

Our Jobless Recovery

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President Obama just told us that the economic stimulus plan has "already saved or created" 150,000 jobs and that another 450,000 will be "saved or created" by the end of the summer, including 125,000 summer-only jobs for students. It's hard for us to see how this will be the case--we hope it is--but, more important, there's a huge difference between a job that is saved and one that is created. Just ask the 30.2 million workers who are already unemployed.

Obama has spoken forcefully about laying a new foundation for the economy, one that creates good jobs and rising incomes and that moves us from an era of borrow-and-spend to one where we save and invest and are able to produce more at home than we consume. And we agree these are the right goals for the nation. However, we do not believe that the policies the administration is pursuing will get us there, nor is the administration's economic stimulus plan likely to move us toward anything approaching full employment.

By the administration's own estimate, the stimulus plan will "save or create"--there's that phrase again--just 3.5 million jobs over the next two years. But this amount represents less than 30 percent of the unprecedented 14.5 million jobs that have been lost since the recession began in December 2007, and it is just 12 percent of the workers already unemployed.

And yet this is only part of the story of the job-creation deficit we face. Just as worrying as the massive jobless numbers is the fact that our economy is bleeding jobs in the very sector that must grow in order for us to move away from debt-financed consumption as the principal engine of economic growth. Since this recession began, manufacturing has lost 13 percent of its workforce, reflecting a further downsizing of our tradable goods economy.

If these conditions continue, we will head not just toward a jobless, and a manufacturing jobs-less, recovery but also toward an even more weakened economic base that is incapable of sustaining a vibrant middle class. And yet the conditions *will* continue unless the administration addresses two serious shortcomings in its economic program.

First, aside from its emergency restructuring of Chrysler and GM, the administration has not outlined a national manufacturing and industrial policy designed to ensure the competitiveness of US-based businesses.

Second, the administration has yet to begin the promised reform of our trade policies with China and the other economies that do not play by the same rules we do.

The Manufacturing Jobs Crisis

The current jobs crisis is in part a reflection of the misplaced priorities of previous administrations, which let America's manufacturing sector decline vis-a-vis our services economy. As a result, manufacturing industries now represent just 11.5 percent of GDP; the number of people working in manufacturing accounts for only 8.7 percent of the jobs in the country; and we have run an average trade deficit in manufactured goods of more than \$500 billion over the past five years, all of which contributed to the huge buildup of US debt in recent years.

This almost complete neglect of our manufacturing base relative to our service sector represents the height of irresponsibility, because compared with those in manufacturing, service jobs pay below median wages, do very little to help America's balance of trade, have a much smaller multiplier effect on other parts of the economy and mostly just move incomes around the country.

Regrettably, however, some in the Obama administration have extended this neglect by essentially taking the position that a job is a job, whether it is in the manufacturing or service sector.

And it is just as wrong for them to assume that new jobs associated with exported services will make up for past and future manufacturing job losses, because high-quality service jobs are often dependent on a strong manufacturing sector and thus do not readily substitute for good manufacturing jobs.

Even if the administration does not understand and accept these basic realities, America's main trade competitors certainly do. Germany, Japan and South Korea are doing everything possible to preserve their manufacturing bases during this economic downturn. And China, which accounts for 60 percent of the US trade deficit in manufactured goods, is aggressively accelerating its efforts to grow its manufacturing sector.

An Overdue Manufacturing and Industrial Policy

To avoid the further erosion of our manufacturing base, the Obama administration needs to make a radical break with previous policies. It must begin by enacting a national manufacturing and industrial policy that puts American workers first and is as neomercantilist as the policies of our major trading partners. Only an active industrial policy will be able to right the employment ship and create the millions of jobs needed in

this important sector of the economy.

As part of this new manufacturing and industrial policy, the administration must be willing to:

- "Pick winners" in the economy and then support them, because all other developed nations and China do so every day. The administration has begun to move modestly in this direction with its proposals to encourage private investment in wind and solar energy and by making targeted federal investments in building retrofits, smart grids and meters, and clean transportation systems. But it needs to do much more if it is serious about creating comparative advantages in these and other industries.
- Fund a ten-year (not the current two-year) program of significant public investment to upgrade and rebuild our nation's infrastructure. Public infrastructure investments not only create jobs; they also facilitate private investments in our manufacturing sector by making them more efficient and productive.
- Adopt, consistent with WTO rules, "Buy American" requirements related to all federal procurement, especially procurement associated with new investment in infrastructure and green energy initiatives. Federal purchases make up about 20 percent of the economy, yet America is the only nation among the major developed nations and China without a significant "buy domestic" procurement program.
- Enact major corporate tax reform to make incentives for corporations to create jobs here and eliminate the incentives for them to relocate manufacturing and services abroad.

Complementary Trade Policies

A national industrial policy cannot succeed, however, without complementary trade policies that prevent other economies from gaining unfair competitive advantages. The trade deficits accumulated during the Bush administration--a whopping \$4.8 trillion--were a major cause of the loss overseas of 5.3 million manufacturing jobs and more than 2 million service jobs; and they made the economy about \$1.5 trillion smaller than it would otherwise have been.

We couldn't afford these economy-zapping job losses then, and we certainly can't afford them now. Even today's recession-shrunken trade deficit of 2.4 percent of GDP will subtract more from the demand for US goods and services than the stimulus plan will add, and in normal times our trade deficits consistently aggregate an even more economy-draining 5 percent or so of GDP.

The administration and Congress need to replace our decades of misguided trade policies with trade agreements that have meaningful labor and environmental standards and that forbid illegal subsidies and currency manipulation. They also need to dispense with "one size fits all" trade agreements that ignore significant differences in levels of development, forms of government and reciprocity. Specifically, there can be no compromise on these

principles when it comes to the pending trade deals with South Korea, Panama and Colombia.

Most important, however, we need a fundamental re-examination of our trade relationship with China, which the new administration promised would occur early in this term.

China's massive trade surplus with the United States--a staggering \$277 billion of manufactured goods in 2008 alone--is the result of China's severely undervalued currency, massive subsidies to its own manufacturers and elaborate policies to induce foreign corporations to shift their production facilities and technology there. These policies have cost us millions of jobs, and they will keep costing us jobs until they are fixed.

Challenging China over its unfair trade practices is not just necessary for the future of US manufacturing jobs; it is also critical for the world economy. The global economy simply cannot function if the third-largest individual economy runs current account surpluses on the order of 8 to 10 percent of GDP, as China has done consistently for the past few years.

Choosing a Fair Solution

In advancing an economic recovery program that makes job creation and the revival of US manufacturing its two principal goals, we will be making a choice about America's future.

Half of the nation's individual income today is earned by just the top 12 percent of taxpayers, many of whom have benefited directly or indirectly from the outsourcing of US manufacturing and service jobs, while the other half is earned by all the other 122 million taxpayers combined, most of whom have seen their wages stagnate over the past two decades. And even more sobering, the top seven-tenths of 1 percent of taxpayers alone earn a staggering 20 percent of the nation's income. All in all, this represents the greatest income inequality in the United States since 1928.

We can either focus our recovery efforts on creating full employment for those workers who are not part of that top 10 percent or so of taxpayers and on rebuilding the country's manufacturing base; or, as we have been doing for nearly three decades, we can concentrate on policies that mostly benefit the incomes of the wealthiest few.

Economically--and ethically--the choice is obvious.

About Leo Hindery Jr.

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