Economic Competitiveness: A Requirement for Medicare for All, Free College Tuition, and COVID-19 Vaccinations
Update: Memorial Day 2021

Dear Mayor Schaaf,

For **Labor Day 2019** I wrote a letter to you entitled "Economic Competitiveness: A Requirement for Medicare for All and Free College Tuition" (attached). Since then, Oakland and the rest of the world have been beset by the COVID-19 pandemic and the medical, social, and economic problems it has spawned. This **Memorial Day 2021** essay, "Economic Competitiveness: A Requirement for Medicare for All, Free College Tuition, **and COVID-19 Vaccinations**" is **an update**. It includes analyses of the extent to which President Biden's American Rescue Plan Act of 2021 (also called the "Build Back Better" plan or the Infrastructure plan) will raise America's economic competitiveness on which our standard of living depends.

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

Economic competitiveness underlies our prosperity. It provides the income and wealth 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, and a quality educational system. It enables good housing. Economic competitiveness enables quality medical care including **COVID-19 vaccinations**.

Medical care and education are expensive services; they are not “free goods.” The income and wealth provided by economic competitiveness enables us 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.

Economic Competitiveness: A Requirement COVID-19 Vaccinations

Economic competitiveness enables COVID-19 vaccinations. The research, development, and testing of COVID-19 vaccinations require highly-educated personnel working in advanced research facilities. Pfizer has said the research and development costs of its the vaccine is approaching $1 billion (Mar 15, 2021). And this is before the costs of producing (manufacturing) and distributing the vaccine.

Poorer nations have largely had to do without.

The income and wealth provided by economic competitiveness enable wealthier nations to obtain COVID-19 vaccinations. Poorer nations have largely had to do without. In response to this situation, Swedish teenage climate activist Greta Thunberg recently condemned vaccine inequality between rich and poor countries (AP, April 19, 2021). She has urged governments, vaccine developers and the world to “step up their game” to fight vaccine inequity after the richest countries bought up most Covid-19 vaccine doses and those in poorer nations have gone without. She chipped in €100,000 (US$120,000) from her charitable foundation to the World Health Organization (WHO) Foundation to help buy Covid vaccines for countries where they are needed, especially in poor countries.

“It is completely unethical that high-income countries are now vaccinating young and healthy people if that happens at the expense of people in risk groups and on the front lines in low- and middle-income countries,” said Thunberg, who was invited as a guest for a regular WHO briefing.

While Thunberg hailed the development of Covid vaccines in “record time,” she cited estimates that one in four people in high-income countries have received them so far, while only one in 500 in middle- and lower-income countries have. “According to Bloomberg Vaccine Tracker, the U.S. has now fully vaccinated a third of its population, but in India, where the virus is raging out of control, only 2.5% of the population is fully immunized.” (Bloomberg, May 9, 2021)

<u>Political Cartoon for Labor Day in the *East Bay Times*</u>

As stated above, this essay is an update to my Labor Day 2019 essay. What prompted the 2019 essay was a political cartoon for Labor Day which appeared in the *East Bay Times* on August 25, 2019, p. A15. It is shown 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. He wrote, “Sure, Bill, you may use my cartoon at no charge or fee for the purpose you describe. But please note that although my cartoon was made in America, many of my pencils, markers, erasers, ink brushes, etc., were made in China…haha!”

Labor Day, 2019 message from President Xi of China

Disproportionate Spending on Consumer Goods Since COVID-19

Labor Day 2019 occurred several months before COVID-19 was detected in the United States. At that time, American consumers were buying the kinds of consumer goods from China illustrated in Dave's political cartoon. **But they were also spending on services** in the local and national economies such as going out to eat, going to concerts, and traveling/vacationing. This **spending on local and national services decreased dramatically**, however, around mid-March 2020. (On March 11, 2020, WHO declared COVID-19 a global pandemic.)

From March 2020 until recently, Americans have been sheltering-in-place, and many have been working remotely (i.e., from home). During this time, they have been buying a **higher percentage of consumer goods** rather than services to fix-up/enhance their homes and home offices. They have used money to buy these consumer goods (mainly from China) that they would have spent on services such as going out to eat, going to concerts, and traveling/vacationing. Economists have reported on consumers' disproportionate spending on consumer goods compared to services.

High-tech Goods, Low-tech Goods and Everything In-between from China

Our family has been among those who have been spending disproportionately on consumer goods to fix-up/enhance our home and home offices as we have been sheltering-in-place. We buy a lot of these goods from Amazon, but also from Home Depot and Ace Hardware. I chronically search the packages our purchases came in to see where they were made. (My wife tells me not to bother; she knows where they were made.) Regardless, I continue to be dismayed by the extent to which China has become the world's factory and the dominant or only source for high-tech consumer goods, low-tech consumer goods, and everything in-between (see range of goods in section on Dave Granlund above).

The theory of the "New Economy"

The theory of the "New Economy" that was popular in the 1980s and 1990s was that advanced manufacturing nations such as the United States (the American Industrial Revolution started in 1790) would concentrate on high-tech manufacturing like computers, cell phones and advanced telecommunications equipment while newly industrialized nations such as China (its first industrial revolution occurred during 1988-1998, about 200 years after that of the U.S.) would make low-tech products such as shoes and toys. This is how things started. But China quickly progressed to making high-tech goods such as computers and cell phones, supplanting the United States.

High-tech, Low-tech and Everything In-between

The remarkable thing about China is that even though it has become dominant in much high-tech manufacturing, it has **not given up low-tech** manufacturing. So, when we order high-tech goods such as computer or telecommunications equipment from Amazon, they are made in China. And when we order low-tech goods such as a foot stool, a TV stand, a garden hose and nozzle, shoe horns, or therapeutic putty from Amazon (among our recent purchases), these consumer goods are also made in China. Or when I go to Home Depot or Ace Hardware to buy hardware products such as nuts, bolts, screws, hinges, latches, etc., these myriad low-tech products are also made in China.

China’s Economy Bounced Back Strongly from COVID-19 in 2020

The coronavirus first emerged in Wuhan, China in December 2019, and the pandemic’s spread from Wuhan brought China’s industries to a halt and forced tens of millions of people to remain indoors. China’s economy, the world’s second-largest, contracted by 6.8 percent in the first quarter of 2020, the worst quarterly figure since 1992.

To control the coronavirus, Chinese authorities employed draconian measures including strict lockdowns. "They have done an amazing job of controlling the virus," said Ali Mokdad, a professor of global health at the University of Washington. But such success is possible only through restrictions on individual freedoms, he said, that would not be tolerated in the U.S. and other democracies.

By the second quarter of 2020, China's economy bounced back from contraction and **grew 3.2** percent. In marked contrast, real gross domestic product (GDP) in the United States **decreased** at an annual rate of **31.7** percent in the second quarter of 2020. Throughout the rest of 2020, China (with a population 4.3 times that of the US) managed to control COVID-19 and keep its economy growing. China's economy **expanded** by 2.3% in 2020, rebounding from the historic contraction in the early months of the year to become the only major world economy to grow in what was a pandemic-ravaged year. The US economy **contracted** 3.5% in 2020.

Economic Competitiveness, Our Trade Balance, and Our Standard of Living

if we are to stay viable as a nation and maintain our standard of living (**which includes access to COVID-19 vaccinations**), what we import must be in balance with what we export over the short- to medium-term. 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.

Economic Competitiveness and Our Trade Balance: the Record, 2011-2020

In the decades following World War II, the U.S. was unequivocally the richest and most powerful country in the world and was 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, 2011, 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, 2010, p. 7)

Let's look at some data (see chart below). During 2011-2020, the US trade deficit in goods rose from $741.0 billion in 2011 to $915.8 billion in 2020, a 23.6% increase. What is striking and alarming is the spectacular increase in the share of the US trade deficit in goods that is in manufactured goods (as opposed to, for example, commodities such as food stuffs or raw materials). This share jumped from 59.5% in 2011 to 98.0% in 2020, a 64.7% increase. **"Growing trade deficits with China are the largest single cause of growing manufacturing trade deficits"** (Economic Policy Institute (EPI), February 10, 2021).

U.S. goods trade deficits, 2011–2020 (Billions of dollars)			
Year	Goods Trade Deficit	Manufacturing Trade Deficit	Manufacturing Share of Deficit
2011	$741.00	$440.55	59.5%
2012	$741.12	$467.74	63.1%
2013	$700.54	$458.81	65.5%
2014	$749.92	$526.90	70.3%
2015	$761.87	$629.78	82.7%
2016	$749.80	$647.32	86.3%
2017	$799.34	$695.52	87.0%
2018	$880.30	$779.48	88.5%
2019	$864.33	$793.36	91.8%
2020	$915.80	$897.71	98.0%

Source: EPI analysis of Census Bureau and the USITC trade data.

These massive and growing U.S. trade deficits are not tenable indefinitely. This subject is covered in my Labor Day, 2019 essay (attached). Please see section entitled **How Long Will Our Creditors Let Us Buy On Credit?**, pp. 8-10

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Economic Competitiveness and Our Trade Balance in 2021

By the fourth quarter of 2020, the U.S. economy was recovering from a steep contraction earlier in the year caused by the pandemic (a 32.9% contraction in

Q2) and grew 1.1% in Q4. Gross Domestic Product (GDP, the broadest measure of the economy), grew by 1.6% in the first three months of 2021. It is good that the US economy is recovering from effects of the pandemic. To put things in perspective, however, China's gross domestic product grew by a record 18.3% in the first quarter of 2021.

