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IMPORT MONEY – EXPORT GOODS

Sparking a Real U.S. Economic Recovery

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Things are not working. Two years after the National Bureau of Economic Research (NBER) declared the recovery underway, it is clear that things are not working, at least not in the sense that most Americans expect. The U.S. economy is like an aging sports car running on three cylinders, fouled spark plugs and a flat tire.

Yet economic thinking, dominated as it is by a timid and rigid neoclassical economics, can only counsel patience. Maybe the cylinders will start firing, the plugs clean up and the tire inflate on their own. But whatever. There's not much we can really do other than to wait for the market to work its way through the painful adjustment. This is Hoover economics. In fact, there are many things we can do to get the U.S. economic sports car back in the race.

Import Money

First, import money. Congress should provide a temporary tax holiday for U.S. companies bringing back foreign profits to the U.S. Like the Fed's recent quantitative easing, this would inject money into the economy, leading people to spend more and corporations to invest more, both of which would create jobs. Under current tax law, U.S. companies can earn profits overseas that are taxed at lower rates in the countries in which they are earned. Because the U.S. corporate rate is higher than in many other nations, U.S. multinational firms have built up over \$1 trillion in profits that they have not brought home since doing so would mean that they would be taxed at the higher U.S. rate. Allowing companies to bring this money back through a temporary, reduced tax rate would provide an immediate economic stimulus.

Bringing back this capital, regardless of how it is used, creates a short-term economic stimulus as the money is infused into the economy. Even if companies only did stock purchase buybacks this would still lead to more money flowing as stockholders spent money and stimulated job growth. But if past experience is repeated, companies would use at least a portion of repatriated money to directly reinvest in the U.S. economy. One analysis of the uses of the profits repatriated after the passage of the 2004 American Job Creation Act found that 25 percent of the repatriated funds went to domestic capital investment, while 14 percent went to R&D.¹

One objection to this is that it provides a windfall to U.S. corporations. If policymakers are concerned about this, why not set up an auction? U.S. companies could bring back no more than a fixed amount of money (let's say \$500 billion) at a rate no lower than 5 percent. But if a company wanted to be sure it is able to bring back the money, it would likely bid to pay more than 5 percent. The companies that propose bringing profits back at the highest tax rates would be able to do so until all \$500 billion is brought back. In other words, the top bid might be from a company willing to pay 15 percent to bring back \$10 billion, with the next one at 14 percent, etc. All these firms would be able to bring back a cumulative total of \$500 billion. Firms that don't bid high enough would be out of luck.

Export Things

While we need to "import" money, we also need to export things. In fact, one big reason for the financial crisis and for the subsequent anemic recovery has been that U.S. manufacturing enterprises have lost global competitiveness. If from 2000 to 2009 U.S. manufacturing output had grown at the rate as the overall economy, there would be 2.9 million more manufacturing jobs than there are today. And given manufacturing's job multiplier of 2.9, this would have led to a total of 11 million more jobs. With those jobs, unemployment would be below 3 percent, instead of above 9.

Manufacturing output didn't decline by accident. The major factor was the massive increase in the U.S. trade deficit. Simply put, it is the loss of manufacturing and other tech jobs that lay at the heart of U.S. economic problems. And without a revived manufacturing and technology sector it will take a long, long time – if ever – for the race car of the U.S. economy to get back up to speed.

Drive Down the Dollar

While the ultimate solution is a national manufacturing and innovation strategy, there is one thing the Administration can do now that would have an immediate impact on manufacturing: drive down the price of the dollar. Given the massive U.S. trade deficit (an estimated \$600 billion this year), it's clear that value of the dollar remains too high. This overpriced currency makes too many of our nation's exports uncompetitive in global markets.

Yet the Administration refuses to understand this basic point. When Treasury Secretary Tim Geithner proclaims that, "We will never weaken our currency," he is in essence saying we don't want U.S. manufacturing to revive.² It's that simple. Perhaps he can say this because he does not see a "contradiction between the U.S.'s policy of bolstering its exports and its strong-dollar policy."³ He may not, but virtually every economics textbook does.

