



NEW
AMERICA

FOUNDATION

SMART GLOBALIZATION INITIATIVE POLICY AGENDA

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The policy ideas that would make up the Initiative's competitiveness and growth strategy would fall under two main pillars of the Initiative. As noted earlier, the first pillar would consist of an international strategy to balance and respond to the economically dysfunctional practices of other economies and to create a supportive global economic environment for strengthening America's productive economy. The second pillar would entail policies to enhance America's competitiveness and promote domestic economic development through policies geared towards the maintenance and generation of higher-value added jobs.

1. An International Strategy to Counter the Mercantilist Practices of Other Economies and to Create A Supportive Global Economic Environment

Many of America's main economic competitors, especially countries in both developed and emerging Asia, play by different trade and investment rules than does the United States. As such, their economic practices may in many cases impose long-term costs on the U.S. and world economies. We need both to better understand other economies' mercantilist practices and to constructively respond to them. This means not only doing a better job of enforcing existing trade rules but also of fashioning new trade and investment regimes to better reflect our national interest as well as the broader goal of widespread middle-class prosperity. At the same time, we need to find ways to encourage large emerging economies to contribute more to global economic growth by providing more demand to the world economy. Over the past decade, investment and savings have grown faster than consumption in many large emerging economies. Thus, there is enormous pent-up demand for both consumer goods and productivity-enhancing technology in these economies. This emerging market demand offers the prospect for more balanced world economic growth that would allow the United States to reduce its current account deficit without causing a prolonged recession.

- **Currency Practices.** Many economies systematically pursue policies to maintain under-valued currencies as part of a strategy to gain market share in many industries. This not only undermines the competitiveness of businesses located in the United States but perhaps more importantly also suppresses consumption demand in those economies, putting more pressure on the United States to act as the world's consumer of first and last resort. The Smart Globalization Strategy will put forward policy ideas that take into account these practices. This initiative will also consider alternative templates for world currency management that will discourage currency manipulation practices.
- **Problematic Trade Practices.** Some of America's significant economic competitors, in their national policy portfolios, have in significant cases pursued a variety of unfair trade practices—the provision of hidden subsidies; dumping of goods onto the world market; the sheltering of enterprises and markets from international competition through the use of administrative measures; and the

disregard for intellectual property. The Smart Globalization Initiative will study how to better enforce existing trade rules and to respond constructively to these practices.

- **Rebalancing Consumption and Production Globally.** The U.S. trade deficit is the product of other economies' under-consumption as much as it is American over-consumption. Economies particularly in Asia tend to save and produce at levels that far outpace their consumption. Moreover, some political economies pursue as national strategy this imbalance between production and consumption, by undervaluing the currency, by suppressing domestic demand, and by inhibiting wage growth. The Smart Globalization Initiative will develop a strategy for pressing developed and emerging Asia, both Japan and China, to consume at higher levels and save less in order that workers in those countries can enjoy much more rapid improvements in their living standards and so these countries can provide more demand for the world economy.
- **Sharing the Burden of Global Macroeconomic Policy.** Enlarging the middle class at home and abroad requires sustained world economic growth, which in turn depends upon effective management of macroeconomic policy. For the past decade, the United States has borne the burden of sustaining an expansive macroeconomic policy for the world even at the expense of rising current account deficits. The Smart Globalization Initiative will look at ways for other major economies to share the burden of managing world macroeconomic policy. In particular, the project will examine ways to recycle huge surpluses of petrodollars to sustain growth and to manage global liquidity in the aftermath of the bursting of the housing and credit bubbles in the United States.
- **Replacing the Discredited Washington Consensus with a Middle Class Growth Consensus.** For much of the last two decades, U.S international economic policy toward developing countries has followed a supply-side emphasis on cutting government spending and de-regulating financial systems. It has thus ignored its own successful experience in creating a middle class economy through public investment and domestic-demand driven growth, and has chosen instead to push developing countries to export in a way that has served neither the American middle class nor the aspiring middle classes in emerging economies. With the success of China's form of authoritarian export-oriented capitalism, the Washington consensus is beginning to evolve into a "Beijing Consensus" as other developing economies begin to mimic China's success. The Smart Globalization Initiative will offer a third alternative: a middle-class growth consensus, which would aim to expand domestic demand driven growth by raising wages, creating social safety nets, and establishing home mortgage markets. .

2. Developing a Strategic Domestic Economic Development and Competitiveness Strategy

With the right policies, it is possible to expand investment in the tradable goods sector of the economy and to create more good jobs and value-added production in the United States. Many of the same features of the world economy that make it possible for firms to engage in sophisticated off-shore manufacturing strategies also make it possible for them to locate production and business services in the United States, especially high-value-added production and services that require greater quality supervision and oversight. Indeed, under the right conditions, off-shoring as well as a proactive domestic economic development effort can work in tandem to expand capacity and to create more jobs both at home and abroad.

