysis. I have learned much from their books.