# The China-US Currency Dispute*

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The United States has had a trade deficit with China since 1985, and the deficit kept growing year after year without interruption; only in 2009 the deficit declined slightly due to the Great Recession, but it resumed it upward trend in 2010. Some members of congress have continued to raise this issue year after year, claiming that the deficit poses a serious threat to free trade and exchange rates as well as to the American economy. However, the US government did little to address this issue until the Great Recession exposed the trade deficit as an economic and financial problem, not just a trade dispute between two states. Since trade deficits and surpluses are often caused by unfair exchange rates, the Chinese currency became the focus of the dispute, and raising its value is seen as the solution to the problem. In this chapter, I shall try to discuss this issue and articulate a plan to end the US-China currency dispute and reduce the severity of the trade deficit between the two countries substantially.

The large and ever widening American-Chinese trade deficit has heightened tension between the two nations; it threatens to unleash a global currency war that is certain, if it were to happen, to cause great damage to the international trading system as well as to the economies of many states. The Chinese economic policies and its sustained high growth rates have become a major concern to all western states. According to Goldman Sachs projections, the Chinese economy is expected to overtake the American economy in the year 2027. And if this were to happen, the Chinese economy will be twice as large as the combined economies of Britain, Germany and France. Meanwhile, The Brazilian, Indian and Russian economies are expected to surpass the British, French and Italian economies, respectively. President Obama acknowledged recently that the United States cannot maintain its only superpower status forever; however, it is doubtful that he or any other president would acquiesce to seeing the American global economic position weakens further without trying to reverse its course or at least disrupt the deterioration process.

The US government and most other European states, as well as the International Monetary Fund are pressuring China to allow its currency, the Yuan, to appreciate against other major currencies. The US-China currency dispute is rooted in the claim that the Yuan is undervalued; and, because of that, it undermines the competitiveness of American products in China, while strengthening the competitiveness of China's products in America. The argument for pressuring China to revalue its currency goes as follows: allowing the Yuan to appreciate against the US dollar would cause the prices of Chinese exports to America to rise, while causing the relative prices of American exports to China to decline. As a consequence, American exports to China would increase, and Chinese exports to America would decline, reducing the China-US trade deficit. A stronger Yuan, moreover, would enable Chinese consumers to get more foreign goods for their money and cause the quality of their lives to improve.

The basic assumptions of this argument are correct; but the conclusions are doubtful. There is no guarantee that a stronger Yuan would reduce Chinese exports to the United States or increase American exports to China substantially to reduce the US trade deficit meaningfully. Chinese exports do not compete with American products only; they compete also with similar products coming from South Korea, Taiwan, Thailand, India, Vietnam and other industrializing states. Therefore, a stronger Yuan may reduce the US-China trade deficit slightly; but it is unlikely to reduce the US overall trade deficit with Asia. Moreover, a stronger Yuan is unlikely to cause a tangible increase in US exports to China because the majority of consumer durable goods sold in China today are made in China, including the millions of American cars sold there every year. On the other hand, the Chinese government continues to claim that it is still a developing nation that needs to create millions of jobs and build new communities for the estimated 300 million peasants expected to leave their villages in the coming two decades looking for work in the manufacturing and service sectors in Chinese cities. Thus, allowing the Yuan to appreciate, the Chinese claim, would cause the prices of their exports to rise, force the economy to slow down, and undermine efforts to lift millions of people out of poverty. They further claim that a stronger Yuan may cause factories to close and workers to lose their jobs, creating uncertainty and undermining political stability and social peace.

What the Chinese leaders seem unwilling to admit publicly, however, is that raising the value of the Yuan would make Chinese products less able to compete with goods produced by other Asian states in most countries of the world. In fact, India has already joined the community of nations complaining from the low value of the Yuan. Therefore, the issue of the value of the Yuan is not limited to China's relations with the United States only; it is a much larger issue that needs to be handled differently. A new way needs to be found to deal with China-US trade deficit by helping both nations overcome this problem without hurting the economy or people of either state, or causing any other state to suffer. The plan to address this issue involves programs to invigorate the American economy and help the Chinese and American economies become more dynamic and productive, and less dependent on other countries for exports and imports.