US Economic Recovery Is Not Helping Our Trade Balance.

One might think that US economic competitiveness would improve along with the recovery of the U.S. economy in 2020Q4 and 2021Q1 and that our balance of trade, including our balance of trade **in goods**, would improve. However, this decidedly did not happen.

- January 2021: Our goods deficit increased $1.3 billion to $85.4 billion.
- February 2021: Our goods deficit increased $2.8 billion to $88.0 billion.
- March 2021: Our goods deficit increased $3.6 billion to $91.6 billion.

Note: U.S. Bureau of Economic Analysis and the U.S. Census Bureau revises these figures monthly so the totals may not add up exactly.

As stated above, these massive and growing U.S. trade deficits are not tenable indefinitely. **How does President Biden plan to deal with them?**

The American Rescue Plan Act of 2021 ("Build Back Better")

President Biden signed into law on March 11, 2021 a $1.9 trillion economic stimulus bill called the American Rescue Plan Act of 2021 (also referred to as the "Build Back Better" plan, the **Infrastructure** plan, or simply the Comeback plan). (Note: The cost of this plan is now being reported as $2.3 trillion, not $1.9 trillion.) The overall goals of this plan include:

- To speed up the United States' recovery from the pandemic-induced recession
- To foster America's economic rejuvenation
- To enhance our economic competitiveness

The American Rescue Plan has numerous parts including health care reforms, education proposals, affordable housing plans, taxes, and trade agreements. This essay will address the following parts:

I. Stimulus payments
II. Infrastructure plan
III. Research and Development (R&D)
IV. Climate change measures
V. Immigration changes
VI. Buy American

This essay will also address China's growing role as the "world's factory" and what the United States, formerly the leading manufacturing nation, can do to "get back in the game." (China, which industrialized about 200 years after the United States, surpassed the U.S. in 2010 to become the No. 1 industrial powerhouse.). These issues will be analyzed in

VII. The Loss of our "Industrial Commons"
VIII. A Different Economic Paradigm: a National Economic Strategy

IX. China’s Rapid Economic Ascent Due to Real Economic Factors, Not Exchange Rates
X. China’s Lower Standard of Living and Lower Wages: A Key to Its Economic Success?
XI. The Issue Is Not Democracy vs. Autocracy.

I. President Biden’s Stimulus Payments

“Jump Starting” the Economy

The Biden administration has enacted a Stimulus Relief Program which includes Federal stimulus checks of $600 (in December 2020) and up to $1,400 (in March-April 2021). (If you're married and file a joint tax return, then both you and your spouse will get $1,400, for a total of $2,800. If you have dependents, you get an additional $1,400 for of them. So, for example, a married couple with two children can get up to $5,600.)

The objectives of these stimulus payments are

- To provide financial aid to Americans who have been severely impacted by the COVID-19 pandemic and the devastating recession it induced, with the economy shrinking a record 31.7% in the second quarter of 2020.

- To stimulate the economy and create jobs as the economy recovers from the pandemic-induced recession. Economists and business writers report that these stimulus measures are working:

> "Powered by consumers and fueled by government aid, the U.S. economy is achieving a remarkably fast recovery from the recession that ripped through the nation last year on the heels of the coronavirus and cost tens of millions of Americans their jobs and businesses.
>
> The economy grew last quarter at a vigorous 6.4% annual rate…"
>
> (*East Bay Times*, May 2, 2021, p. E2)
>
> [The U.S. economy grew by 1.6% in the first three months of 2021.]

<u>U.S. Trade Deficit Thwarting Stimulus Goals</u>

It is noteworthy that as consumers "powered" the U.S. economy to a "remarkably fast recovery" during 2021Q1, the U.S. goods trade deficit rose markedly. It was $1.3 billion in January, $2.8 billion in February, and $3.6 billion in March when the total **U.S. goods trade deficit reached a record $91.6 billion**. Apparently, a substantial portion of the purchases Americans made with their stimulus checks was for imported goods, mostly made in China. This stimulates the economies where these imported goods are produced, not the U.S. economy as intended by the Biden administration.

The above discussion focuses on the U.S. **goods** trade deficit. The overall U.S. **goods and services** trade deficit also reached a jumped to a record $74.4 billion in March. The following is a CNBC report from May 4, 2021,

"U.S. trade deficit surges to record; shortfall with China keeps rising"

KEY POINTS

"The U.S. trade imbalance jumped to a record $74.4 billion in March.

“The deficit with China increased 22%, while the shortfall with Mexico rose 23.5%.

“Surging demand for foreign-made goods is pushing the shortfall.

“The U.S. trade deficit hit a fresh record high in March as consumers flush with government cash spurred a continuing demand for foreign-made goods.

“With a new round of $1,400 stimulus checks pouring in and the domestic economy continuing to show substantial improvement, the imbalance in goods and services with the rest of the world swelled to $74.4 billion, the Commerce Department reported Tuesday.

“That’s the highest level ever in a data series that goes back to January 1992, and represents a 57.6% increase from the same period a year ago and higher than the $70.5 billion in February.

“The trade imbalance with China increased more than 22% to $36.9 billion. The deficit with Mexico rose 23.5% to $8.4 billion.

“’Stimulus has kept American consumers spending through the pandemic, but restrictions on high-contact industries have diverted consumer spending from domestically produced services to goods, much of which are imported,’” Bill Adams, senior economist at PNC, wrote.”

<u>Stimulus Payments by the Bush, Obama, and Trump Administrations</u>

The objectives of stimulating the economy and creating jobs by spurring consumer spending were also the objectives of the stimulus packages of Presidents George W. Bush, Barack Obama, and Donald Trump.

- **The Bush Administration:** Early in 2008, in response to slowing economic growth, President Bush signed the Economic Stimulus Act to alleviate the effects of the recession and stave off its reoccurrence. The act resulted in stimulus checks totaling about $120 billion being sent to taxpayers starting in May 2008. It rebated taxes on the first $6,000 of income for individuals or the first $12,000 of income for couples. Individual taxpayers received up to $600, and married couples filing jointly received up to $1,200. Households with children received $300 per dependent child.

- **The Obama Administration:** On Feb. 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA). This economic stimulus package was aimed at ending the Great Recession by spurring consumer spending. Instead of stimulus checks, most taxpayers received a reduction in their federal income tax withholding called the Making Work Pay Credit. Workers' total withholdings for the 2009 and 2010 tax years were reduced by 6.2% of their earnings, for a maximum tax cut of $400 for single filers or $800 for couples filing jointly.

- **The Trump Administration:** President Trump signed CARES Act into law on March 27, 2020. It included the first stimulus check, which maxed out at $1,200 per person (with an extra $500 per dependent). In December 2020, he signed a $900 billion coronavirus relief bill which included stimulus checks of $600 for qualifying individuals, $1,200 for qualifying couples, and $600 for qualifying dependents.

Stimulus Payments and Leakages, Especially with COVID-19

The objective of stimulus checks and rebates is to put money in the hands of consumers who go out and purchase goods and services which stimulate the U.S. economy. However, the effectiveness of this strategy will be diluted if consumers used their stimulus money to buy imports. The job-creating effects of increased consumer and business spending will occur offshore, not in the United States as was intended.

In 2008 and 2009 when Presidents Bush and Obama enacted their stimulus programs, the U.S. was in the throes of the Great Recession. Recessions usually lowers consumer demand, including demand for imported goods. However, the U.S. goods trade deficit jumped to $832.49 billion in 2008, a level not passed for a decade (it was $880.30 in 2018). So, a goodly part of Americans' spending with their stimulus and rebate money in 2008 likely went for imports.
(It is noteworthy that in 2008 54.8% of the U.S. goods trade deficit was for manufactured goods while in 2018, this figure was 88.5%. Petroleum imports were a much bigger part of the 2008 deficit than the 2018 deficit.)

COVID-19 exacerbates the leakage of stimulus payments sent to Americans today, lowering their effectiveness in stimulating the U.S. economy. Despite progress against COVID-19, most of us are still doing modified sheltering-in-place and are not going out as frequently as we did in 2008. So, our purchases with our stimulus money tend to be more for consumer goods than for services such as going out to a restaurant. This tends to raise our goods trade deficit, especially with China. This is the pattern of consumer purchases of goods rather than services that economists have observed during the pandemic; for example, see excerpt from May 4, 2021 CNBC report above.

In response to President Obama's stimulus package in 2009 and to the likelihood that its intended effects would be diluted by leakages from the U.S. economy, I wrote the essay "**Economic Stimulus without Industrial Policy Won't Work (Feb 2009)**," attached. **Because it is still so pertinent today, I have included the first four paragraphs below.**

"Consumer activity accounts for about two-thirds of Gross Domestic Product (GDP). The theory of economic stimulus is to put money in the hands of consumers who go out and purchase goods and services. This burst of purchasing jump starts domestic industries which ramp up production and hire more workers to meet the increased demand. **Unfortunately, an economic stimulus like this had a greater chance of being effective in the past than it does now because much of the production of consumer goods for the U.S. market was domestic, but now much (or most) of it is offshore**.