But in order to take advantage of these possibilities, the United States needs an intelligent strategy focused on the domestic economic interest, particularly a manufacturing strategy. What we have now is an incoherent mix of policies that push companies in different directions and an incoherent mix of local conditions, some favorable and some unfavorable to locating investment and production domestically. There is a framework of public policy in place; it is just not organized in a manner that balances the realities of an increasingly integrated global financial and trade system with the significant imperative of maintaining an innovative and productive domestic economic and technology base. In spite of the wage differentials between American workers and those in the newly industrializing economies, it is possible to develop a more coherent manufacturing strategy that avoids the low road of lowering wages on the one hand or engaging in beggar-thy-neighbor protectionism on the other. Such a strategy would aim to lower the cost of doing business in the United States while providing companies with the essential factors that markets do not easily provide but which they need to be successful. This part of the initiative would consist of the following elements.

- **A World Class Infrastructure.** The U.S. economy suffers from a deficit in public investment in infrastructure, which has crippled the competitiveness of American-based companies and hindered job creation. The Smart Globalization Initiative will develop a series of proposals for financing America's most pressing infrastructure needs, focusing on investment that is most needed to overcome emerging bottlenecks to economic growth and to rebuild America's productive economy.
- **Creating a Favorable Tax Regime and Business Climate.** Investment requires a predictable business climate with proper government regulation and a fair and efficient tax system. But American-based companies are increasingly being disadvantaged by rising health care costs and by an overly complicated tax and regulatory system that inhibits both job creation and investment. In addition, the current tax system actually encourages American companies to move certain production and business activities offshore. The Initiative will explore the possibility of tax frameworks and other policy incentives for firms to locate more higher-value production and economic activity domestically. The Smart

Globalization Initiative will develop proposals that consider corporate income tax reductions and for reducing the cost of doing business in the United States. Other nations – including major developing economies such as China and India but also other states like Ireland, Malaysia, and Indonesia – may offer substantial incentives and benefits attracting American manufacturing, R&D, and even service operations to their countries. There is significant work explicating these subsidies but little work exploring what policy responses are available and should be part of a comprehensive new American development strategy. The Smart Globalization Initiative would incorporate this question of foreign investment incentives into its work plan.

- **Increasing the Skill Level of American Workers.** Some American-based firms are facing a shortage of skilled workers in certain sectors of the economy, forcing them to rely more on outsourcing than they would like. We therefore need to do more to expand and subsidize job training for workers in U.S.-based companies. Our colleges and universities are not providing workers with the skills they need in today's workforce, especially in the area of tradable goods and services, and many companies are no longer willing to provide on the job training when many overseas skilled workers are available at lower wages. Rather than recommend that we devote all additional money into the longer term goal of improving an expensive college and university system, the Smart Globalization Initiative will consider policy proposals that enhance and encourage on-the-job training.
- **A New Set of Service and Financial Institutions to Aid a High-Wage Domestic Economic Development Strategy.** The United States has maintained a strong and competitive agricultural sector by providing a variety of support services to American farmers, including access to low-cost capital. We need to provide a similar set of support institutions to aid a competitive manufacturing sector. Such a new service infrastructure might include the following: regional and local development banks that would put capital in the hands of entrepreneurs and small and medium size businesses; a technology and business extension service, modeled on the successful Agricultural Extension Service, to assist businesses with the use of the latest technologies and the marketing of their products abroad; and a network of training institutes to help develop targeted skilled labor for local businesses and to provide students with a lower cost alternative to four-year college.
- **Innovating New Growth Clusters: the Triple Green Revolution.** High energy and commodity prices are setting the stage for new growth industries that would tap new scientific breakthroughs in agriculture, biotechnology, and nanotechnology. The United States needs to position itself to take advantage of potential huge returns from investments in the new growth industries that make up what might be called the emerging triple green revolution: breakthroughs in agriculture and biotechnology; in clean technologies and energy and resource efficiency; and in new energy sources. The Smart Globalization Initiative will among other things study various models of new cooperative ventures between energy, manufacturing

and environmental interests in such states as Ohio, Wisconsin, and California and outline a strategy for improving America's system of technological innovation by identifying research and development priorities in each of these areas. In order to carry out this R&D priorities template, the New America Foundation has already initiated discussion and institutional bridge-building with technical specialists at the National Academies of Science and the American Association for the Advancement of Science.