Trade records show that the United States has had a trade deficit with China since 1985. But due to the Great Recession and the financial crisis, the US trade deficit with China declined by 16 percent in 2009, dropping from $268 billion in 2008 to $226.8 billion in 2009. And while the deficit was about $6 million only in 1985, it reached $10.4 billion in 1990, $83.8 billion in 2000, $202.3 billion in 2005; and $273 billion in 2010. This clearly indicates that the deficit has weathered the Great Recession and resumed its growth with vengeance.

Reducing the US-China trade gap in the short run and closing it in the long run requires action by both states; it requires China to consume more of what it produces, and requires the United States to produce more of what it consumes. While this may seem a simple proposition, its implementation requires the introduction of new economic policies, the creation of new institutions, and the nurturing of mutual trust. Nevertheless, it is an achievable and worthy endeavor that deserves to be pursued with diligence; it serves the interests of both nations and represents the only viable solution to this seemingly intractable problem.

## Increasing Chinese Consumption

The proposal to deal with this part of the equation calls for China to raise the salaries of government employees and the employees of corporations owned by the Chinese government as well as the minimum wages by 50 percent over two years. An official policy to raise wages and salaries will force the private sector to do the same to remain competitive in the marketplace for technical skills and human talent. And in order to make the process predictable and orderly, the proposal suggests that wages be raised by equal increments of 12.5 percent of the starting salary every six months. The adoption of such a process would enable exporters and importers to plan their purchases in advance, and help Chinese consumers plan future purchases of costly items such as houses, cars, refrigerators and other durable consumer goods.

Raising wages by 25 percent a year should cause the cost of production and thus the prices of Chinese exports to rise by some 6 to 7 percent annually, or by 12 to 14 percent at the end of the two year period, depending on the prices of the raw materials and energy required to produce them, as well as on labor intensity and productivity. Labor intensity is expected to decline gradually and labor productivity to rise incrementally. Such a price increase would weaken the competitiveness of most Chinese exports to America, while making American products more attractive to American as well as to Chinese consumers. Moreover, raising the salaries of Chinese workers would encourage them to spend more buying Chinese made products as well as products made by other countries. People tend to spend more not when the value of their money increases but when their incomes rise. Therefore, adopting this proposal should enable China to address the concerns of the United States without losing anything. The expected Chinese loss in exports to America and to other countries will most likely be less than the gain in domestic sales. And this in turn should make the Chinese economy more dynamic and productive, while making Chinese consumers and producers more satisfied.

All in all, the proposal would keep the Yuan's exchange rate as is, respond positively to the American and European concerns and IMF criticism, and strengthen the Chinese economy. It should also help China achieve its economic and social objectives faster, and with less effort and headache. The implementation of this plan should help accomplish the following goals:

1. Raise the prices of Chinese exports slowly and incrementally without affecting the Yuan's exchange rate;

2. Increase the disposable incomes of the majority of China's workers substantially, and thus increase domestic demand for Chinese and foreign goods appreciably;

3. Enable the Chinese economy to become more dynamic and less dependent on foreign markets for exports;

4. Push most Chinese manufacturers to reduce labor intensity and raise labor and machine productivity to remain competitive;

5. Help Chinese consumers plan future purchases and encourage them to buy durable goods, causing their standards of living to improve substantially in a short time;

6. Make the Chinese people feel more secure and optimistic knowing that their salaries will rise regularly, and this in turn will strengthen social peace and political stability;

7. Lift millions of people out of need and poverty within two years, and thus raise the general level of popular satisfaction;

8. Strengthen the Chinese government's position to promote its values and home-grown solutions to complicated financial and trade issues;

9. Increase the numbers of Chinese tourists visiting the United States and Europe; and

10. Lead international human rights organizations to praise the Chinese government's action to raise wages in general and the minimum wages in particular instead of accusing it of exploiting its poor.

Failing to address this issue will increase international pressure on the Chinese government and create an atmosphere of uncertainty; it may even lead to currency and trade wars that harm China tremendously. In a trade war, China would most likely be the biggest loser because it is the chief beneficiary of globalization; no other nation has benefited or able to benefit from free trade as much as China did. However, China might respond to US pressure by reducing its dollar reserves and investing its surplus funds in Europe and other countries, causing interest rates in the United States to rise, which would worsen the US budget deficit and public debt. The United States is not only China's major trading partner, it also relies on China to help finance its budget deficit. Therefore, China and the United States have mutual interests that need to be protected and nurtured; both states therefore, need to move fast to address this explosive issue and defuse the tension that seems to rise daily.