"For example, suppose U.S. taxpayers receive their rebate/stimulus and decide to replace some of their worn out or obsolete consumer goods. They pick American brands they are familiar with and buy a new Proctor-Silex toaster, a Cusinart Blender/Food Processer, a Black & Decker Dustbuster, and two new HP Pavilion Desktop computers and printers (In fact, we made these purchases recently.) Unfortunately, this is not going to stimulate domestic production and create jobs here because these products are all manufactured in China.

"As U.S. companies have moved manufacturing offshore so they could produce more cheaply and have a price advantage for selling these products in the U.S. market, their lobbyists have told us how the American standard of living has risen because of access to much cheaper consumer goods produced offshore. They did not tell us that this is fundamentally a short-term benefit and that once these productive technologies have been moved out of the United States, the wealth which comes from adding value to inputs to make products would no longer accrue to Americans and that these wealth-creating activities could erode or disappear in the United States. Eventually, no matter how cheaply American companies could produce consumer goods offshore, Americans would not have the means to buy them.

<u>Hard to “Get Back in the Game”</u>

“Unfortunately, As Clyde Prestowitz writes in *Three Billion New Capitalists* (2005), "Once factories or industries are gone, they almost never come back. The cost of a restart is enormous and the competitive circumstances usually worse (p. 210). He cites "Other industries [which] simply disappeared" (p. 127) and "many imported products [which} are simply not made in the United States" (p. 214). He implies that "the U.S. manufacturing base may have atrophied to the point that it no longer has the capacity to respond" to a burst of consumer spending from a stimulus package.” (p. 214)

Conclusions for I. Stimulus Payments: Much of the stimulus effects will flow out of the domestic economy as we purchase foreign-made goods.

II. President Biden’s Infrastructure Plan

A major component of the American Rescue Plan is infrastructure investments (in fact, the Rescue Plan is usually referred to as the “**Infrastructure”** plan”). It has a focus on clean energy. The plan would expand the nation’s rail system, invest in high-speed rail, and help Amtrak add more electric travel. It would also improve battery technology for electric vehicles and add charging stations. Biden also plans to provide universal broadband, including 5G wireless.

Infrastructure Plans Proposed by Presidents Clinton, Bush, Obama, and Trump

President Biden's plans for infrastructure improvement follow infrastructure plans proposed by the previous four administrations:

- In 1998, President Clinton and Congress worked together on a $217 billion transportation bill.

- In 2005, President George W. Bush signed SAFETEA-LU, a four-year, $286 billion transportation bill.

- 2009: The $831 billion 'American Recovery and Reinvestment Act'
  During the 2008 presidential campaign, Obama called for passage of an infrastructure and economic stimulus package, of which $50 billion – more than one quarter of the $175 billion in total spending – would go to states for roads and infrastructure.

- 2015-2020: The Trump administration's many trillion-dollar proposals:
  When Donald Trump ran for president, he proposed a 10-year, $1 trillion infrastructure bill. Throughout his term, he repeatedly came back to the topic.

These plans by the four administrations were either dropped or not carried to fruition, usually due to funding problems.

We Had the Money to Pay for Infrastructure During the 1950s and 1960s.

It is true that our nation's infrastructure is in need of repair. It recently earned a C- score from the American Society of Civil Engineers. Many of the infrastructure investments were made in earlier decades, and our infrastructure is aging and deficient. During the 1950s and 1960s (when our economy was still in its “Golden Age”), there was substantial and consistent U.S. investment in its infrastructure, for example, the building of our interstate highway system (the Eisenhower Interstate System). Since the 1970s, however, there has been a drastic decline in investment in infrastructure of the United States.

A Record $74.4 Billion U.S. Trade Imbalance in March 2021 Makes It Hard to Fund Infrastructure Investments.

It is noteworthy that during the 1950s and 1960s the U.S. was earning the money to pay for the infrastructure investments it was making. As written previously, in the decades following World War II, the U.S. was unequivocally the richest and most powerful country in the world and was 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, 2011, 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, 2010, p. 7)

Note: The average monthly goods and services deficit increased $2.5 billion to $70.9 billion for the three months ending in March 2021.

Wealth Enables Infrastructure Investments

Instructure investments are costly for a nation and for a family. At the family’s infrastructure level, the replacement of your home's plumbing system or the rebuilding of its foundation is expensive, and you need wealth (money) to pay for it. At the nation's infrastructure level, the rebuilding of our nation's water delivery system and its roads and bridges are expensive, and we need the wealth (money) to pay for it. Poorer nations can't afford infrastructure investments. Families that can afford them have home infrastructure improvements done; families that can't afford them make do with what they have.

We Can't Get Wealthy Building Roads or Houses For Each Other.

President Joe Biden said that his new infrastructure package could create 19 million good jobs (although Transportation Sec. Pete Buttigieg clarified later that it will probably directly create 2.7 million jobs). However, **we can't get wealthy building roads or houses for each other**. If it were that easy, the poorer nations of the world could get wealthy by building roads or houses for each other. We have to first create the wealth to pay for these investments.

This issue was discussed in the following paragraph from page 2 of my Feb 2009 essay "Economic Stimulus without Industrial Policy Won't Work" (attached).

"The Obama Administration is apparently aware that if the stimulus package just puts money directly in people's pockets, they will likely spend a goodly portion of it on consumer goods made offshore. So, they have proposed using the stimulus for infrastructure projects like repairing roads since this work has to be done here; it can't be done in China. However, the infrastructure approach has some insufficiencies: Firstly, even if the work by its nature has to done locally, when the workers are paid and decide to buy a new flat-screen TV, the stimulus will be offshore, not domestic. Secondly, the U.S. needs to import many things, e.g., petroleum, and the only way we obtain these items and at the same time increase our wealth is to export more than we import. **We can't get wealthy building roads or houses for each other.** We need to export value-added products, and to regain this capability we need an industrial or competitiveness policy. Economic stimulus alone won't work."

Infrastructure Deficiencies Are Not the Cause of Our Massive Trade Deficit

The title of this essay is "Economic Competitiveness: A Requirement for Medicare for All, Free College Tuition, and COVID-19 Vaccinations, **Update**: May 2021." President Biden is dedicated to enhancing our economic competitiveness, which includes restoring our manufacturing capacity to make consumer goods. A large component of the American Rescue Plan is infrastructure investments which are expected to enhance our economic competitiveness and enable us to reduce our untenable and growing trade deficit in goods.

The CEOS Did Not Offshore Production to China Because of Our Bad Roads.

The infrastructure investments that Biden proposes address valid needs as did the proposals of Presidents Clinton, Bush, and Trump. **However, infrastructure insufficiencies, bad roads for example, are barely a factor – if a factor at all – in why American firms have moved production offshore, mainly to China, in the last 40 years.** The goal of these firms was to lower production costs which would give them a pricing advantage vis-à-vis their competitors when selling these products back into the large and lucrative American consumer market. This strategy enabled them to boost quarterly profits, a major determinant of CEO salaries.

Virtually none of these CEOs said they moved production to China because American roads were bad. In fact, American roads (and bridges, etc.) continue to be adequate for trucks to deliver all those consumer goods from China (for example, in Dave Granlund's political cartoon) to every nook and cranny in America.

Conclusions for II. Infrastructure improvements: The state of U.S. infrastructure has been a negligible factor in our massive, growing and untenable trade deficit. We do need to repair or upgrade our infrastructure, but we should not expect that these investments will help us to significantly improve our trade balance in the near future.

III. President Biden's Research and Development Proposals

The $1.9 trillion American Rescue Plan allocates $180 billion for research and development (R&D) which includes

- $90 billion in Federal government-directed research and development spending in a host of technology areas including artificial intelligence (AI). Fifty billion of funding is assigned to the National Science Foundation.
- $30 billion of R&D funding to spur "innovation and job creation…"
- $30 billion of spending on "the full range of solutions needed to achieve technology breakthroughs that will address the climate crisis and position America as the global leader in clean energy technology and clean energy jobs"

- $30 billion of funding over four years to protect the United States from the impact of future pandemics by investing in medical R&D, medical countermeasures, and biosecurity and preparedness.

The Biden administration and others believe that United States should be spending more on R&D – to be discussed below. But we should have realistic expectations of the $180 billion for R&D in the American Rescue Plan.

Insufficient R&D Is Not the Cause of Our Massive Trade Deficit

We Don't Need R&D to Make the Consumer Goods Americans Buy from China

Our trade deficit in goods in March 2021 increased $3.6 billion to a record $91.6 billion. A large part of this deficit consisted of common consumer products such as flat screen TVs, computers, external drives, flash drives, bicycles, motorcycles, lamps, electric fans, toasters, microwave ovens, exercise machines, hand and power tools, garden tools, smoke detectors, hardware items, and pet supplies that we purchased from Amazon, Walmart, Home Depot, Office Depot, Target, Best Buy, etc. The vast majority of these consumer goods were made in China. Our domestic capacity to make many of these products has severely eroded or no longer exists.