But Geithner is not an anomaly. Over the last thirty years a strong dollar has been the stated policy of every U.S. administration, Republican or Democrat. In mid-2008, as the economy could begin to hear the roar of the financial crisis waterfall in the distance, President Bush made it clear, "We're strong dollar people in this administration, and have always been for a strong dollar."⁴ In the rare instance where a Washington official had the temerity to buck the Washington consensus, the pressure was on. As former Bush Administration Treasury Secretary Paul O'Neill stated, "When I was Secretary of the Treasury I was not supposed to say anything but 'strong dollar, strong dollar.' I argued then and would argue now that the idea of a strong dollar policy is a vacuous notion."⁵ Paul O'Neill was heretical because he was manufacturer who understood the real economy, not a Wall Street financier who thinks that finance drives the economy. And Treasury has historically been the place for Wall Street thinking, not "Industrial Street" thinking.

There's no reason the Administration couldn't change course on its strong dollar policy. Washington groupthink is just that: group think. Secretary Geithner, accompanied by Fed Reserve Chair Ben Bernanke and President Obama, could make a major speech in which he states that the dollar is significantly overvalued and that the federal government will do everything it can to lower its value, including officially determining that China is a currency manipulator. Chairman Bernanke would then announce a round of QE3 where the Fed commits to buying up more bonds and securities. Not only would this add liquidity to the economy, it would help lower the value of the dollar.

For those who object that this is manipulating our currency, they should remember that the Chinese and most Southeast Asian nations have manipulated their currencies for years. And when China cries "currency manipulation" we should simply say, "We will stop when you stop. When you increase the value of the yuan and do so until it is not underpriced, we will go back to not intervening."

A New Playbook

These are two easy plays that would move the economic ball down the field. But we don't just need a few new plays; we need an entirely new playbook. Most of official Washington reads from only one playbook, the one created over the last 40 years by neo-classical economic theory, and the one that has chapter titles like "countries don't compete;" "markets without government support most effectively produce innovation and productivity;" "any government support of private sector activity is a distortion;" and other quaint but fundamentally inaccurate anachronisms.

The fact that holders of the dominant neoclassical economics doctrine continue to assert that we are suffering from a run-of-the-mill (albeit severe) downturn caused by a financial crisis and continue to ignore its causal relationship to the failure of the U.S. in the race for global competitive advantage should be ample evidence that we need a new playbook.⁶ And to be clear, this is not a Republican or Democrat issue – both parties still draw on the neoclassical economics playbook for guidance, albeit drawing on different plays sometimes.

Fortunately, we don't need to invent a new playbook; one is available. Grounded in what has been called "innovation economics," the new playbook is based on the notion that countries do compete for economic advantage, that innovation and productivity are the most important thing for economic policy to support, and that these are not something that market forces acting alone maximize.⁷ Until official Washington recognizes the deep intellectual failings of current economic thinking and demands a new playbook grounded in innovation economics, we can expect more of the same – an anemic recovery; continued loss of manufacturing and tech jobs; declining U.S. competitiveness, and slow productivity, income and job growth. But until then, at least we won't be "distorting" the market.

¹ Robert Atkinson. “Timely, Targeted, Temporary and Transformative: Crafting an Innovation-Based Economic Stimulus Package.” The Information Technology and Innovation Foundation. October 2008. Available Online.

<http://www.itif.org/files/TimelyTargetedTemporaryTransformative.pdf>

² “Geithner: US Won’t Seek to Weaken Dollar to Spur Growth.” CNBC.com. November 11, 2010. Available Online.

http://www.cnbc.com/id/40122177/Geithner_US_Won_t_Seek_to_Weaken_Dollar_to_Spur_Growth/

³ Takashi Nakamichi. “Geithner Affirms Strong Dollar Policy.” *Wall Street Journal*. November 11, 2009. Available Online.

<http://online.wsj.com/article/SB125792362908743307.html>.

⁴ Emily Kaiser and Tabassum Zakaria. “Bush Says ‘We’re Strong Dollar People.’” *Reuters*. July 2, 2008. Available Online.

<http://www.reuters.com/article/2008/07/02/us-g8-bush-dollar-idUSWAT00972220080702/>.

⁵ Donna Smith. “Bush Says He Believes in Strong Dollar.” *Reuters*. February 28, 2008. Available Online.

<http://www.reuters.com/article/idUSWAT00899420080228/>.

⁶ See Atlantic Century

⁷ For a list of materials on innovation economics see www.innovation.economics.org/resources.



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