## Increasing American Production

The economic success story of Japan, Singapore, South Korea, Hong Kong and Taiwan has inspired many nations around the world, particularly China and India, and encouraged them to follow the lead of the other East Asian nations and adopt economic strategies based on industrialization and exports. Globalization and free trade, meanwhile, made it easier for developing nations in general to export their products to the United State and other developed and developing countries. And as the economies of the industrializing states were growing, their markets were expanding and becoming more attractive to foreign investment capital. High profit margins, lower costs of production, expanding foreign markets and easy access to American and European capital and consumption markets led gradually to costing the United States million of industrial jobs.

By promoting globalization and free trade and adopting a policy to be an engine of growth for the world economy, the United States has unwittingly encouraged its investment capital and knowhow to migrate to other countries to take advantage of lower wages and taxes, lax environmental regulations, and expanding foreign markets, leading many US corporations to relocate some of their production operations near the new markets and establish homes away from home. As a consequence, America has become less industrialized and less able to compete in domestic and foreign markets as before, and more dependent on cheap imports. The growing size of the US overall trade deficit indicates that current economic policies are not working; efforts to pressure China to revalue its currency will not work either; they will only waste time and poison US-China relations.

As mentioned earlier, America needs to produce more of the things it consumes in order to narrow the trade deficit with the rest of the world in the short run, and to export more goods and services to close that gap in the long run. Since America is unable to do so with the current economic structure, it must change its economic policies to build the kind of industries it must have to meet a larger share of domestic demand and increase exports to offset the cost of imports. While producing for domestic consumption requires the building of new industries and the rehabilitation of many of the old ones, producing for exports requires the development of new products and making some of the old ones more competitive. This requires improving the quality of American products in general, raising labor productivity, and reducing the cost of production. The following proposal seeks to strengthen the American industrial sector, improve the competitiveness of American products, and help the US economy grow faster and become more dynamic and less dependent on imports. The proposal consists of two major components:

- Reducing the cost of production and restoring corporate social responsibility. Actions to achieve these goals will also help rebuild the much weakened American middle class whose size and self-confidence is essential to stimulating the US economy and sustaining democracy; and

- The establishment of an industrial investment bank whose task is to finance old and new industries, and provide venture capital to young entrepreneurs and innovators with creative ideas that have commercial applications.

## Reducing the Cost of Production

To reduce the cost of production, it is suggest that all public corporations pay 25 percent of their employees' salaries in company stock, using the stock market to determine the price of shares at the end of each pay period. Since old employees are accustomed to getting paid in cash, the stock payment should be introduced gradually over two years. It is further suggested that employees be required to hold the shares they receive as partial payment for at least a year before they could sell them; this condition should also be introduced gradually, starting with 30 days. Nevertheless, the policy should be implemented from day one in regard to new workers. After two years, every employee will have 25 percent of his and her annual salary invested in his and her company, causing an active and rather permanent block of shareholders that cares about the company to gradually evolve. Creating such an active block of shareholders that care about financial situation of their company and how it is managed is badly needed to control the spiraling compensation packages of managers of large corporations, and limit the huge bonuses managers grant themselves every year or quarter.

Claims that stockholders bear responsibility for the obscene management compensation packages and bonuses are either misplaced or dishonest. Most buyers and sellers in the stock market today are no longer investors in the traditional sense; they do not look for dividends at the end of the year. They tend instead to make their decisions to buy, hold and sell on the basis of the actual and projected prices of the shares they trade. Trading in the American stock market has become a new form of gambling in a highly dynamic, vastly unpredictable casino. But unlike Las Vegas casinos, this one is subject to manipulation by major players. Since most traders trust the buying and selling to financial companies and advisors that handle their accounts, ownership in most traded shares change every second. Creating a solid and active block of interested stockholders is probably the only way to give shareholders a voice in managing the corporations they work for and partially own. Meanwhile, helping employees build assets and become more involved in the management and production policies of the corporations they work for will encourage innovations, improve labor productivity, strengthen the middle class, and consequently foster economic growth and democracy.