To lower our untenable and growing trade deficit in goods, we need to become more economically competitive which encompasses making some of these existing consumer goods for our domestic market and for export. **We don't need R&D to "get back in the game" for this huge market for consumer goods.**

Even if the U.S. does not take the lead in creating what President Biden calls the new products of the 21st century but gained a substantial share of the market for existing consumer goods, it would help us to lower our growing and untenable trade deficit in goods and would enhance our wealth and well- being.

The technology for making these products is available to the U.S. and other countries; in fact, the U.S. pioneered many of these products. What we **do need** is a different economic paradigm. We **need** an economic model similar to the models employed by our economic competitors such as China, Germany, Japan, Taiwan, South Korean, Malaysia, Vietnam, Singapore and Ireland. We **need** a national economic strategy which is sometimes called mercantilism or industrial policy. The economic paradigm that is dominant in the United States is laissez-faire (to be discussed below).

<u>The Benefits of Basic Research Can Be Difficult to Capture</u>

American Rescue Plan allocates $90 billion in Federal government-directed research and development with $50 million for the National Science Foundation. Basic research at this level, as is basic research at universities, usually is published in on-line scientific journals and quickly becomes part of the world's knowledge. It is difficult for the country that paid for the basic research to capture its benefits.

<u>Applied Research Is Susceptible to Technology Transfer to Our Competitors.</u>

Applied research is the application of knowledge (often derived from basic research) by firms in the private sector. The **successful implementation of applied research** by American companies in the 1950s and 1960s enhanced the lead in technology and manufacturing that the U.S. already had after World War

During this **“Golden Age”** of the United States, the economy grew steadily, and the average American shared in this prosperity. For example, the economy overall grew by 37% during the 1950s. At the end of the decade, the median American family had 30% more purchasing power than at the beginning. In that era, we ran trade surpluses, i.e., we sold more than we bought in international trade.

Since the 1970s, the United States “has steadily lost economic, industrial, technological, and governance competitiveness” (Prestowitz, 2021, p. 276). This has been accompanied by the economic rise of countries that were either left in ruins after World War II or had not yet industrialized. These countries include Japan, Germany, China, South Korea, Taiwan, Singapore, and Vietnam.

<u>Lower Manufacturing Costs and Access to New Markets Came With a Cost.</u>

American companies have off-shored manufacturing to countries like China because of lower labor costs and other incentives. Also, they have wanted access to these growing consumer markets. For example, China, with a growing middle class, has a population 4.3 times that of the United States.

<u>Transfer of Technology Is a Requirement</u>

However, If American firms want to manufacture in China, they have “to accept certain conditions: joint ventures with Chinese firms, **transfer of technology**, requirements that substantial percentages of China-based production be exported, and so forth” (Prestowitz, 2021, p. 249). Once American corporations such as Apple have set up their manufacturing operations in China, China has

leverage over them.
“When [the representatives of these American corporations] testify before Congress [regarding the U.S.-China relationship], they do not necessarily present what is best for America. They are often thinking of what is best for their business in circumstances under which Beijing has them by the balls while they by dint of their legally unlimited political donations to U.S. politicians, have Washington by the balls” (Prestowitz, 2021, p. 260).

China Was Not the First of Our Competitors to Require Technology Transfer.
The following section on **technology transfer** is an excerpt from my August 2011 essay (attached).

Technology Transfer

A major factor which has contributed to the decline of American industrial competitiveness has been the ease and rapidity with which U.S. multinational corporations with manufacturing facilities in East Asia nations have **transferred U.S. technology** -- whose original R&D were sometimes paid for by U.S. taxpayers -- to these nations. The authors of the three books [Prestowitz 2010, Fletcher 2010, and Navarro and Autry 2011] cover this subject in detail. China was by no means the first Asian nation to require **technology transfer**, and Prestowitz provides numerous examples of how the Japanese did this before the Chinese.

"Sony got the keys to its kingdom for $25,000. Think about that for a moment. AT&T's research arm, Bell Laboratories, had spent hundreds of millions, and U.S. telephone users had paid billions to finance the generation of that technology. Sony, a company based in a Japan that was then compelling U.S. companies to transfer their technology to its companies as a condition of being allowed to enter the Japanese market, got it for almost nothing." (Prestowitz, 2010, p. 77)

"Meanwhile, new laws and programs to promote the [Japanese] electronics industry were instituted, and even as the Japanese government agreed to allow Texas Instruments, IBM, and other foreign companies to begin doing business in Japan, it did so by insisting that they transfer technology to or conclude joint ventures with Japanese companies. Both of these steps entailed substantial transfer of proprietary technology to active or potential competitors." (Prestowitz, 2010, p. 97)

Of course, the books also include more recent examples of China requiring **technology transfer** from multinational American corporations as a condition for being able to have manufacturing facilities in China and access to China's markets. Navarro and Autry write,

"...it [China] mandates *forced technology transfer*. To wit, American companies must surrender their intellectual property to their Chinese partners as a condition of market entry. The practical effect of this condition is to facilitate the dissemination of various technologies not just to the Chinese government and other potential Chinese competitors. By surrendering to this condition, Western companies, in effect, create their own Chinese competitors virtually overnight." (Navarro and Autry, 2011, p. 81)

The **upshot** of this discussion of **technology transfer** is that not only is it hard for a nation that pays for **basic** research to capture its benefits, it is also often difficult to capture the benefits of **applied** research which is vulnerable to **technology transfer**.

<u>The United States' Spending on R&D, 1960s Until Present</u>

In his most recent book (2021), Clyde Prestowitz presents research on R&D spending in the United States, 1960s until present. What is striking is that the level of R&D spending (as a percentage of GDP) today is about the same as in the 1960s, but its makeup is much different: the government share today is much less than in the 1960s.

"As for research and development spending, South Korea is the world champion at 4.3 percent of GDP, followed by Japan at 3.4 percent, Germany at 2.9 percent, and the United States at 2.7 percent. China is at 2 percent but climbing very rapidly. Historically, American R&D spending hit 2.8 percent in the 1960s, fell under 2.2 percent in the 1970s, climbed back to 2.6 percent in the 1980s, fell to 2.3-2.5 percent in the 1990s and early 2000s, and has finally come back to about 2.8 percent now. Since the 1960s, however, the source of American spending has changed dramatically. In the 1960s and 1970s, it was the U.S. government. This has fallen steadily from about 1.8 percent in the 1960s to about 0.6 percent today. In most other countries, the government share is much higher" (Prestowitz, 2021, p. 285).

<u>Conclusions for III. Research and Development</u>

<u>R&D Is Not a Panacea.</u>

<u>Insufficient R&D Is Not the Cause of Our Massive Trade Deficit.</u>

The Biden administration and others believe that United States should be spending more on R&D. But we should have realistic expectations of the $180 billion for R&D in the American Rescue Plan. It is not the panacea for our diminished economic competitiveness nor for our massive and untenable trade deficit in goods.

IV. President Biden's Proposals to Address Climate Change

President Biden has firmly expressed his concern about global warming. In his January 27, 2021 Executive Order on Tackling the Climate Crisis at Home and Abroad, he said "The United States and the world face a profound climate crisis. We have a narrow moment to pursue action at home and abroad in order to avoid the most catastrophic impacts of that crisis and to seize the opportunity that tackling climate change presents."

To address this grave climate crisis, Biden has presented a $2-trillion "Clean Energy Revolution" which he says will also create millions of jobs. The "Clean Energy Revolution" is multi-faceted and includes

- Achieve net-zero emissions by 2050
- Spend $400 billion annually on clean energy research and innovation
- Double offshore wind production by 2030
- Ban offshore drilling in the Arctic and new oil and gas permits on public lands
- Reduce the carbon footprint in the power sector by 50% by 2035
- Add 500,000 electric vehicle charging stations by 2030

- Restore the electric vehicle tax credit

<u>The Link Between Global Warming and Population Levels Ignored</u>

It is **astounding** that Biden's multi-faceted $2-trillion "Clean Energy Revolution" does not mention the link between global warming and population levels. **Human population growth is a major, if not the major, contributor to global warming.** From pp. 1-2 of my *Earth Day 2021* essay (attached):

"Unsustainable population levels impair our environment in myriad ways, including global warming. We cannot mitigate nor resolve this grave problem of global warming just by making per capita reductions in CO2 emissions if population growth negates these reductions. Energy-saving technology has reduced per capita carbon dioxide emissions since the first Earth Day (April 22, 1970). Total emissions are higher, however, because of population growth. Even if mileage standards rose to 47 mpg as proposed by the Obama administration rather than 37 mpg as counter-proposed by the Trump administration, total carbon dioxide emissions would still rise because of population growth, negating the benefits of higher mpg standards. Human population growth is a major, if not **the** major, contributor to global warming."

