The Unique "Recovery:"
Still Jobless and Facing An Unprecedented Glut of Net Imports

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Testimony Before
The Senate Democratic Policy Committee
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I'm very happy to be here today to talk about the current, unique, economic recovery. After two years this is not only a uniquely jobless recovery but a recovery that is also uniquely stagnant in industrial output, weak in investment, wage growth and savings, and facing unprecedented displacements from net imported goods.

For traded industries, our economy is not using productivity growth to do more with less; it's doing less with less and shifting us into lower wage, less productive but non-globally traded industries like health care, construction and (budget strapped) local governments.

I will be very brief so that we can quickly get to discussion. (There are graphics at the end of my testimony that may make it easier to follow some of these points.)

Industrial production is down -2.6% since President Bush took office and up only barely in two years of "recovery." He may well end this term as the only president since Hoover -- aside from the demobilization after World War II -- to have less industrial production during his term.

Manufacturing output is down by -2.7% during the Bush term. Manufacturing output is down again over the last 12 months, and is up only 1.7% over 22 months of "recovery." Manufacturing output was up more than five times as much even during the same period of the anemic recovery of 1991-1992. It is usually up 10 times as much. Again, aside from during the demobilization from W.W.II, only President Hoover has ended his term with less manufacturing output than when he started.

This declining and stagnant production is not because of reluctant consumers who have kept savings rates near post-Depression record low levels of just 3% of disposable income. Nor, as you know so well, is it because of restraint in Federal fiscal policy as tax cuts, military and other spending have helped drive gross national savings down to the lowest levels of GDP since 1945.

Real business investment has fallen by -7.9% during the current Administration's term and only in this last quarter -- '03-Q3 -- did investment move slightly above when the recovery began two years ago. Foreign Direct Investment in the US which was $336 billion in 2000 fell to just $53 billion last year -- a drop of over 80%. The US is no longer the world's major focus for direct investment -- China is.

All this raises increasingly troubling concerns for the future.

Of course, jobs and wages are a big problem <u>today</u>.

After 23 months of most recoveries, the economy has produced 5-6% job growth -- about 7 million jobs with today's labor force. Even during the jobless recovery of 1991-'92, the economy had added 1.4 million new jobs by now. But through October, we still had -768,000 fewer jobs than when the recovery began; 2.3 million fewer than when President Bush took office.

In the private sector, we now have -919,000 fewer jobs than when the recovery started; -2,956,000 fewer than when President Bush entered office.

39 consecutive months of declining manufacturing payrolls. We've lost -1,285,000 manufacturing jobs during the 23 months of "recovery," and -2,561,000 during the Bush term -- manufacturing has lost -15% of its jobs during the Bush term. I should also point out that during the Bush term the country has lost 16.8% of its durable manufacturing jobs -- one-in-six, and more than one-in-four jobs making computers and electronic products have been lost.

The "recovery" of 1991-'92 was the first time that we've lost manufacturing jobs longer than six months into a recovery. Now, after 23 months, we had lost -335,000 jobs rather than adding the million or so manufacturing jobs that is usual at this point.

But even in the 1991-'92 recovery, manufacturing added "total hours" of work. This is the first recession ever where manufacturers have cut total hours of production. In fact, the loss of total hours worked is even worse than the total loss of jobs.

We've now had three consecutive months of job growth following last July's tax cut. But we had four consecutive months of job growth this time last year after the previous tax cut and the new jobs were all lost in December as the misdirected tax cut stimulus wore off.

When I was in college, and for several hundred years before, international commerce was a remarkably progressive force, undermining powerful local oligarchs and raising living standards everywhere. This has been turned on its head by the power of new technologies and the global reach of enormous private interests.

The broadest measure of US commercial relations with the rest of the world, the Current Accounts, ran a deficit of $277 billion for the first half of this year -- over $1.5 billion per day; over $1 million per minute. Of course this is roughly the amount that the US must borrow from abroad or sell in assets. That has causes a range of financial problems after 10 years and about $2.8 trillion in borrowing and asset sales.

But it is also a major force shifting our economy out of high wage, highly productive manufacturing jobs and into far lower paid, far less productive -- more labor intensive -- service sector jobs that do not face global competition. This has been the case for many years with many economists -- and the well-funded global business and financial lobby -- continually trotting out obsolete theories and ignoring their failures.