The implementation of this proposal would reduce the cost of production to corporations immediately, vastly limit the need to borrow from banks, and give corporations a continuous supply of cash to upgrade equipment and expand operations. Corporations will also have the cash to repay outstanding loans and reduce the cost of money substantially, which would reduce the cost of production further. Corporations worried about diluting stock ownership or share prices could use a portion of the new money to buy back some of their stock. Meanwhile, employees will be able to get the cash they may need at any time by selling some of the shares they own; and this in turn would reduce workers' need to borrow at high interest rates to meet emergencies. And since stocks tend to appreciate rather than depreciate over the long run, most employees are likely to make more money due to this proposal. As a result, corporations will become more competitive, selling more at home and possibly abroad as well; more jobs will be created; domestic demand will increase; workers will be empowered, and the economy will be invigorated. I believe that this modest proposal will achieve by itself some of the most desired but hard to get social and economic goals.

1. Reducing the cost of production substantially;

2. raising the competitiveness of American products;

3. Launching a process to rebuild the middle class by creating a class of people tied to a productive economic process;

4. Restoring corporate social responsibility; and

5. Raising productivity and encouraging innovation.

Robert Reich argued correctly in the *After-Shock* that the free market economy has led to the concentration of wealth and income in the hands of the few. As a result, it denied large numbers of the middle class the financial means to be active consumers. A more equitable distribution of income, he argued further, is the way to increase demand and create new jobs, stimulate the economy and overcome the Great Recession. According to a study done by the US Federal Reserve, the wealthiest 1 percent of the American population owned 35 percent of the wealth as of March 31, 2010, while the top 5 percent owned 62 percent of the wealth. Since the total wealth of the nation was estimated at $54.6 trillion, the average individual net worth of the top I percent of the population is about $6.4 million. In contrast, the 40 percent of the American population who set at the bottom of wealth ladder own no wealth at all because their debts exceed their assets. As a consequence, the average member of the richest 1 percent of the American population is more than 6 million times wealthier than the average member of the poorest 40 percent Americans. In Germany, the top 10 percent of the population own more than 60 percent of the nation's assets, the 70 percent of the population at the lower end of the wealth ladder owned less than 9 percent of the assets; and the bottom 50 percent own 2 percent only. While wealth distribution in Germany as well as in America is unfair, the United States has the highest wealth and income inequality in all industrialized states.

On the other hand, the richest one percent of the US population received in the 1960s about 11 percent of the national income as compared to 16 percent in the 1980s, 22 percent in the 1990s, 24 percent in 2007, and 25 percent in 2010. Between 1980 and 2005, more than 80 percent of the increase in income went to the richest 1 percent of the American population. The Center on Budget and Policy Priorities reported recently that the top one-tenth of 1 percent of the richest American households have increased their share of the national income between 2002 and 2007 from 7.3 percent to 12.3 percent. For example, the top 25 hedge fund managers received on average more than $1 billion each in 2009. (Chrystia Freeland, the Rise of the New Global Elite, the Atlantic, January/February 2011, 46) Such a distribution of income and wealth is neither fair nor economically sustainable; it leaves producers competing for relatively shrinking domestic markets, and lead corporations to shy away from investing to expand production, which is the way to grow the economy and create jobs for the unemployed.

Therefore, a more equitable distribution of income will certainly create more domestic demand; it does not, however, guarantee a stronger, more active middle class, or lead to a healthier, more competitive economy. More money in the hands of the middle class will encourage them to spend more, but not to produce more or create new jobs; money is more likely to be spent on foreign goods rather than on American made ones. Thus, a policy to enable companies' employees to become stockholders and encourage them to build equity in the companies they work for is the only feasible way to put them on the right path to middle class status and lead them to become aware of their interests and societal role and appreciate the benefits of saving and investing. I believe that paying employees 25 percent of their salaries in company stock should become a golden universal rule; otherwise, no middle class anywhere in the world would be protected or sustained in the globalization age for long.

