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Mr. Summers, It's a Decade You Helped Lose

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June 21, 2011 – In a recent piece in the *Financial Times,* Larry Summers, former head of the National Economic Council, bemoaned the "lost decade" the United States is in the middle of. Economic growth is anemic and there is no job growth at all, only job losses.

The United States is in a lost decade, or worse. But much of the loss results from the very policies Mr. Summers promulgated in the White House, and probably still supports. It is basically the total failure to deal with the migration off-shore of much of the United States productive base. The United States economy has become like a bucket. You can pour a little water in the top and kind of keep things swirling around. But if there is an enormous hole in the bottom pretty soon it's going to be empty.

Three facts are striking in this regard. First, for the first time in 100 years the United States has dropped from first to second in terms of manufacturing output, slightly behind China. This 100-year reign roughly parallels the time when the United States became an important country in the world, and it's not something we should ignore. Perhaps more importantly, this change has been accompanied by millions of manufacturing jobs that have moved off-shore. Secondly, United States companies have at least $1 trillion in funds salted away in foreign tax-safe havens, much of it resulting from off-shore production that the United States government implicitly and explicitly encouraged. And thirdly, we run unmitigated-disaster-trade-deficits with China and our other trading partners. The deficit with China alone was $273 billion in 2010, more than three times our deficit with them in 2000. This has been a tremendously fast deterioration of our trade position. Much of this deficit results from Chinese state-owned enterprises, financed by the Chinese government to compete with the United States. We, in turn, have developed no coherent or sustained policy to counter this.

For Mr. Summers and his cohort at the White House, and in the senior economic profession, the drop in U. S. manufacturing output, the off-shoring of funds, and the Chinese state-financed build-ups are not problems. In fact, some of them are actually solutions. They keep prices down in the U. S., and they make manufacturing more efficient (by moving plants to low wage locations). In some cases, the Chinese subsidies go to U. S. companies, increasing corporate profits. But what about America? What about American jobs and American know-how and American productivity?

There is no way we are going to maintain a successful economy in this country if our productive basis is not in this country. Rather we are going to become a two-state solution. Owners of capital and investors in foreign enterprises will do well. But soon, no doubt, they will all be living in gated communities, just as the rich do in Brazil and Pakistan and other up and coming countries with no middle class, just a class of rich owners of land and capital, on the one hand, and the poor unemployed or near-slave laborers, on the other.

The remarkable thing is that President Obama has presided over the acceleration of this trend on trade, foreign investment, and manufacturing decline. It was bad enough in 2008 when President Bush left office. But we need to give credit to President Bush for one bold and game changing move, the application of the U. S. anti-subsidy law (formally called the countervailing duty law) to China. This has made a difference to many U. S. industries that have been able to file cases to off-set subsidies provided to their government-owned Chinese competitors, and put duties on imports of these products. This is a one-off solution, and not a long term macroeconomic change, but it has helped. President Obama had the opportunity to take this program to the next level, by applying the countervailing duty law to currency undervaluation by the Chinese government. That would cut across the entire U. S. economy and make an enormous difference to U. S. factories and workers. But President Obama has declined to do this. One can only assume that Mr. Summers, his chief economic advisor, played a major role in that decision.

There is one good piece of news though. We are still only half-way through the lost decade, and perhaps we can turn things around by an aggressive mid-decade course correction. Lets find the decade.

The moment to do so is in the upcoming Presidential election. Lets get the Presidential candidates to bid against each other on a real jobs recovery program. Let's embark on a trade, tax, and incentive program that brings manufacturing jobs back. For a start, when the Congress takes up Free Trade Agreements over the next few weeks, let's add legislation providing that currency undervaluation will be countervailed. Even Alan Greenspan is coming around on this issue now, as he said at a meeting Friday speaking of the Chinese government "What they are doing is the definition of currency manipulation." Which Presidential candidate will stand up to support currency legislation?

Secondly, let's provide real tax incentives to preserve and bring back U. S. factories. And thirdly, lets require that these Free Trade Agreements be judged by the Congress and then monitored on a real time basis to make sure they have what I call a "plus jobs, plus factories" effect. If it cannot be shown that the agreements create American jobs and factory builds, the benefits of these and every other trade agreement should be suspended or terminated.

It's not too late. We still have five more years, even by Mr. Summers' calculation. Given the creativity and vibrancy of the American economy and the American people, we can still make the changes that matter.