<u>"U.S. and World Populations Are Not Sustainable.</u>

Studies (such as those at www.npg.org) appear regularly and present the same conclusion: **the current world population of 7.9 billion, the current United States population of 332.5 million, and the current California population of 40 million are far too large to be sustainable.** What population levels are sustainable? Assuming that future generations will not want to live at subsistence levels, **current world population is <u>at least three times</u> its sustainable level, and the U.S. and California populations are <u>at least twice</u>**

their sustainable levels. A recent study concluded that the number of humans Earth can sustain long term is around 1.9 billion people, which was roughly the global population 100 years ago in 1919. Putting this in perspective, the current world population of 7.9 billion (4.2 times the sustainable level) is projected to grow to 9.7 billion (5.1 times the sustainable level) by 2050 (UN projection)."

Conclusions for IV. Climate Change Measures

Please see combined conclusions at end of next section on immigration.

V. President Biden's Immigration Proposals

The Link Between Immigration and Population Growth

President Biden has proposed immigration changes which are motivated by genuine humanitarian concerns but which will drive U.S. population growth. ("…more than 90% of [U.S. population growth] is driven by immigration", NPG 2021). Biden's proposals would reverse most of Trump's immigration policies. His proposals include:

- Biden ended Trump's declaration of a state of national emergency at the border with Mexico and halted the construction of the border wall.
- An amnesty plan for 11 million illegal immigrants now living in the U.S. to begin the process of becoming U.S. citizens.
- Raise annual refugee admissions to 125,000 from its record low of 22,405 in 2018

Amnesty Plan Could Increase U.S. Population by 50 Million or More

From an NPG memo (2021) on Biden's amnesty proposal,

"If this amnesty bill is actually enacted into law, the long-term effects on the size and growth of our population could be devasting.

"Early analysis indicates that legalizing 11 million could actually result in a population increase of more than 50 million as newly-created citizens would be able to bring in extended family members and have children of their own."

Hundreds of Millions Worldwide Would Migrate to the U.S. If They Could.

In a May 03, 2021 statement, President Biden said "the historically low number [for refugee admissions] set by the previous [Trump] administration of 15,000," "…did not reflect America's values as a nation that welcomes and supports refugees. The new admissions cap will also reinforce efforts that are already underway to expand the United States' capacity to admit refugees, so that we can reach the goal of 125,000 refugee admissions that I intend to set for the coming fiscal year."

Most of these refugees are fleeing poverty, crime, and violence in their own countries. However, there are many more than 125,000 potential refugees in the world who would like to escape poverty, crime, and violence in their countries and migrate to the U.S. Gallop polls have consistently shown that **hundreds of millions of people worldwide would migrate to the United States if they could**. The U.S. has consistently been the top destination for migrants in the surveys.

- Gallop survey released December 10, 2018 (based on 2015-2017 data): “More Than 750 Million Worldwide Would Migrate If They Could.” 158 million (21%) named the U.S. as their desired future residence.

- Gallop survey released April 20, 2012 (based on 2010-2012 data): “150 Million Adults Worldwide Would Migrate to the U.S.” This was 23% of the 640 million people worldwide who would migrate if they could.

President Biden has genuine humanitarian motivations for increasing immigration limits to the United States, including raising limits for refugees. But he must consider – as he apparently has not –

- The relationship between global warming and population levels
- Sustainable population levels for our nation and our planet.

<u>Conclusions for IV. Climate Change Measures & V. Immigration Changes</u>

Biden’s climate change policies are multi-faceted, but they do not address a major, if not the major, contributor to global warming: human population growth.

VI. President Biden’s “Buy American” Proposals

President Biden wants to reduce our massive and untenable trade deficit which hit a record $74.4 billion in March 2021. To accomplish this, we must revitalize our industrial strength. Biden plans to harness the purchasing power of the U.S. government to increase domestic manufacturing. On January 25, 2021, he signed an executive order to tighten “Buy American” rules **to boost federal purchases of U.S.-made goods** as part of his campaign pledge to invest in the country’s manufacturing industry. The federal government buys $600 billion in goods and services each year. The plan would allocate $400 billion to buy American products and services.

Trump’s “Buy American” Policies

President Trump also enacted “Buy American” policies to help to rebuild domestic manufacturing.

“On January 20, 2017, about ten minutes into his inaugural address, President Trump announced his economic vision to the world in five simple words: ‘Buy American and Hire American.’ As a presidential candidate, he continuously pushed this populist economic message because he knew it resonated with voters in the Rust Belt states, where the loss of manufacturing jobs has devastated communities. Three months into his presidency, on April 21, 2017, President Trump issued Executive Order 13788, directing his cabinet to develop policies to strengthen “Buy American” laws. President Trump has made it clear that he wants to revitalize the U.S. manufacturing sector; if he thinks reinforcing domestic preference policies would accomplish that goal, a good place to start is the Buy American Act of 1933 (Buy American Act or Act). **The Act requires federal agencies to favor domestic goods over foreign goods in federal procurement**...”

(https://www.americanbar.org/groups/public_contract_law/publications/public_contract_law_jrnl/47-1/buy-american/)

Trump’s “Buy American” Strategy Was Not Effective.

This “Buy American” strategy of using the power of federal purchases to revitalize U.S. manufacturing and reduce our trade deficit was not effective during the Trump administration (which began officially on January 20, 2017).

The goods trade deficit which was $749.8 billion in 2016 rose to $918.8 in 2020, Trump's last year in office; this was an increase of 22.1 percent.

Biden's "Buy American" Strategy Not Effective So Far

Although it is still early in the Biden administration, his "Buy American" strategy of using the power of federal purchases to revitalize U.S. manufacturing and reduce our trade deficit has not been effective thus far.

From a May 4, 2021 CNBC report by Jeff Cox on our March 2021 trade deficit, "U.S. trade deficit surges to record; shortfall with China keeps rising."

"**Key Points**

The U.S. trade imbalance jumped to a record $74.4 billion in March.

- The deficit with China increased 22%, while the shortfall with Mexico rose 23.5%.

- Surging demand for foreign-made goods is pushing the shortfall.

"The U.S. trade deficit hit a fresh record high in March as consumers flush with government cash spurred a continuing demand for foreign-made goods."

The Federal Government Needs Help
from Consumers and Businesses

Government purchases of goods manufactured domestically alone are not sufficient to revitalize American manufacturing. Consumers and businesses have to do their share. Reasons why they have not include:

- **Unavailability of Domestically-Manufactured Products**

  Over the past forty years, offshoring of production has become a common practice of American corporations. Meanwhile, American manufacturing has atrophied to the point that it no longer has the capacity to produce many (or most) of the goods imported from China. These developments have been accompanied by a chronic and massive trade deficit.

This decline was already evident when Clyde Prestowitz wrote *Three Billion New Capitalists* (2005).
"Once factories or industries are gone, they almost never come back. The cost of a restart is enormous and the competitive circumstances usually worse.” (p. 210). He cites "Other industries [which] simply disappeared" (p. 127) and "many imported products [which] are simply not made in the United States" (p. 214). He implies that "the U.S. manufacturing base may have atrophied to the point that it no longer has the capacity to respond" to a burst of consumer spending from a stimulus package.” (p. 214)

- **Businesses Do What Is Good for their Shareholders.**
  Businesses buy the most suitable products at the lowest prices available -- regardless of where they are made, to increase profitability and shareholder value. Many large American-based companies consider themselves to be global companies rather than American companies and feel no special loyalty to the United States.

- **Consumers Do What Is Good for their Pocketbook.**
  Most consumers, many of whom are living paycheck-to paycheck, do what is good for their pocketbook regardless of patriotic appeals to “Buy American.” In earlier times, Americans were more likely to make sacrifices for their country, e.g., during World War II. Columnist David Brooks (who has been with the *New York Times* since 2003) wrote recently (May 8, 2021):

"Could today's version of America have been able to win World War II? It hardly seems possible.

"That victory required national cohesion, voluntary sacrifice for the common good and trust in institutions and each other." It appears "that we no longer have sufficient quantities of any of those things."

Brooks observes that "A lot of Americans have seceded from the cultural, political and social institutions of national life."

Conclusions for II. Infrastructure improvements:

Conclusions for VI. "Buy American"

Government purchases of goods manufactured domestically alone are not sufficient to revitalize American manufacturing. Patriotic appeals to business and consumers to "Buy American" have lost their effectiveness and will not be sufficient to revitalize American manufacturing and reduce our massive and untenable trade deficit. **We need a different paradigm; we need a National Economic Strategy.**

VII. The Loss of our "Industrial Commons"

Over the past forty years, offshoring of production has become a common practice of American corporations. Meanwhile, American consumer manufacturing has atrophied to the point that it no longer has the capacity to produce many (or most) of the consumer goods imported from China. These developments have been accompanied by a chronic and massive trade deficit.

Not Just the Loss of Individual Plants

This situation is not one of just individual, self-contained American plants closing. 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.

The Loss of Our “Industrial Commons”

These losses of industrial clusters, networks and supply chains are “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." (Prestowitz, 2010, p. 253)

Apple and China’s “Industrial Commons”

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, supply chains and skilled labor 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."

The following segment from my Labor Day 2019 essay (attached) amplifies on this issue of the **loss of our "industrial commons**":

"…a 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."
(https://www.thebalance.com/u-s-trade-deficit-causes-effects-trade-partners-3306276)

"There's No Capacity"

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.