But the displacement of US production -- the trade deficit -- is now reaching staggering proportions. The US faces production losses of over $10 billion per month this year in the autos, trucks and parts sector. The US now has a large and rapidly worsening deficit in our most advanced technology products. Manufacturing jobs, backed by far more capital equipment and with far longer work weeks, pay over 34% per year more in total salary and benefits than private, nonmanufacturing jobs.

Outsourcing high wage professional services has just begun but is gaining momentum rapidly.

The US is suffering, by far, its worst ever jobless recovery. But there are many other aspects of this recovery that the Democratic Policy Committee should follow very closely. We are in a new era; the country needs strong, new policies if we are to continue to prosper in the years ahead.

I look forward to our discussion and to continuing to work with you in the future.

Dr. Charles W. McMillion is the former Associate Director and Associate Profesor in the Johns Hopkins University Policy Institute and a former Contributing Editor of the Harvard Business Review. He is a founder of the Congressional Economic Leadership Institute.
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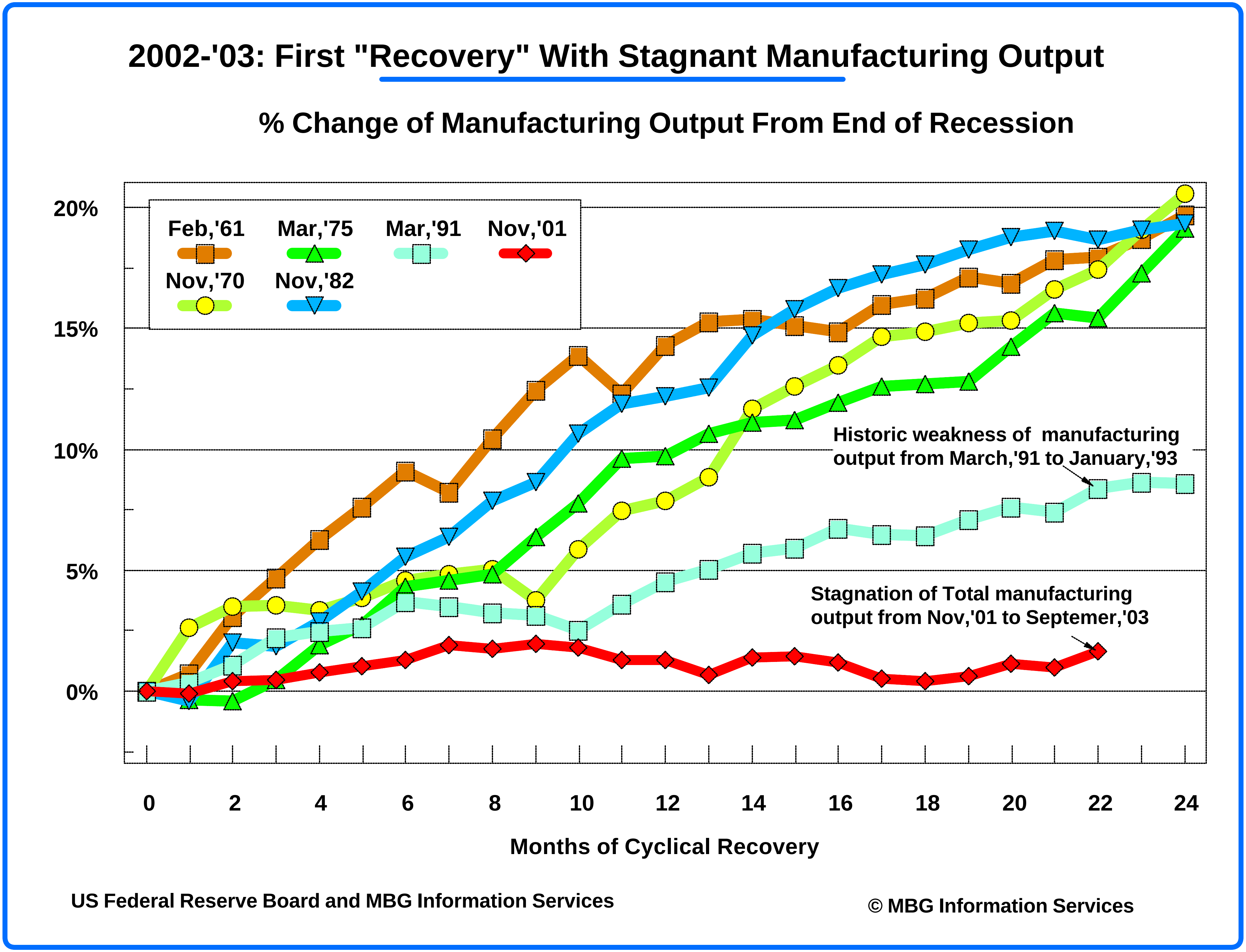
2002-'03: First "Recovery" With Stagnant Manufacturing Output
% Change of Manufacturing Output From End of Recession
Feb,'61
Mar,'75
Mar,'91
Nov,'01
Nov,'70
Nov,'82
20%
15%
10%
5%
0%
Historic weakness of manufacturing output from March,'91 to January,'93
Stagnation of Total manufacturing output from Nov,'01 to Septemer,'03
0
2
4
6
8
10
12
14
16
18
20
22
24
Months of Cyclical Recovery
US Federal Reserve Board and MBG Information Services
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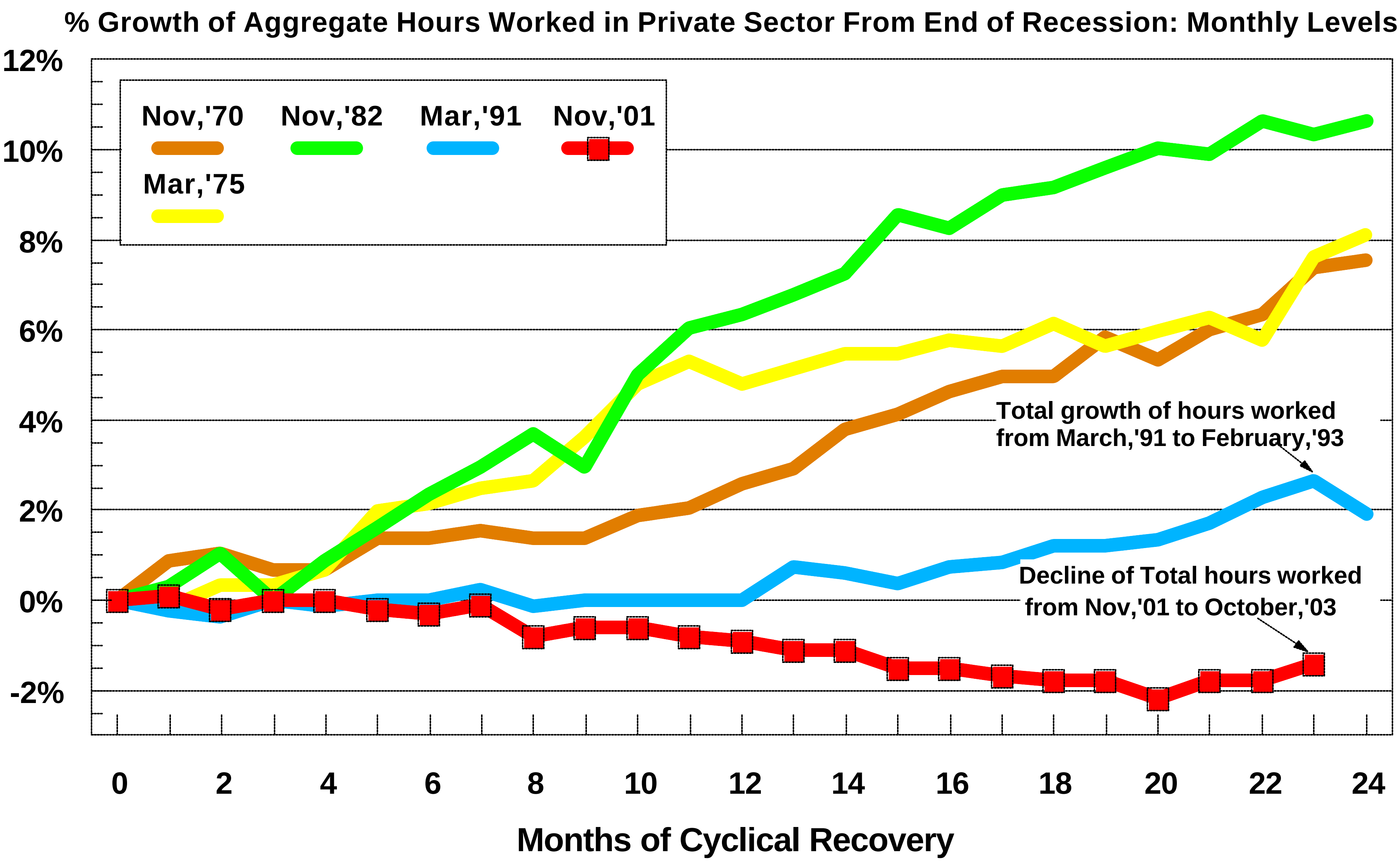
2002-'03: The First "Recovery" With Declining Hours Worked In The Private Sector



