natural disaster loudly proclaimed, even up to the end, that no problems were looming, all was well, nothing to be concerned about — probably relying on the same guarantees of financial statements' soundness that fooled the general public.

In California, the relevant entity is the state Board of Accountancy, charged with the relatively simple job of making sure that financial statements the public relies upon in fact are reliable. I say relatively simple because it isn't as though government had to verify the soundness of the companies themselves, or even of their financial statements, but only that when licensed CPA auditors say a stament is fine, that it, in fact, is so.

We all know that no one should believe and act on any financial statement of any company without a positive CPA auditor opinion to back it up. We all presume that these opinions are reliable. After all, doesn't the state license all those CPAs and CPA firms? Without a license, they cannot conduct any auditing business. Under this system, state boards of accountancy are, arguably, more important than medical boards. After all, negligent doctors can injure patients only one at a time, while negligent CPA auditors can wipe out the life savings of thousands of people with the stroke of a pen.

California's Board of Accountancy is typically ineffective, underfunded, and dominated by the CPA industry. Its 15 members include seven CPAs and other licensees, all appointed by the governor (who also appoints four of the non-licensee members). The last four non-licensee members are appointed, two each, by the Assembly Speaker and the Senate Rules Committee.

Board funding comes from the annual licensing fees paid into an Accountancy Fund by the state's 76,000 licensed CPAs. That fund is supposed to insure ongoing consumer protection without regard to the state government budget appropriation process, since no tax dollars are involved. However, the governor and Legislature recently borrowed $11 million from the Accountancy Fund, on top of a still not repaid $6.27 million borrowed in 2002 and 2003. Without these borrowings the Fund would total about $31 million. But even with the borrowing, more than enough should remain to cover the Board's annual budget (about $12 million at current staffing levels) for processing licensees and investigating complaints.

State law requires licensees found to have filed materially false or misleading financial statements to submit "financial re-statements" to the Board. However, until the re-statements are issued and distributed, the public relies upon the original flawed statements. What's troubling is that the 15,000 publicly-traded corporations nationwide have submitted about 1,500 re-statements per year for the last few years, an astounding 10 percent failure rate that is not improving. No wonder CPA malpractice insurance rates consume about 15 percent of CPAs' income.

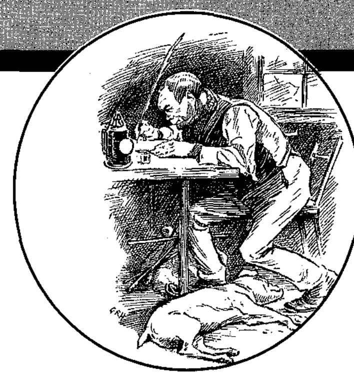
How does the Board use the re-statements? You might think they'd be a key quality control measure and would be used immediately in enforcement actions. After all, every one of them is a confession of material error. But California's Accountancy Board decided to require only a narrow selection of the companies that filed erroneous original statements — about 200 of the 1,500 — even to submit re-statements, though they all impact California investors.

In addition, the Board employs a "check it and chuck it" policy on re-statements, throwing them away after six months rather than maintaining them as public documents for ordinary Californians to use to inform and protect themselves. Past Board President David Swartz (CPA) made the revealing statement at a September 2008 Board meeting that no more than 2 percent of re-statements were "important." Presumably, he believes the other 98 percent can safely be ignored.

As for enforcement against misbehaving and dangerous licensees, the public is on the losing end of 10,000 to 1 odds: the Board employs just seven investigators to handle all 76,000 licensees. And the state pays investigating CPAs only about $65,000 per year, while competitive annual pay for experienced CPAs is at least $125,000, thus making it next to impossible to recruit competent investigators. The Board, its supervising Department of Consumer Affairs, and the governor's Finance Department have all dragged their feet for years over correcting this defect. And *Capitol Weekly* recently reported current Board President Robert Petersen (CPA) saying "We've got all the positions we need."