<u>Conclusions for VII. The Loss of our “Industrial Commons”</u>

Our predominately laissez-faire economy allows firms to do what is good for their shareholders regardless of its effect on our country and its residents. During the last 40 years, American companies have offshored manufacturing, especially of consumer goods, so they could lower manufacturing costs and have a competitive pricing advantage when selling these goods back into the American market.

This offshoring has fostered the decline and atrophy of American manufacturing. This loss has not been one of just individual, self-contained American plants closing, but also a loss of the intermediate clusters, networks and supply chains which enabled individual factories to manufacture the final product. Our predominately laissez-faire economy has facilitated this loss. To revitalize American manufacturing, we need a different paradigm: a **National Economic Strategy**.

VIII. A Different Economic Paradigm: a National Economic Strategy”

<u>A Different Paradigm: National Economic Strategy, Not Laissez-Faire</u>

President Biden’s American Rescue Plans calls for $180 billion for R&D including more government-directed R&D spending in “fields like semiconductors and advanced computing, advanced communications technology, advanced energy technologies, and biotechnology." It also includes for $300 billion for manufacturing and innovation and $100 billion for workforce development and job training. As explained above, however, this spending alone will not enable America to regain economic competitiveness in manufacturing, especially of consumer goods, and to begin to reduce our massive and untenable trade deficit in goods. **We need a different paradigm; we need a National Economic Strategy** in which we use market forces selectively and are not at the mercy of laissez-faire's "invisible hand."

The following section is from pages 20-21 of my Labor Day 2019 essay (attached); Donald Trump was still President at that time and was running for reelection.

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." (Prestowitz, 2010, p. 259)

Note: Xi Jinping, President of the People's Republic of China, is a qualified chemical engineer who was trained at Tsinghua University from 1975–79.

Copy Singapore and Ireland

Prestowitz' most recent book (2021) has a section entitled "Copy Singapore and Ireland." He writes "As a model for much of its activity, the Department of Competitiveness [a new department which Prestowitz proposes, pp. 279-83, 289] should look carefully at bodies like Singapore's Economic Development Board (EDB) and the Irish Development Authority (IDA), which do extensive analysis of their own economies and those of other leading countries. Their objective is to raise both the amount and the value of their nation's economic output…" (Prestowitz, 2021, p.281)

It is noteworthy that Singapore and Ireland don't think that just pouring R&D money into their economies will help to "raise both the amount and the value of their nation's economic output." R&D supplements and is guided by their national economic strategies.

The Growing Role of Private Equity in our Laissez-Faire Economy

We have seen that China meticulously and assiduously plans for what industries and markets it is going to participate in, that this is done with a long-term perspective, and that it is part of their overall national economic strategy. The Chinese don't get into an industry, make some changes, and then quickly flip it to make a profit. China's participation in the hardware market, for example, was made with a long-term perspective and entailed myriad details, e.g., the array of hand tools, power tools, garden tools, and hardware items (such as nuts, bolts, screws, brackets, hinges, hasps, and towel racks, et al) we buy at Home Depot or Ace Hardware. China now dominates this industry

The United States, in contrast, does not have such a national economic strategy. The U.S. economy is predominantly laissez-faire, and U.S. corporations make their investments as they choose, not as part of a long-term national economic strategy.

A major force in the U.S. economy today is **private equity**. Many Americans may not know what this is. They do know, however, about real estate players who "flip" houses. These real estate players have similarities to private equity players; however, they cannot break up a house and sell it off in pieces as private equity players do with businesses.

"You Live in Private Equity's World"

Bloomberg Businessweek ran a cover story (October 7, 2019) entitled "You Live in Private Equity's World," pp. 24-33.

"Private equity managers won the financial crisis. A decade since the world economy almost came apart, big banks are more heavily regulated and scrutinized. Hedge funds, which live on the volatility central banks have worked so hard to quash, have mostly lost their flair. But the firms once known as leveraged buyout shops are thriving. Almost everything that's happened since 2008 has tilted in their favor."

"The business has made billionaires out of many of its founders. Funds have snapped up businesses from pet stores to doctors' practices to newspapers. PE firms may also be deep into real estate, loans to businesses, and startup investments—but the heart of their craft is using debt to acquire companies and sell them later" (p. 24).

"Most buyouts are funded with junk-grade debt" (p. 25).

"There are now 8,000-plus PE-backed companies, almost double the number of their publicly listed counterparts" (p. 27).

"As Profits Grow, So Does Inequality"
"More private equity managers make at least $100 million a year than top financial executives, investment bankers, and professional athletes combined" (p. 31).

"Private Equity Is Getting Companies Hooked on Debt"
"Private equity couldn't' exist without debt. It's the jet fuel that makes a corporate acquisition so lucrative for a turnaround investor. The more debt you can raise against a target company, the less cash you need to pay for it, and the higher your return on that cash once you sell" (p. 32).

"Private Equity Wants You"

The *Bloomberg Businessweek* of May 17, 2021 ran a story entitled "Private Equity Wants You. Managers of buyout firms are looking for more money from individual savers" (p. 28).
"Private equity firms have spent decades wooing pensions, universities, and other big-ticket investors. Now they have a new pool of untapped capital in their sights: mere millionaires and even ordinary savers in workplace retirement plans" (p. 28).

China's Long-Term Perspective vs. Private Equity's In-and-Out Mentality

When you compare the long-term perspective of China's economic visions and plans, including its meticulous and assiduous attention to details, to the goals and methods of the private equity players, you can understand why China is the dominant provider of consumer goods for the U.S. domestic market. The private equity players get in and out and turn a nice profit using debt. They are not interested in, for example, the long-term, very detailed and tedious job of making all the hardware items we buy at Home Depot, Ace Hardware, etc. (nuts, bolts, washers, brackets, hinges, hasps, etc.). Investing more in R&D as President Biden proposes is not going to change this situation. We need a new paradigm: a **national economic strategy**.

The United States <u>used to employ effective national economic strategies</u> like China, from our nation's beginnings until the mid-1950s. The following excerpt is from pp. 23-25 of my *Labor Day 2019 essay* (attached).

<u>The U.S. Used To Have Successful</u>
<u>National Economic Strategies Like China</u>

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." (Prestowitz, 2010, p. 45)

Our economic strategy worked: "...between 1870 and 1900, America surged ahead of Britain in virtually every sector of the economy. (Prestowitz, 2010, 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, 2010, 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." (Prestowitz, 2010, 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.")

Conclusions for VIII. A Different Economic Paradigm: a National Economic Strategy”

America employed a hybrid economic system of National Economic Strategy melded with market forces from our beginnings until the second half of the twentieth century. It worked for us: By 1900 the United States had overtaken Britain (the original leader of the Industrial Revolution) in manufacturing. After World War II, the United States was number 1 in virtually everything.

We abandoned National Economic Strategy after the 1950s in favor of a predominately laissez-faire economy. Meanwhile, countries which were left in ruins by World War II or had not industrialized prior to World War II, adopted national economic strategies (mercantilism), and they have been winning in international trade with us, building up large trade surpluses. These nations include Germany Japan, China, South Korea, Taiwan, and Singapore.

We need to return to what worked for us, that which made us the most prosperous nation in the world: a **National Economic Strategy**.

IX. China's Rapid Economic Ascent Due to Real Economic Factors, Not Exchange Rates

China's Growing Role as the World's Factory Is Due to its Economic Organization.

This essay and its predecessors (2009, 2011, 2019, attached) have shown that China's hybrid economic organization, its effective melding of national economic planning and market forces, have enabled it in some 40 years to launch its first industrial revolution and become the No. 1 industrial powerhouse, the "world's factory."

To appreciate how remarkable this has been, recall that China was in the throes of the Cultural Revolution from 1966 until 1976 which ended with the death of Mao Zedong on September 9, 1976. China first industrial revolution occurred during 1988-1998 (about 200 years after that of the U.S). From the 1980s on, China's manufacturing took off, surpassing the U.S. in 2010 to become the No. 1 industrial powerhouse.

Due to Real Economic Factors

China's manufacturing success is due to real economic factors, especially its hybrid economic organization (national economic planning and market forces). This is also the opinion of authors on this subject cited in this essay: Clyde V.

Prestowitz, Ian Fletcher, and Peter Navarro and Greg Autry. None suggest that China's success has been to financial tricks like manipulating currency. Apple CEO Tim Fox would agree with this. When he explains why Apple cannot manufacture iPhones in the U.S., his explanation has to do with real economic attributes of China's economy, not with financial advantages of exchange rates. China has built up the myriad industrial clusters, networks, supply chains and skilled labor which support the manufacturing of an iPhone (its "industrial commons"). 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."

Recent Reports Claim China's Success in International Trade Is Due to Exchange Rates, not to Its Real economy.

It is remarkable to see **recent reports** which say that China's manufacturing success is largely **due to financial manipulation, not to attributes of its real economy**. For example,

- "The single most important cause of large and growing trade deficits is persistent overvaluation of the U.S. dollar, which makes imports artificially cheap and U.S. exports less competitive." (EPI, February 10, 2021)

- "What Causes the U.S.—China Trade Deficit?"
  -- "A lower standard of living, which allows companies in China to pay lower wages to workers
  -- "An exchange rate that is partially fixed to the value of the dollar"
  (The Balance, April 30, 2021)

<u>Pegging Its currency to the dollar Is</u>

<u>Not the Secret of China's Manufacturing Success</u>

If it all it took to be a successful manufacturing nation were to peg its currency to the dollar, many countries in the world would do this. The United States, formerly a great manufacturing nation, might even try pegging the dollar to the Chinese yuan (or renminbi) to revitalize our manufacturing sector.