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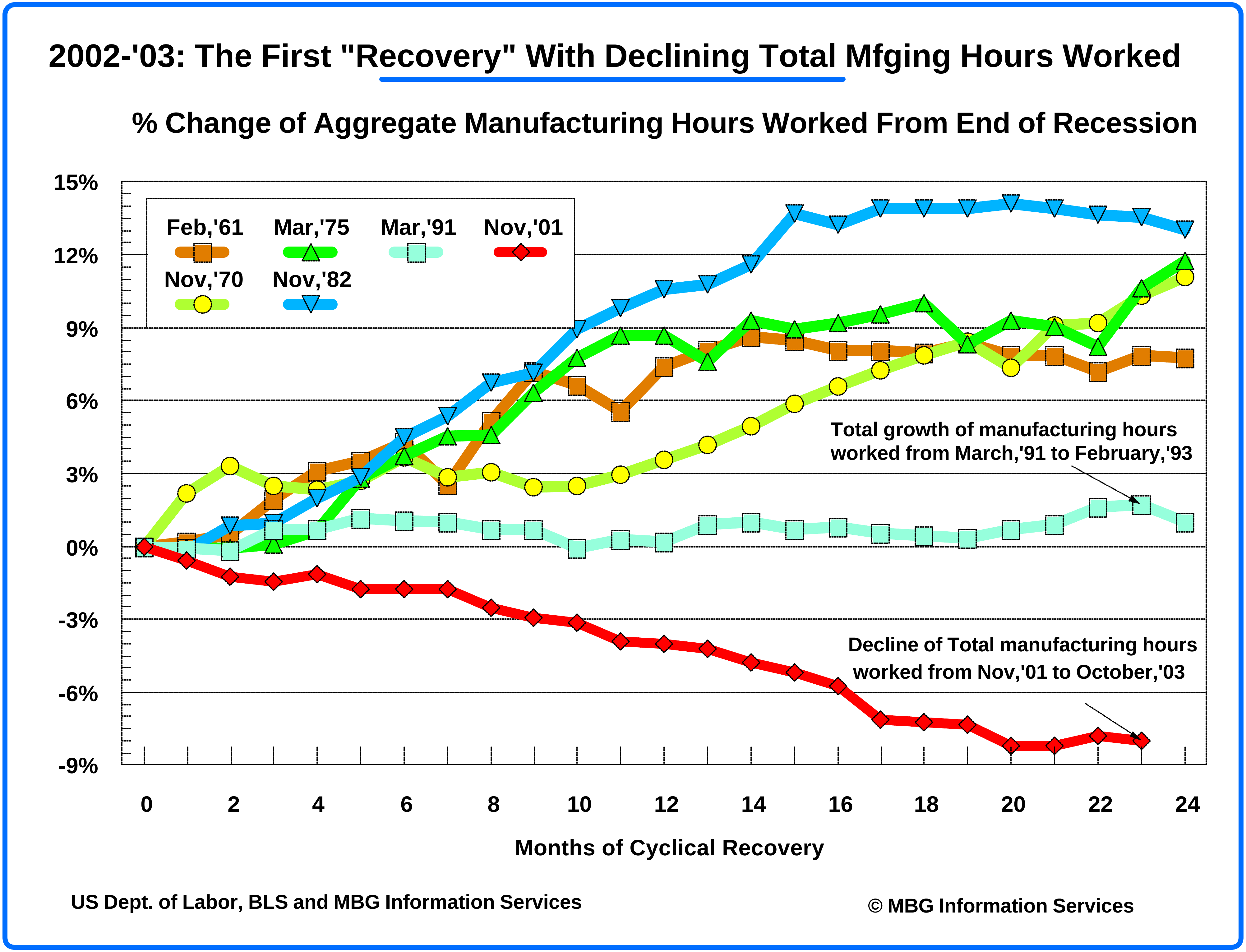