## National Industrial Bank, NIB

The establishment of an industrial bank is indispensible to reviving the American economy and invigorating the industrial sector. The reindustrialization of America is unlikely to happen without the establishment of such a bank and the articulation of a national industrial policy.

Investment capital, as its owners have long discovered and the experience of the last two decades has clearly demonstrated, has no homeland, identity, religion, ideology, or cause, except making more money. Capital is a strange creature. It is willing to do business with anyone, at any time, at any cost, in any place, as long as the business promises good returns. The largest 500 American corporations earn today about 50 percent of their profits from overseas operations. And as revenues and profits from foreign operations rise, US corporations will be less inclined to invest in the United States, and more willing to relocate and reduce their American workforces and workers' wages. And since American corporations working in China, Singapore, Taiwan, and Mexico and other countries are able to export their foreign made products to America, they have no incentive to employ and train new American workers. Due to these facts, some US corporations employ today more workers in foreign countries than in the United States. General Motors employs as many workers in China as in American. And while Apple computers employs about 25,000 workers in America, Foxconn, the Chinese company that makes Apple products, employs about 650,000 employees in China, 400,000 of them were hired right after signing a contract with Apple to manufacture its products.

The Chinese government claims that about 50 percent of all products exported to the United States from China are made by American multinational corporations working in China. This simply means that American multinationals are playing a significant role in creating and perpetuating the trade deficit with China. In fact, it is estimated that Apple products shipped from China to the United States add about $2 billion to the annual China-US trade deficit. Therefore, it is unrealistic to expect such corporations to expand production in the United States. Asking them to invest in America amounts to asking them to compete with themselves and bet against successful operations they already own and generate substantial profits from. It is no wonder therefore that US unemployment rate has remained stubbornly high, and the trade deficit and the public debt have continued to increase year after year, despite two full years of renewed economic growth.

As revenues and profits of American corporations form overseas operations increase and foreign markets expand, US corporations' dependence on American workers and consumers diminishes. Reich and others have noted that the old capitalist system which guaranteed a fair distribution of the fruits of production among all participants and took interest in workers' training and community development has disappeared. Most American workers no longer have the competitive edge or the purchasing power to entice American multinationals to invest in America and expand production at home and create the kind of jobs needed to support a solid middle class. Being part of the problem, American multinationals cannot be part of the solution, unless America changes its economic policies and laws to be more conducive to investment and industrialization. In addition, as jobs, particularly knowledge jobs emigrate to China and India and other countries, innovations and research and development activities and institutions that produce them emigrate as well. This is why Chinese patent applications surpassed Germany's in 2007, and patent applications coming from the Asian nations of China, India, Japan and South Korea surpassed the applications of the United States and all other western nations in 2008.

Tax cuts and preferential treatment to entice American corporations and banks to invest more in America have not been successful. Since most corporations have chosen not to expand operations at home and hire more American workers, they should not be offered more incentives. Federal incentive will only waste valuable time and money, worsen the budget deficit and add trillions of dollars more to the already huge public debt. American corporations and banks have found a new business model to increase their profits without hiring more workers or taking the usual risks. The model is based on reducing payrolls by reducing the size of the workforce, paying new employees less than the old ones, investing overseas where wages are low and productivity is good and markets are expanding, and raising the prices of products and fees of services at home. For example, General Motors pays employees it hired after the 2009 bailout $14 an hour, while it pays employees retained from previous years $28 an hour for doing the same work.

To be effective, NIB should be capitalized at not less than $500 billion; it should also be managed by an independent, highly qualified and imaginative board of directors. Private capital should be encouraged to participate in capitalizing the NIB; however, the government should have majority control of its stock. New projects initiated or sponsored by NIB should be opened to the private sector to invest in and participate in their management; nevertheless, NIB should keep majority ownership in each enterprise until it becomes profitable and goes public. All successful enterprises should be taken public, and all shares owned by NIB should be sold over 2 to 3 years. As such, NIB will serve as a public institution committed to the reindustrialization of America and to opening new venues for the private sector to benefit from without taking the usual risks. No nation that has benefited greatly from globalization, including Japan, South Korea, China and India, has done so without an industrial policy to encourage investment in new industries, fund research and development efforts, and protect many industries, often in violation of the rules of the World Trade Organization.