<u>Fixed vs. Floating Currencies</u>

Today, there are two types of currency exchange rates: floating and fixed. The values of **floating** currencies are determined by market forces according to how the currencies trade in foreign exchange markets. **Fixed** currencies, on the other hand, derive value by being fixed to another currency.

<u>Countries Which Choose Fixed Exchange Rates for Stability</u>

Most developing or emerging market economies use fixed exchange rates for their currencies. This provides exporting and importing countries **more stability**. In the oil-rich Middle East, many countries including Jordan, Oman, Qatar, Saudi Arabia, and the United Arab Emirates peg to the U.S. dollar for **stability**. Prior to the early 1970s, the U.S. dollar was pegged to gold under (the United States held most of the world's gold reserves at that time). This system cut back the volatility in international trade relations as **most currencies were pegged to the U.S. dollar**.

<u>China Uses Market Forces Selectively, Pegging the Yuan to the Dollar</u>

As discussed throughout in this essay, China has a hybrid economy and uses market forces selectively. It has chosen not to let its currency float and be subject to the vagaries of the market. Instead, China has pegged its currency, the yuan (or renminbi), to the U.S. dollar since 1994. The dollar remains the world's pre-eminent currency and is widely used in international trade.

<u>Conclusions for IX. China's Rapid Economic Ascent Due to Real Economic Factors, Not Exchange Rates</u>

This essay has shown that China's spectacular economic rise since the end of the Cultural Revolution and its arrival as the "World's Factory" have been based on its real economy, not on manipulation of exchange rates. It is not only wrong to attribute China's success to exchange rates manipulation, but is counterproductive for the United States to believe this. It draws our attention away from the biggest factor underlying China's success: they effectively employ a **National Economic Strategy** as the United States successfully did for over 150 years.

X. China's Lower Standard of Living and Lower Wages: A Key to Its Economic Success?

<u>Does China's lower standard of living enable it to pay lower wages?</u>

(Report from *The Balance*, April 30, 2021)

This will be a brief final section in an already long essay.

Is the U.S. standard of living and wages really so high compared to those of China that we cannot compete with China in manufacturing? Using per capita income as a proxy for standard of living to compare countries can be misleading.

<u>The U.S. and Homelessness</u>

The Balance report cites **China's lower standard of living**. However, here in

Oakland, CA where we live, there are homeless camped in any available space under freeways. Oakland recently has been erecting spiked iron fences to keep them out. Others without homes are living in their RVs on the streets because the U.S. can’t provide housing for them.

Despite having a population 4.3 times that of the United States, China is doing better than the United States on the homelessness problem. “Compared to other countries, there very few vagrants [homeless]: people living on the streets of China's cities without means of support.” (Homelessness and the Universal Family in China - He - 2020 ...https://onlinelibrary.wiley.com › doi › abs › ajes)

Declining U.S. Infrastructure and Our Declining Quality of Life.
Do We Really Have a Significantly Higher Quality of Life Than China?

Good infrastructure **underlies our quality of life**. Infrastructure quality in the U.S has declined markedly. Many of our infrastructure investments were made in earlier decades, and our infrastructure is aging and deficient. During the 1950s and 1960s, there was major and consistent investment in U.S. infrastructure. Since the 1970s, however, there has been a drastic decline in investment in infrastructure of the United States.

The Balance report says China has a “lower standard of living.” However, China’s infrastructure investments have been growing while those of the United States have been declining. For example, China's average infrastructure spending in 2018 (as a percentage of the country's GDP) was 10 times higher than that of the United States. Moreover, China's investments were significantly higher than anywhere else in the world.

President Biden Admires China's "Infrastructure Accomplishments.

President Biden invokes China's "infrastructure accomplishments while pressing Congress to allocate spending for a far-reaching infrastructure program. He says more than $2 trillion to fix bridges and mass transit, modernize airports and refurbish neighborhoods, extend broadband internet coverage and replace lead piping is the cost to 'outcompete China.'"

"Sleek airports, grand stadiums and stylized skylines captivate visitors to China. Infrastructure may be the most tangible—and admired—aspect of a modernization drive that in a generation transformed a poor country into the U.S.'s primary strategic and economic rival." (*Wall Street Journal*, April 3, 2021)

Are U.S. Workers Really So Highly Paid That
They Are Not Cost Competitive with Chinese Workers?

American Workers Were Well Compensated During the "Golden Age."

The Balance report claims that a cause of our large trade deficit with China is the high pay U.S. workers receive. It is true that during the "Golden Age" of the American economy (1947-1975) U.S. workers were much better paid than workers elsewhere. During this "Golden Age," the economy grew steadily, and the average American shared in this prosperity. For example, the economy overall grew by 37% during the 1950s. At the end of the decade, the median American family had 30% more purchasing power than at the beginning. In that era, we ran trade surpluses, i.e., we sold more than we bought in international trade.

The Situation of American Workers Began to Change in the 1970s.

"The prosperity of American workers began to decline in the 1970s. This is when the offshoring of American manufacturing become so prevalent. The trend began in earnest in the late 1970s at large manufacturers such as General Electric. GE's then CEO, Jack Welch, who was widely respected by other corporate chieftains, argued that public corporations owe their primary allegiance to stockholders, not employees."

(The Weekhttps://theweek.com › articles › where-americas-jobs-went, Mar 18, 2011)

<u>Wage Growth Has Almost Completely Stalled.</u>

"The majority of Americans share in economic growth through the wages they receive for their labor, rather than through investment income. Unfortunately, many of these workers have fared poorly in recent decades. Since the early 1970s, the hourly inflation-adjusted wages received by the typical worker have barely risen, growing only 0.2% per year. In other words, though the economy has been growing, the primary way most people benefit from that growth has almost completely stalled." (*Harvard Business Review*, Oct 24, 2017)

<u>Income inequality: Most Workers Not Sharing in Income Growth.</u>

In September 2019, the Census Bureau reported that income inequality in the United States had reached its highest level in 50 years, with the GINI index increasing from 48.2 in 2017 to 48.5 in 2018. ... After taxes and transfers, that income growth is more skewed toward the higher income households.

(https://en.wikipedia.org/wiki/Income_inequality_in_the_United_States#:~:text=In%20September%202019%2C%20the%20Census,2017%20to%2048.5%20in%202018)

<u>Upper-income households have seen</u>
<u>more rapid growth in income in recent decades</u>

"The growth in income in recent decades has tilted to upper-income households.

At the same time, the U.S. middle class, which once comprised the clear majority of Americans, is shrinking. Thus, a greater share of the nation's aggregate income is now going to upper-income households and the share going to middle- and lower-income households is falling." (Pew Research Center, January 9, 2020)

Twenty Eight percent of U.S. Workers Earn Less Than $15 per Hour

"…the typical (median) American worker earned about $20.20 an hour in 2019. The 39 million workers earning less than $15 in 2019 represented about 28 percent of the workforce." (*Washington Post*, Mar 3, 2021)

Living Paycheck to Paycheck

March 29, 2021 Survey: "More than half of American consumers (56%) said they are living "paycheck to paycheck," …"and 48% have experienced unexpected financial setbacks in the last 3 months." (MarketWatch, 2021/03/29)

Dec 11, 2020 Survey: "Nearly two-thirds of Americans, 63%, say they've been living paycheck to paycheck since the Covid-19 pandemic hit the U.S. earlier this year." (CNBC, 2020/12/11)

Not Enough Savings to Cover a $1,000 financial emergency

"Fewer than 4 in 10 Americans have enough money set aside to cover an unexpected $1,000 expense, such as a trip to the ER or car repairs, according to a new survey." (CBS News, Jan 11, 2021)

The Same Standard of Living May Cost Less in China.

Reports like The Balance Report use per capita income as a measure of standard of living. There are a multitude of studies that show why per capita income is not a good indicator of the well-being of the average citizen of a country, e.g., it is an average that is pulled up by minority of millionaires and billionaires.

Another difficulty with using per capita income as a proxy for standard of living is that although per capita income is less in China than in the U.S., the same or higher standard of living may cost less in China.

“You can live in most China’s major cities for far less than $1,000 per month, and with a great lifestyle. However, there’s always room for luxury and more spending. It costs around $1,000 or more to rent a nice apartment in the center of Beijing or Shanghai if that’s the kind of lifestyle you are seeking.”