2002-'03: The First "Recovery" With Declining Total Mfging Hours Worked
% Change of Aggregate Manufacturing Hours Worked From End of Recession
15%
12%
9%
6%
3%
0%
-3%
-6%
-9%
Feb,'61
Mar,'75
Mar,'91
Nov,'01
Nov,'70
Nov,'82
Total growth of manufacturing hours worked from March,'91 to February,'93
Decline of Total manufacturing hours worked from Nov,'01 to October,'03
0
2
4
6
8
10
12
14
16
18
20
22
24
Months of Cyclical Recovery
US Dept. of Labor, BLS and MBG Information Services
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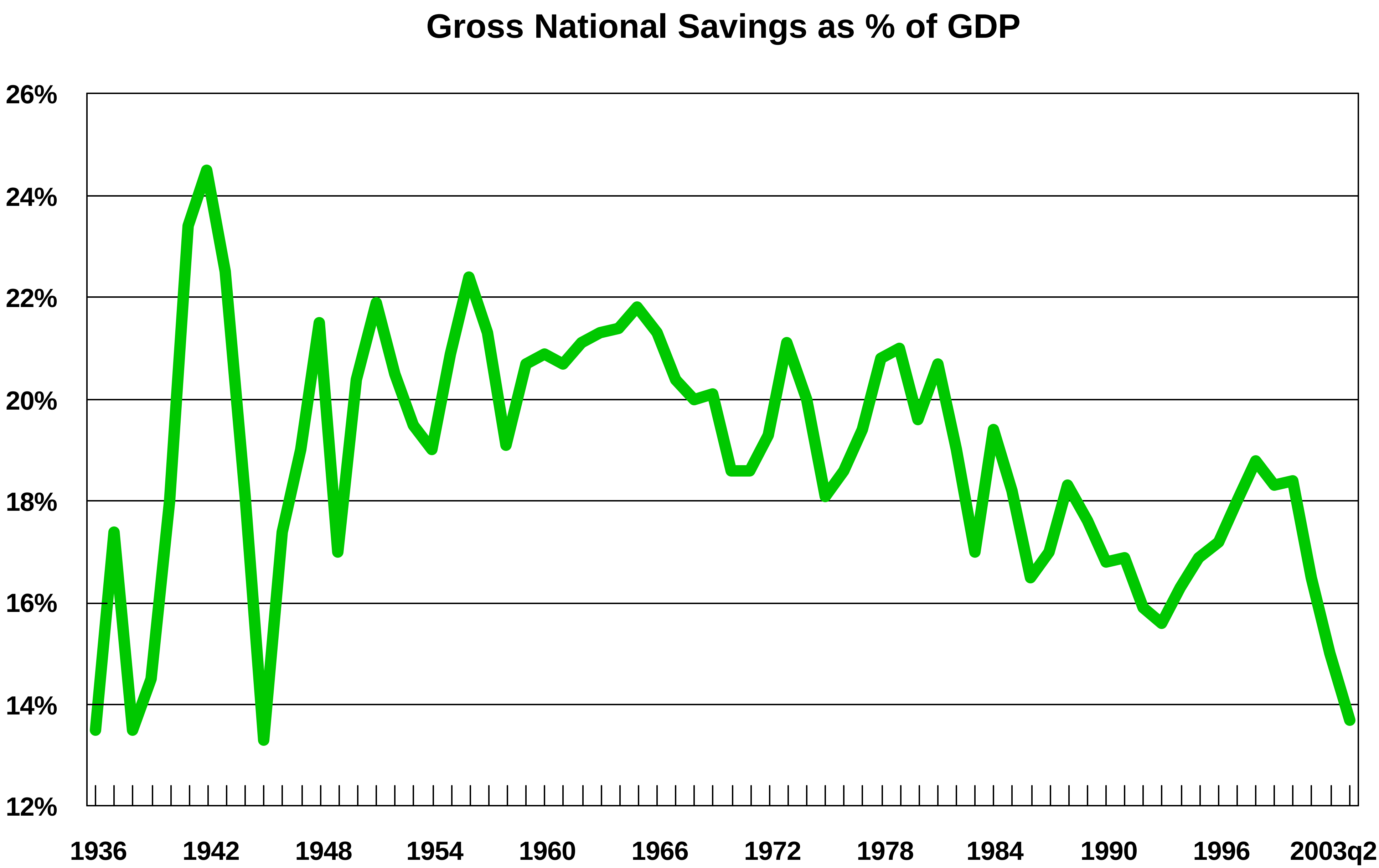
Gross US Savings Now Lowest Since 1945