Hope for Californians could come from a governor who has changed his mind about the ineffective Board or by a Legislature that takes command of the ongoing travesty. But that would require placing the people's interests first, and politicians are loathe to do that unless it happens to serve their personal political and/or ideological interests. Who wants to be first to hold his breath waiting for a politial hero to appear to save California's financial health? CPR

The Contrarian



Foolish trade policy torpedoes the GOP

Massive spending and trade deficits belie the 'myth' that America's economy is fundamentally sound.

MICHAEL S. FREDENBURG

In the interest of lively, thoughtful, productive debate — and of keeping conservative thinkers not only on their toes but in touch with their own first principles and bedrock policies — California Political Review *introduces "The Contrarian," an irregularly-published column for writers wishing to express views likely to prove controversial among our readers.* CPR *encourages responses: affirmations, refutations, and rejoinders. Please submit them, in the form of Letters to the Editor, to calprev@cppf.us, for publication in upcoming issues.*

— editor

If you listen regularly to talk radio — conservative talk radio in particular — you know that well into 2008 most mainstream conservative hosts were talking about the United States' "remarkably robust and resilient economy." Callers with concerns over growing structural problems with the economy were paid scant attention. After all, with a Republican president and Republicans having controlled Congress for most of President Bush's two terms, it was uncouth to talk about such things.

One popular late afternoon host explained to his audience that running $400 billion deficits is okay because $400 billion is only a small percent of the GDP. Of course the Bush tax cuts were routinely given the credit for the "robust" economy. Loss of manufacturing jobs? Don't worry, because there is no real loss — it is all due to productivity increases. National debt? What national debt? Trade deficits? What trade deficits? Fi-

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nally, we were continually lectured on how we have to vote Republican no matter how bad the candidates are on important issues or how many times they have stabbed us in the back.

Today, with the Democrats in firm control and conservatives and the Republican Party teetering on the brink of irrelevance, it is clear the Party needs new leadership acting differently. The *status quo* should be challenged. To do that we must understand how we Republicans helped marginalize ourselves. Perhaps then we can send a message, and advocate public policy based more on reality than on ideologically-driven myths. The purpose of this article is to put some red meat on the table in the hope of stimulating vigorous discussion among Republicans.

One big myth perpetuated by the Republican establishment the last eight years is that the U.S. economy is fundamentally sound. Looking at the economy on a broad basis, it is not encouraging. In 2008, the federal government paid $412 billion in interest on a national debt swollen to $10.6 trillion (much of the money held by China). To put this massive interest payment into perspective, the U.S. defense budget for FY 2008 was $481 billion. Including unfunded obligations such as Medicare and Social Security yields an even grimmer current debt obligation of $54 trillion.

Notwithstanding Republican rhetoric to the contrary, it turns out that massive consumer and government deficit spending arguably did more than the Bush tax cuts (beneficial as they were) to fuel the mediocre 2.4 percent annual average growth in GDP from 2000 to 2007. Massive debt-funded spending to build houses for people who could not afford them — pushed by the Bush administration — helped mask lost manufacturing jobs during the same period. Sadly, but not surprisingly, it is predicted that China will supplant the United States as the world's largest manufacturing economy sometime this year.

China thus supplanting the United States is an unhappy reminder of the trade deficits over which the Bush administration presided: cumulatively more than $3.3 trillion. In contrast, the Clinton years' cumulative trade deficit was "only" $951 billion. Also, 3.5 million manufacturing jobs were lost between 2000 and 2007. The number one beneficiary, China, was responsible for 2.3 million of them. The American Manufacturing Association reported more than 40,000 factory closures for the last 10 years. And no, that loss of 2.3 million jobs did not result from productivity increases, as some self-serving, flawed studies have claimed.*

This brings up the thorny but important issue of trade policy. When vigorous Clinton Administration negotiations brought China into the World Trade Organization (WTO) in 2001, it was believed membership would help rein in China's history of predatory, unethical trade practices. Unfortunately, China used its membership to accelerate its use of such practices, with the negative impact on the U.S. economy also accelerating since 2001. The agreement's chief negotiator, Robert Cassidy (a 30-year veteran of both Republican and Democrat administrations), now believes admitting China was a serious mistake, as were consequent U.S. moves away from freedom to engage in bilateral trade agreements. The facts support his conclusion.