If NIB were to be structured along these lines, it will become an engine of economic growth and an asset to the nation; it will lead by example and distribute whatever profits it generates among all participants. Generally speaking, today's US entrepreneurial class has lost its sense of social responsibility and commitment to the common good. American corporations in general are driven by greed; they worship money and despise fairness, and do whatever it takes to avoid paying their share of taxes. This creates need for a committed and visionary entrepreneurial class to lead the new American economy. If we examine the negative consequences of the Great Recession on the major world economies, we will discover that states with strong industrial sectors like Germany, China, India, Brazil and South Korea were the least affected, while states with strong financial sectors like the United States and England were the most affected; strong service and banking sectors did not help.

## Concluding Remarks

Individualism and a strong desire to compete and succeed have become the motto of the knowledge worker and the rich in the globalization age. People managing the nation's investment banks and mutual funds and insurance companies have become creatures of the moment; always on the move searching for short-term profits and fast deals to make. Since managers demand large bonuses and compensation packages based on year-to-year, at times quarter to quarter performances, risks they usually take do not obligate them to pay for mistakes they commit, leaving the cost of such mistakes to the little guys to take care of. Therefore, no one should expect such managers to invest in long-term industrial projects that require years to become profitable, and wait to have their fat bonuses. If the US government does not take the initiative and invest directly in socially beneficial projects and strategic industries, the reindustrialization of America will not take place and the deindustrialization of America will continue. The US government therefore needs to develop an industrial policy to reindustrialize America and provide money to young entrepreneurs with good ideas capable of creating good jobs. Otherwise, the US economy will remain largely stagnant; unemployment will become structural; the trade deficit will never be closed; the public debt will skyrocket; poverty will deepen; and the middle class will become a thing of the past.

With the arrival of the information and communications revolutions in the 1980s, the shift of the US economy from manufacturing goods to processing information and marketing services accelerated, causing the American industrial sector to retreat. And with the triumph of the free market philosophy on the one hand, and the arrival of cheaper and better products from Japan and Germany and later on from South Korea, Singapore, Taiwan, China and India on the other, the deindustrialization of America became a matter of time only. Other factors that contributed to the decline of the American industry include the resistance of managers of large corporations to change corporate cultures and invest in new tools and systems to reduce the cost of production and improve the quality of products; the mounting of a successful campaign by business to undermine the power of labor unions; the rapid decline of social responsibility of the political, economic and media elites; and the inclination of banks to favor lending to service oriented companies over manufacturing oriented ones. However, as expansion in the service sector began to slow down during the last decade, the demand for loans slowed down as well, causing banks and other financial institutions to seek investment opportunities in the housing sector and in what is called financial products, which subsequently led to the housing bubble in 2007 and the near collapse of the banking system in 2008.

Nevertheless, the major banks have found new ways to make money without taking much risk or hiring more people. Lower interest rates engineered by the Federal Reserve have enabled banks to borrow cheaply and invest in government bonds; profits, as a result, have become less a function of lending and risk taking and more of borrowing and investing in secured securities. Many corporations are exploiting this opportunity to issue corporate bonds worth billions of dollars to repay old debt and buy back their companies' stock. While repaying debt helps corporations save money, buying back stock serves to further concentrate wealth in fewer hands. Meanwhile, a globalized economy has enabled such corporations to take their money and go overseas where labor is productive and cheap, make new investments and expand production. The Federal Reserve, with its quantitative easing and lower interest rates, has in fact enabled the wealthy to become wealthier and more powerful, while making the poor poorer and weaker.

Quantitative easing is a tool to supposedly counter economic recessions by expanding the supply of money, keeping interest rates low and encouraging companies to borrow and invest and create new jobs. Low interest rates also reduce the cost of servicing the public debt and slow down the growing budget deficit. Nevertheless, reducing interest rates and keeping them near zero for three consecutive years have hurt millions of people worldwide. A good portion of the elderly Americans, for example, have lost almost all interest payments from their life savings, which were used to subsidies their meager social security incomes and keep them floating above the poverty line. By the time interest rates go back to normal levels, millions of people worldwide would have spent their life savings and joined the ranks of the world' poor permanently. Reports on world hunger indicate that the number of people who go hungry every day had risen from 800 million in 2005 to 925 million in 2010.

