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From: H <hrod17@clintonemail.com>
Sent: Wednesday, August 18, 2010 1:42 PM
To: 'laurenjiloty[redacted] B6
Subject: Fw:

----- Original Message -----
From: H
To: 'JilotyLC@state.gov' <JilotyLC@state.gov>
Sent: Wed Aug 18 13:19:27 2010
Subject: Fw:

Pls print.

----- Original Message -----
From: sbwhoeop[redacted]
To: H
Sent: Wed Aug 18 09:18:14 2010
Subject:

H: Interesting and relevant contribution to debate on interrelated jobs issue and China policy. Go back to your proposals on revival of manufacturing sector, too. What is Bill's program on 1m jobs you mentioned? If they won't listen, he should simply do an op-ed. Sid

Does Thomas Friedman Have to Talk to "Senior Economic Policy Makers" to Get So Many Things Wrong?

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Print <http://www.cepr.net/index.php/blogs/beat-the-press/does-thomas-friedman-have-to-talk-to-qsenior-economic-policy-makersq-to-get-so-many-things-wrong/print>
Wednesday, 18 August 2010 04:04

Thomas Friedman begins his piece today <http://www.nytimes.com/2010/08/18/opinion/18friedman.html?hp> by telling readers that: "over the past few weeks I've had a chance to speak with senior economic policy makers in America and Germany." This might lead readers to believe that he is about to share some great insights that would only be possible for someone with special access to these senior economic policy makers.
Readers with this expectation will be seriously disappointed. There is nothing here that is more insightful than what can be found on the Washington Post's editorial pages on an average workday. Friedman rehashes the usual cliches, with the usual lack of thought. In doing so, he gets both the story of the recent past and the present seriously wrong.
Starting with the past, he badly misrepresents the prior business cycle:
"we've just ended more than a decade of debt-fueled growth during which we borrowed money from China to give ourselves a tax cut and more entitlements but did nothing to curtail spending or make long-term investments in new growth engines."

The main problem facing the U.S. economy of the last decade was a lack of demand. This was in large part due to the fact that China lent to us. China's lending was its policy of propping up the value of the dollar in order to maintain its export market in the United States. (At the start of the decade, the Clinton administration had also tried to promote an over-valued dollar.) The over-valued U.S. dollar made imports from China and other countries very cheap in the United States and made our exports expensive in other countries. This led to a large and growing trade deficit over most of the business cycle. The trade deficit replaced domestic demand, preventing the economy from approaching normal levels of employment (even with the boost from the housing bubble) until just before the crash.

There is no reason whatsoever to believe that China's decision to prop up the dollar was in any way affected by the Bush tax cuts. In other words, neither the Bush tax cuts nor the growth in entitlements had anything to do with our borrowing from China. The issue was China's decision to lend and thereby prop up the dollar. Given the weakness of demand through most of the decade, these expenses could have been easily filled by domestic production without borrowing from abroad.

Friedman does no better when he shifts the discussion from the past to the present. He refers to businesses' reluctance to hire as the result of "unusual uncertainty," a phrase attributed to Federal Reserve Board Chairman Ben Bernanke. Of course there is no reluctance to hire, there is simply a lack of demand for labor. A reluctance to hire would be reflected in an increasing number of hours per worker, as employers sought to meet their demand for labor by working the existing workforce more hours.

This is not happening. There is a modest uptick in hours from the low point of the downturn, but the increase in hours per worker is certainly no more rapid than in other recessions and the average workweek is still far shorter in just about every sector than it was before the downturn.

Later he tells readers:

"America's solvency inflection point is coinciding with a technological one. Thanks to Internet diffusion, the rise of cloud computing, social networking and the shift from laptops and desktops to hand-held iPads and iPhones, technology is destroying older, less skilled jobs that paid a decent wage at a faster pace than ever while spinning off more new skilled jobs that pay a decent wage but require more education than ever."

This is a great story -- social networking is soaring, IPads are everywhere -- does Friedman have any evidence whatsoever that this development has increased the demand for educated workers and reduced the demand for less educated workers? If so, this would be the place in his column to present the evidence. Otherwise, readers might think that the 4.7 percent unemployment rate for college grads (nearly triple the pre-recession level), coupled with a decline in their real wages over the decade, implies a reduced demand for the labor of highly educated workers as well as less educated workers.

Friedman's proposed fix also seems a bit wide of the mark. He insists:

"There is only one way to deal with this challenge: more innovation to stimulate new industries and jobs that can pay workers $40 an hour, coupled with a huge initiative to train more Americans to win these jobs over their global competitors. There is no other way."

We better hope there is another way. A wage of $40 an hour would put a worker well over the 90th percentile on the wage distribution. Even if we double the number of jobs in this pay range -- an incredible accomplishment -- what happens to the other 80 percent of the workforce?

Friedman then warns us of the challenge from Europe by getting Germany's past and present wrong:

"Keeping up with Germany won't be easy. A decade ago Germany was the 'sick man of Europe.' No more. The Germans pulled together. Labor gave up wage hikes and allowed businesses to improve competitiveness and worker flexibility, while the government subsidized firms to keep skilled workers on the job in the downturn."

Germany clearly has done some changes that benefited its economy, like work sharing, and some that haven't, but its past as the "sick man of Europe" is an invention of Friedman or his highly placed sources. Germany always ran a trade surplus. That is the most basic measure of a country's competitiveness: foreigners are buying its goods. Germany's unemployment rate in 2000 averaged 7.5 percent <http://stats.oecd.org/index.aspx?queryid=23071> , not hugely different than its current 7.0 percent rate.

The story here is that Friedman seems to have completely missed the basics of the current economic crisis in spite of his weeks of conversing with senior economic policy makers. The current crisis is due to a lack of demand pure and simple. If we generate demand either through more expansionary Fed monetary policy, greater fiscal stimulus, or increased exports due to a falling dollar, there is no reason to believe that the economy will not return to high levels of employment. Certainly Friedman has presented no evidence that increased demand will not generate increased employment as it always has.

The longer term debt problem is overwhelmingly a health care story. Apparently Mr. Friedman's sources don't have access to documents like the Medicare trustees report, which imply that U.S. health care costs will be controlled and there will be no serious long-term deficit problem. This may prove wrong, but it seems that it would have at least been worth noting in his column. Of course, if we have not fixed our health care system, we can always achieve huge saving by relying on the more efficient health care systems in other countries
<http://www.cepr.net/index.php/publications/reports/free-trade-health-care> .
If Friedman's intention was to scare us, he succeeded. After all, if senior economic policy makers in the U.S. and Germany are as badly misinformed as Friedman implies, then we can expect some very bad times ahead.