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Components of the U.S. Economy:

Gross Domestic Product: Constant 1996-Chained Prices

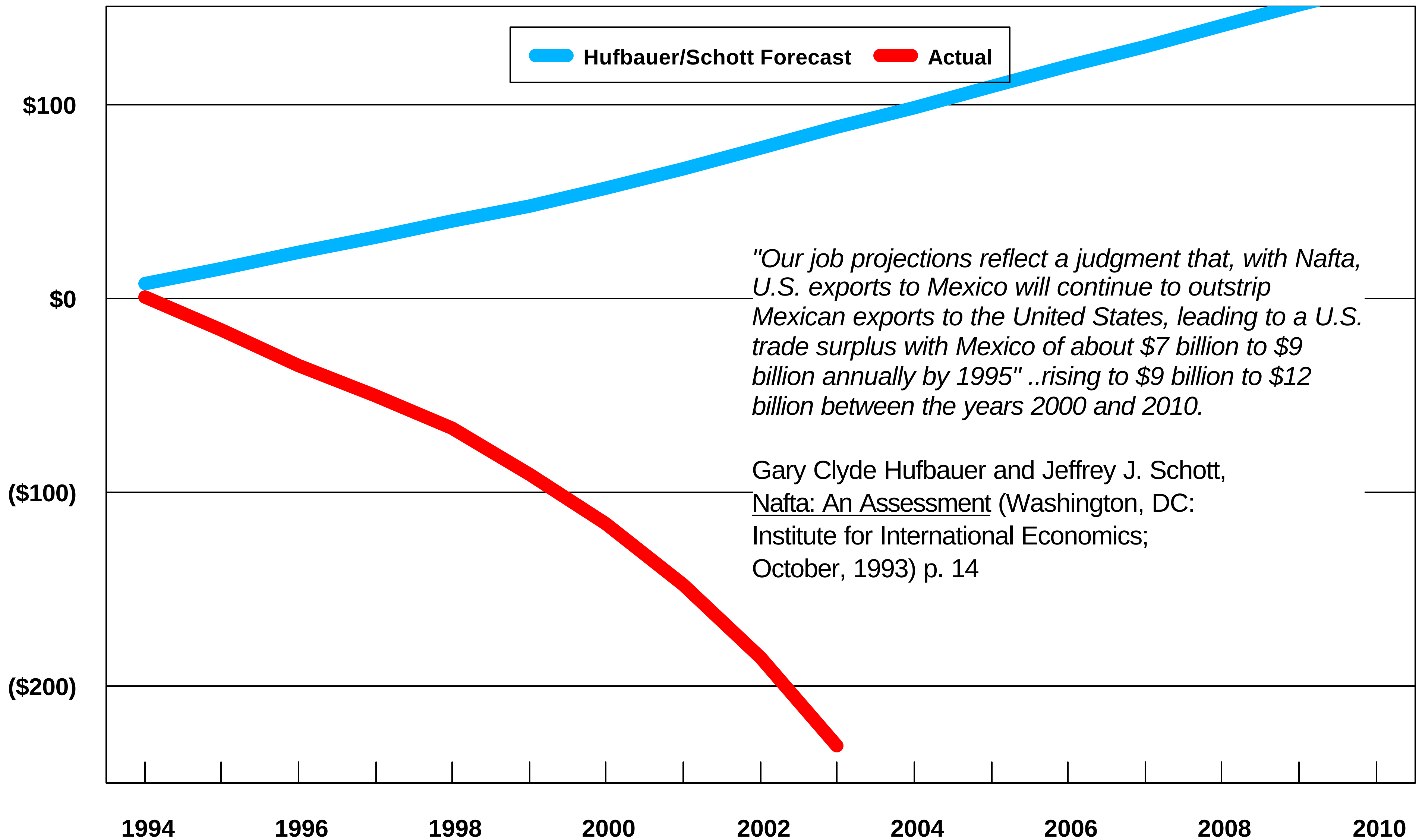
($ Billions) Year	Gross Domestic Product	Personal Consumption Expenditures	Gross Private Domestic Investment	Net Exports Goods And Services	Expenditures and Investments by Government	Trade as Percent of Real GDP
1959	$2,300.0	$1,454.8	$272.9	-$34.7	$659.7	-1.5%
1960	2,357.2	1,494.4	272.8	-21.2	659.5	-0.9%
1961	2,412.1	1,524.6	271.0	-19.1	691.3	-0.8%
1962	2,557.6	1,599.7	305.3	-26.5	732.9	-1.0%
1963	2,668.2	1,665.7	325.7	-22.7	750.2	-0.9%
1964	2,822.7	1,765.2	352.6	-15.9	764.8	-0.6%
1965	3,002.8	1,876.4	402.0	-27.3	788.6	-0.9%
1966	3,199.5	1,983.3	437.3	-40.9	859.3	-1.3%
1967	3,279.5	2,042.7	417.2	-50.2	924.1	-1.5%
1968	3,435.6	2,159.1	441.3	-67.2	953.4	-2.0%
1969	3,543.2	2,241.2	466.9	-71.2	950.0	-2.0%
1970	3,549.4	2,293.0	436.2	-65.0	928.6	-1.8%
1971	3,660.2	2,373.6	485.8	-76.1	909.7	-2.1%
1972	3,854.2	2,513.2	543.0	-89.6	909.8	-2.3%
1973	4,073.1	2,634.0	606.5	-64.3	902.6	-1.6%
1974	4,061.7	2,622.3	561.7	-37.6	921.3	-0.9%
1975	4,050.3	2,681.3	462.2	-9.2	939.3	-0.2%
1976	4,262.6	2,826.5	555.5	-43.0	938.6	-1.0%
1977	4,455.7	2,944.0	639.4	-68.1	947.4	-1.5%
1978	4,709.9	3,081.6	713.0	-69.2	977.6	-1.5%
1979	4,870.1	3,168.0	735.4	-48.0	997.6	-1.0%
1980	4,872.3	3,169.4	655.3	8.0	1,018.0	0.2%