In 2001, U.S. steel production (91,447 million tons — about 11 percent of the 850,266 million tons produced worldwide) was already surpassed by

* Many people, including Frank Shostak of the Ludwig Von Mises Institute, persuasively argue that the commonly quoted measure of "productivity" does not really measure real improvement in manufacturing processes, but instead is a measure of "monetary spending adjusted by a meaningless deflator." In other words, the claims of productivity gains are more fantasy than fact.

China's 150,906 million tons. In 2008, with world steel production of 1,329,719 million tons, Chinese production exploded to 502,010 million tons (nearly 40 percent of the world's production). Meanwhile, U.S. steel (at 91,490 million tons) accounted for just 7 percent of world production. The United States largely met increased U.S. demand for steel with imports from China. Comparative advantage at work? Not really. Besides providing a 40 percent effective subsidy to all its exports through currency manipulation, in 2007 China directly subsidized its steel industry at a $15.7 billion rate (according to Alliance of American Manufacturing estimates) — a 3800 percent increase since 2001. Not coincidentally, between 2000 and 2006, U.S. workers in the lowest 40 percent of income brackets experienced a 2.5 to 4 percent drop in real wages as a result of failed trade policies compounded by the mass influx of illegal alien workers. Is it any wonder that blue-collar workers — a significant part of the 1980s' Reagan Coalition — now view the GOP as controlled by elites hostile to average workers' interests?

YET, DESPITE the overwhelming evidence that U.S. trade policy is both a political and economic disaster, suggestions that a change might be in order bring only old, tired rhetoric. For example, in early February, former Delaware Governor Pete Du Pont urged staying the course on trade on a popular morning talk show. I have coined a phrase I believe explains this psychological disconnect from reality: "Free Trade Romanticism." This disorder's foundation is a utopian view of what "free" markets can accomplish both domestically and abroad. Like other utopian-flavored ideological "ism's," good intentions and talking about the "ism" is often enough to satisfy those afflicted.

This romanticized view led the United States to support creation of the World Trade Organization in 1995. We were told that this cumbersome, bureaucratic, internationalist organization of 146 nations that vote on and regulate U.S. trade policy, would bring on an era of Free Trade. With China's admission in 2001, WTO bureaucrats seemed to consider the dream nearly achieved. At the time, WTO Director-General Mike Moore rhapsodized that "With China's membership, the WTO will take a major step towards becoming a truly world organization. The near-universal acceptance of its rules-based system will serve a pivotal role in underpinning global economic cooperation."

But this dream's reality is more like a nightmare. As we've seen, it has brought soaring trade imbalances and, starting in 2002, WTO accusations (carrying billions of dollars in sanctions) that the United States has engaged in "unfair trade practices" because we have failed to tax corporations at levels equal to those prevailing among European Union countries.

So, some key questions for the GOP as we move into 2009 and the Obama presidency:

Do we really want to pursue trade policies pumping trillions of dollars into the economy of a morally bankrupt, fundamentally evil system of government?

Do we want to continue to fund the massive build-up and modernization of China's military on the back of lost U.S. jobs — a build-up likely to force U.S. taxpayers to spend countless more billions on defense to counter it?

Is it really a good idea to send our neighbors' and fellow citizens' jobs to a country that mistreats its people, savages the environment, and, oh, by the way, whose nuclear missiles target us?

Could any real conservative not afflicted by FTR actually believe the WTO would be a good thing?

Do we really want to continue telling blue collar workers driving pickup trucks with American flags on their bumpers, gun racks in their cabs, and American pride in their hearts that, although voting Republican is voting to destroy their livelihood, they should do it anyway because the Democrats are so wacky?

Well do we? CPR

AN-MADE DROUG

VIRONMENTAL PROTECTION ... OR ENVIRO-SOCIALIS

As 25 million Californians watch their water supply vanish,