Jon Taplin's Blog

Occasional musings on the collision of Digital Culture and Politics

- Home
- About Jon Taplin
- The Cost of Empire
- America 3.0 Video
- America 3.0 & The Interregnum
-

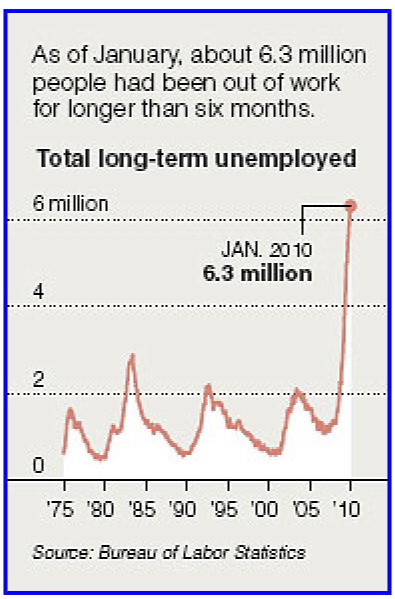
Type text to search here... Submit Query

Home > Business, California, China, Recession, Trade, reform > Jobless Recovery

Jobless Recovery

February 22, 2010 Leave a comment Go to comments

I've been arguing for the last four months that we have entered a New Normal era in which the combination of a naive embrace of free trade, aggressive use of automation and a substandard education and retraining system, has left the United States in a position where it can no longer create enough jobs for its citizens. Yesterday, the New York Times ran a long piece on permanent unemployment that started with this chart.



This is the largest number and percentage of long-term unemployment since the Labor Department started keeping the stats in 1948. But this is not a new issue–it has been building for the last three decades.

> During periods of American economic expansion in the 1950s, '60s and '70s, the number of private-sector jobs increased about 3.5 percent a year, according to an analysis of Labor Department data by Lakshman Achuthan, managing director of the Economic Cycle Research Institute, a research firm. During expansions in the 1980s and '90s, jobs grew just

> 2.4 percent annually. And during the last decade, job growth fell to 0.9 percent annually.

It would be easy to blame Ronald Reagan, who started a war against unions for the loss of wage growth, but for me the real villains are the academic economists that sit at universities and proclaim the principles of free trade as inviolate.

I've been reading Free Trade Doesn't Work by Ian Fletcher for the past week and he makes a compelling case that tenured economists who propound the theories of free trade that the Wall Street Journal and the Cato Institute then popularize, are completely disconnected from the real world outside the academy.

> For example, it has been obvious for 35 years now that America's economy needs to be internationally competitive. But many academic economists disparage the very concept of competitiveness, mainly because it has no accepted definition.

For Fletcher, the academic embrace of free trade is essentially applying 19th Century Laissez-Faire economics to global trade, when we have long since abandoned these ideas in our domestic economy. It is in fact a kind of unilateral disarmament against our global rivals who have never embraced free trade. Case in point: Chinese currency manipulation. Depending on who you talk to the Renminbi is 18-30% undervalued, because the Chinese government artificially pegs it to the dollar in order to make Chinese goods cheaper. This new form of Mercantilism, combined with an aggressive industrial espionage system to reverse engineer American and Japanese technology, puts the Chinese at a tremendous advantage.

We of course have aided our commercial rivals by American firms aggressive embrace of outsourcing. When Boeing decided to outsource many of the components of its new 787 Dreamliner to Asia and Europe, it not only surrendered its intellectual property, but ended up surrendering its control over the assembly and had to delay the introduction of the plane by two years. Ultimately they decided to end many of the outsourcing contracts and return to the US.

We are about to enter a new era of green manufacturing: solar, wind, nuclear, geothermal, high speed rail and hybrid cars. We need to build these technologies in America. Fortunately companies like GE are getting on board to return their factories to the U.S., but we also need to protect the start-ups against aggressive Asian and European dumping. As Fletcher points out the notion of the tariff is embedded in Article I, Section 8 of the U.S. Constitution. We should not be afraid to use it. Cynics will say we have no power over the Chinese because they would sell their huge portfolio of Treasury Bills if we ever levied a tariff on their solar panels. This is nonsense. As Bill Gross would tell you, the Chinese can't unload $1 trillion worth of bonds overnight and any large sale would become a self-fulfilling prophecy to the downside. Let's say they try to sell $1 billion of bonds worth $100 each. The next morning the value of their remaining portfolio of $900 billion might be cut by $100 billion as the market reacted.

As I've said for two years, America is entering a new era of lowered consumption and increased savings and investment. It is foolish to think that the 45 year old men in the New York Times article are going to find jobs in high finance or high tech. If we do not begin rebuilding our manufacturing economy we will enter an era of civil strife and conflict that will make the recent Tea Party rebellions look tame.

Categories: Business, California, China, Recession, Trade, reform Tags: China, Free Trade, Ian Fletcher, Interregnum, Politics, Recession
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1. Valerie Curl
   February 22, 2010 at 9:49 am | #1
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   Here's another point to add to your argument…and a problem as well. The cost to produce a product, say steel, overseas and ship it back to the US is the SAME as having it produced in the US. So, why are the products not produced here? Could it be the time consuming, lengthy, and costly regulatory policies? What are States and the Federal government doing wrong?

   Regarding you last paragraph, I've said the same and the recent spate of laws allowing concealed weapons in any number of public places as well the SC governor wanting to get rid of the US dollar to return to return to precious metal coins indicates a growing and nasty fear.

   But getting trade agreements negotiated equitably around the world is well above my pay grade.

   - Fentex
     February 22, 2010 at 11:16 pm | #2
     Reply | Quote

     Steel production was the text book case study in a economics course I briefly observed once.

     The case made was that the U.S lost out in steel production by never re-investing in new plant to newer more efficient plant in Asia.

2. doug
   February 22, 2010 at 11:07 am | #3
   Reply | Quote

   Part of the problem has been the US Governments promotion of real estate through all kinds of incentives vrs. allocation of capital to companies which will create sustainable jobs— Obama doesn't really understand the role of companies but rather believes that government creates jobs–a real problem with no short term solutions

3. JTMcPhee
   February 22, 2010 at 11:19 am | #4
   Reply | Quote

   Could it be the tax breaks/evasion that going offshore provides? The internal "race to the bottom" that even within This Great Nation lets some gorp that promises "jobs" to dump toxic shit, public responsibilities and other EXTERNALITIES, speaking economic-ese for a moment, escape job-training costs and property taxes and environmental controls? Leaving the Rest Of Us "protecting" an "elevated quality of life" for the executives and the poor lowly "shareholders" at the expense of the dumb-shits who finance by indebteding themselves to fund the "World's Corrupt Police Force" that protects their privileges? Yep, Nigerian Finance Ministers should be telling people in developed (hate that word) nations across the globe what their quality of life and "democratically derived notions of comity and civility" should be.that is the corporate notion of a social contract (like the "Contract on America" scrivened by Newt Gingrich et al).

   Might even be just that a lot of fucking MBAs get their Resume peeps from "managing change by