1981	4,993.9	3,214.0	715.6	3.3	1,027.0	0.1%
1982	4,900.3	3,259.8	615.2	-16.0	1,044.0	-0.3%
1983	5,105.6	3,431.7	673.7	-65.5	1,078.0	-1.3%
1984	5,477.4	3,617.6	871.5	-130.3	1,116.0	-2.4%
1985	5,689.8	3,798.0	863.4	-150.9	1,188.0	-2.7%
1986	5,885.7	3,958.7	857.7	-166.9	1,253.0	-2.8%
1987	6,092.6	4,096.0	879.3	-157.6	1,290.0	-2.6%
1988	6,349.1	4,263.2	902.8	-113.4	1,306.0	-1.8%
1989	6,568.7	4,374.4	936.5	-81.2	1,341.0	-1.2%
1990	6,683.5	4,454.1	907.3	-58.6	1,385.0	-0.9%
1991	6,676.4	4,466.6	829.5	-15.8	1,403.4	-0.2%
1992	6,880.0	4,594.5	899.8	-19.8	1,410.0	-0.3%
1993	7,062.6	4,748.9	977.9	-59.1	1,398.8	-0.8%
1994	7,347.7	4,928.1	1,107.0	-86.6	1,400.1	-1.2%
1995	7,543.8	5,075.6	1,140.6	-78.4	1,406.4	-1.0%
1996	7,813.2	5,237.5	1,242.7	-88.9	1,421.9	-1.1%
1997	8,159.5	5,423.9	1,393.3	-113.3	1,455.4	-1.4%
1998	8,508.9	5,683.7	1,558.0	-221.1	1,483.3	-2.6%
1999	8,859.0	5,964.5	1,660.5	-320.5	1,540.6	-3.6%
2000	9,191.4	6,223.9	1,762.9	-398.8	1,582.5	-4.3%
2001	9,214.5	6,377.2	1,574.6	-415.9	1,640.4	-4.5%
2002	9,439.9	6,576.0	1,589.6	-488.5	1,712.8	-5.2%
2003-QIIIa	9,797.2	6,842.1	1,644.5	-522.6	1,778.3	-5.3%

U.S. Dept. Commerce and MBG Information Services (October 30, 2003)

Pro-Nafta Forecasts Have Failed Spectacularly

Obsolete Assumptions Wrong In Both Direction and Magnitude

$ Billions: Cumulative U.S. Merchandise Trade Balance With Mexico Since Nafta



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