Since keeping interest rates low discourages savings and hurts small savers and the elderly, while enabling large corporations and financial institutions to make easy money, quantitative easing has become a scheme to help the rich get richer, force the poor to get poorer, widen the income gap between the rich and the rest, and further erode the industrial base of the American economy. It is time therefore to stop the "privatization of profits and the socialization of losses," and work diligently to reindustrialize America before it becomes too late to restore

US economic competitiveness, guarantee fairness, rebuild a much weakened middle class, and preserve the American economic and military power.

Even before the 2008 financial crisis, the new financial products banks had been inventing and marketing were not meant to create new jobs or wealth; instead, they were meant to enrich the rich banks' managers and financial traders. Mr. Paul Volcker, the former chairman of the Federal Reserve argued that Wall Street claims of wealth creation were without any real basis, and that there is no "shred of neutral evidence that financial innovation has led to economic growth." (Chrystia Freeland, the Rise of the New Global Elite, the Atlantic, January/February 2011, 54) The primary value of any new product to the public is how much satisfaction it generates and how many jobs it creates. The new financial products have produced no discernable public satisfaction and created no jobs. Manufacturing, in contrast, produces great satisfaction, meets basic individual and societal needs, and creates real jobs. In addition, manufacturing jobs have a multiplier effect that causes more jobs to be created. For example, the car industry creates assembly line jobs as well as jobs to produce spare parts, tires, car radios, air conditioning systems, computers, windows and batteries and more. And these industries create other jobs and increase the disposable incomes of workers. So, for America to fully recover from the Great Recession and regain its economic vitality, it had to rebuild its manufacturing sector which can never be built as long as high quality products are available at cheaper prices from Japan, china, India and several other countries.

Generally speaking, the American private sector reacted to the Great Recession by lying off more workers than their European and Asian counterparts, causing unemployment to increase rapidly and the mortgage crisis to deepen further. For example, the rise in unemployment rates was just 1 percent in France and Japan, and 2 percent in England, despite experiencing higher rates of GDP contraction than the US; in Germany, the unemployment rate actually declined. And despite making a lot of easy money, managers of large corporations and banks have been stingy when it comes to sharing profits with their employees and stingier when it comes to paying taxes. The median household income which kept increasing for decades has declined during the last decade. While it increased from $42,429 in 1980 to $46,049 in 1990, and then to $50,557 in 2000, in declined to $49,777 in 2009.

The current system of compensating business executives has created a small but powerful class of super rich people; most of them are also super greedy and lack social responsibility. A member of this economic class who deals with financial products had suggested that people in the middle class should consider taking a pay cut; he believes that only people like him are entitled to huge salaries and bonuses. The separation of stock ownership from company's management is the primary cause that led to creating this class and enabling it to develop the negative attitudes it has toward the other. Since the boom years of the stock market, investors have begun to view buying and selling stock as a means to play the market, not to invest in the market; they usually buy and hold for short periods of time and sell whenever shares' values appreciate. As a consequence, stock ownership was separated from management, and managers have become answerable to no one except to themselves and the greed impulse ticking inside them. Thus, executives feel free today to do whatever pleases them regardless of the interests of shareholders, the future of the companies they are entrusted to manage, and the welfare of the American economy and people.

To stop this legal scam, tax laws and management systems and managers' compensation packages and bonuses have to be restructured to restore fairness and social responsibility. Executives and managers who feel that they are worth more money than the system allows them to make should be encouraged to leave and start their own businesses where they are free to make as much money as they can. As business owners, all people have the right to work hard and enrich themselves; but as managers of other people's money, they have no right to spend their time manipulating shares' prices and people's fears and balance sheets to justify unjustifiable salaries and hide heinous bonuses.

The United States tends to define its national interests more in military and strategic terms than in economic ones; as a result, it continues to employ hard military power rather than soft economic power as a primary tool to conduct foreign relations. Since no military power could be built or sustained without economic power, the United States will not be able to maintain its military superiority without a superior economy. If America manages to restore its superior economic power and use it wisely, it would not need a large and costly military. As the centres of economic power and innovations shift from the West to the East, the US economic power will decline in relative terms, and its ability to maintain military superiority will be undermined.

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