A Breakdown of the Average Cost of Living in China:

Expenses	Cost (USD)	Estimated Monthly Cost (USD)
Rent	$200 ~ $700	$200 ~ $700
Food	$2~$5 per meal	$100 ~ $150
Transportation	$,0.3~$0.5 each way (bus)	$30 ~ $50
Utilities	Electricity, water, gas, telephone, wi-fi	$50 ~ $100
Total		$380 ~ $1,000

Cost of Living in China for Expats: A 2020 Guide | Panda Buddy

<u>Conclusions for X. China’s Lower Standard of Living and Lower Wages: A Key to Its Economic Success?</u>

This section countered the argument of the Balance report (Apr 30, 2021) that a major reason why the United States has such a large trade deficit with China is because the U.S. has a higher standard of living than China, so its workers are paid more than workers in China and thus are not cost competitive. U.S. workers were handsomely compensated during the “Golden Age” of the American economy, but their status has declined markedly during the last forty years. I venture to say that the 39 million U.S. workers earning less than $15 in 2019 or the throngs of unemployed homeless Americans living in our streets would be cost competitive with Chinese workers and would be good workers if they had the opportunity to work in manufacturing in the United States.

XI. The Issue Is Not Democracy vs. Autocracy

The Issue Is Not Democracy vs. Autocracy.
It’s Laissez-Faire vs. National Economic Strategy.

In his address to Congress on April 28, 2021, President Biden said “We’re in competition with China and other countries to win the 21st century.” “We have to compete more strenuously than we have.” “We have to prove democracy still works, that our government still works and can deliver for the people.”
“China and other countries are closing in fast,” Biden said.

Regarding Biden’s address to congress, columnist Trudy Rubin wrote
“This competition isn’t about who can beat their chest and claim global superiority. It is about whether U.S. democracy can demonstrate that our system surpasses autocracy in providing for its own people, and leading the world scientifically.”

“In the 21st century, U.S. democracy faces critical competition from China’s autocracy.” (*Philadelphia Inquirer*, April 29, 2021)

President Biden repeated the democracy vs. autocracy theme in his Memorial Day 2021 address: “During Monday’s speech, Biden again framed the central tension of the times as a battle between democracy and autocracy, calling it the ‘battle for our time.’” (*Washington Post*, May 31, 2021)

We Should Focus on Competing Economically, Not on Criticizing China’s Form of Government

Whether we approve of it or not, China’s form of democratic socialism **grew out of internal events in China**; it was not imposed on them by outside sources. Historically, China was controlled by France, Britain, Germany, Russia and Japan between 1839 and 1949 (the “long century of humiliation”) who carved up China into “spheres of influence.” There was civil war in China intermittently from 1927 to 1949 between the Nationalists led by Chiang Kai-shek and Communists led by Mao Zedong The Communists won in 1949 and established the People's Republic of China.

Our disapproval of forms of government other than American-style democracy has led us to intervene in other countries, e.g., Vietnam. We intervened in Vietnam to try to forcibly change a communist government that **grew out of internal forces in that country**. Ho Chi Minh, a Communist was the leader of the Viet Minh, a national movement which arose after the defeat of the Japanese in World II who had occupied French Indochina during the war. This undertaking did not end favorably for the United States, with the capture of Saigon by the North Vietnamese army in April 1975.

President Biden and Trudy Rubin suggest that our economic competition with China is a struggle between **democracy** and **autocracy**. However, this not a accurate description of this struggle.

- China Is a Socialist Democracy.

- All citizens of the People's Republic of China who have reached the age of 18 have the right to vote and stand for election.

- Elections in China are based on a hierarchical electoral system, whereby local People's Congresses are directly elected.

- Xi Jinping was elected President of the People's Republic of China in 2013 by the National People's Congress, China's highest state body (which had about 3,000 members when Xi Jinping was elected). Granted he was not elected directly by the Chinese electorate – as were, for example, former President Trump or President Biden in the U.S. – but he was elected, at least indirectly, by the will of the people. He did not become president by hereditary as occurs in hereditary monarchies such as Saudi Arabia, Kuwait, Bahrain, Oman, and Qatar.

China's socialist democracy is different than ours, but **China does not allow money to influence elections as in our county**. Political spending in the 2020 U.S. Presidential totaled $14.4 billion, more than doubling the total cost of the record-breaking 2016 presidential election cycle.

National Economic Strategies

China has a national economic strategy which uses market forces selectively but does not let the “invisible hand” run things as it does in the United States. Our major economic competitors (see below) also **have national economic strategies, and they are democracies and have elections**. "Most of the world's leading economies are guided by strategic industrial policies that aim to achieve a desired overall structure and direction for the economy" (Prestowitz, 2010, p. 258).

So, our economic competition with China and other countries is **not** a struggle between democracy and autocracy. It is a struggle between laissez-faire in the United States and national economic strategies (industrial policies) in China and most other countries.

Our other economic competitors which **are democracies** and have elections and also have national economic strategies include:

- Germany
- Japan
- Taiwan
- South Korean
- Malaysia
- Singapore
- Ireland

Conclusions for XI. The Issue Is Not Democracy vs. Autocracy

Viewing our economic competition with China as a struggle between autocracy and democracy is incorrect and counterproductive.

- **China is a Socialist Democracy and does things differently than we do.** Its form of democratic socialism grew out of internal events in China; it was not imposed on them by outside sources. We should accept that other countries have different forms of democracy than we do. At times, President Biden has shown that he agrees with this. For example, in a CNN town hall on February 16, 2021, he said "Culturally, there are different norms that each country and their leaders are expected to follow." Others such as columnist Trudy Rubin appear not to agree, but instead view the situation as a conflict between democracy and autocracy, a point of view that was common in the United States during the Cold War.

- **The Issue Is Not Democracy vs. Autocracy. It's Laissez-Faire vs. National Economic Strategies.** Many of the democratic government we compete against economically, such as South Korea and Taiwan, exercise controls over their economies that we view as autocratic. However, these countries are doing what works for them: hybrid economies of national economic strategies melded with market forces. Prestowitz writes that we should emulate what is working for our economic competitors – and giving them large trade surpluses with the United States.

Overall Conclusions

President Biden has a Comeback Plan for America (the "BUILD BACK BETTER" plan, also called the **Infrastructure** plan or the American Rescue Plan). Biden wants to see U.S. manufacturing revitalized, with U.S. factories humming. On January 25, 2021, he said "American manufacturing was the 'Arsenal of Democracy' in World War II, and it must be part of the engine of American prosperity now." This revival of manufacturing would free us from our dependence on other nations such as China for manufactured goods. It would also help us to reduce our massive and growing trade deficit, particularly with China.

This essay presented analyses of six components of President Biden's Infrastructure plan (Sections I-VI) and of five related issues (Sections VII-XI). Each of these sections has a Conclusions summary. Given the cost of Biden's "BUILD BACK BETTER" plan, will it in an acceptable time frame significantly

- increase our economic competitiveness, particularly in manufacturing, and

- help us to reduce our massive and untenable trade deficit?

The answer this essay arrived at is "**<u>No</u>**."

The American Rescue Plan does not offer a different economic paradigm. It continues in our basically laissez-faire economy. We need **a National Economic Strategy** which employs market forces selectively. I recommend that President Biden's Infrastructure plan team become familiar with the writings of Clyde V. Prestowitz if they are not already.

The Challenge We Face

I recently finished reading *The World Turned Upside Down: America, China, and the Struggle for Global Leadership*, 2021 by Clyde V. Prestowitz. An economist, he has written about ten books on Asia and globalization, and I have read many of them – cover to cover. Prestowitz is the founder and President of the

Economic Strategy Institute. He served as counselor to the Secretary of Commerce in the Reagan Administration.

Regarding the China challenge, Prestowitz emphasizes “that we are talking about the most difficult and dangerous external challenge the United States…” has “ever faced.” (Prestowitz, 2021, p. 258)

He says the United States “has steadily lost economic, industrial, technological, and governance competitiveness over the past fifty years.” (Prestowitz, 2021, p. 276)

Prestowitz exhorts us:

“In sum, it is time for Americans and especially their leaders to realize they have been drawing down their inheritance from World War II and the Cold War for too long. Now, they are once again back to the real nitty-gritty world of tough competition and constantly shifting power balances, a world in which there is little if any margin for error. The advantages of being the world’s largest economy, of being the printer of the world’s main currency reserve, and of maintaining the world’s most advanced and widely spread military establishment will not be enough to save us from decline and to assure the independence and freedom of our sons and daughters. We must up our game.” (Prestowitz, 2021, p. 290)

On the last page of the book in the “Afterword: My Presidential State of the Union Address,” Prestowitz writes,

“The good news is we have done this before. We pulled ourselves out of the Civil War. Together with our allies, we won World War II and the Cold War. If we remain united and dedicated to one another and to our fundamental values, I have no doubt that we can successfully meet this challenge." (Prestowitz, 2021, p. 294)

Prestowitz' mention of World War II and of remaining united and dedicated to one another recalls the recent observations of *New York Times* columnist David Brooks presented earlier in this essay. In light of their relevance to Prestowitz' thoughts, they are repeated here:

"Could today's version of America have been able to win World War II? It hardly seems possible.

"That victory required national cohesion, voluntary sacrifice for the common good and trust in institutions and each other." It appears "that we no longer have sufficient quantities of any of those things."

Brooks observes that "A lot of Americans have seceded from the cultural, political and social institutions of national life." (May 8, 2021)

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I am a second-generation Irish-American who grew up with immigrant Irish grandparents and aunts in Oakland. I am a graduate of Oakland High School and am fluent in Spanish.

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