WINNING THE RACE 2012: # 5

TRADED SECTOR INDUSTRIES

Winning the Race 2012 **is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage.**

Context and Policy Divide

It will be difficult for America to enjoy robust economic growth if its globally traded sector industries (e.g., manufacturing, software and Internet, motion pictures and music, etc.) are not competitive. Unfortunately, America's traded industries have lost competitive advantage. In the 2000s, the United States lost a greater share of manufacturing jobs than in the Great Depression and more than 60 percent of the losses stemmed from declining global competitiveness. In fact, from 1990 to today, the United States has achieved virtually no net growth in traded sector jobs. Meanwhile, our rank on most global innovation indicators has fallen, in some cases significantly.

While both parties talk about the importance of traded sectors, they diverge sharply on how to strengthen it. As a general rule, Republicans focus more on reducing taxes and regulations, while Democrats favor public investments in science, technology, education, and training. The next administration needs to make traded sector competitiveness a top priority and not only would reduce taxes and streamline regulatory burdens but also push for significant increases in public investments in technology and skills.

Innovation Race Principles

- **Robust economic growth is difficult without a competitive traded sector.** In the 2000s, an average of 17 U.S. manufacturing plants closed every day. This was a stiff head wind into which the U.S. economy had to tack and is a principal reason why the economy created no net new jobs in the 2000s. Had U.S. manufacturing grown at the same rate as the overall economy, there would be as many as 8 million more jobs today.

- **We need a national traded sector strategy.** U.S. traded sector success depends on firms investing in R&D, capital equipment and software, and workforce training, but firms do not capture all the benefits of these investments, leading them to underinvest.

- **Cutting costs is not enough.** Some argue that if federal policy can just cut costs enough (e.g., through lower regulatory and tax burdens) then U.S. traded sector industries will thrive. While lower costs are not unimportant, they are not enough. Traded sectors in other nations, such as Germany, face higher costs, yet outperform the United States.

- **Supporting traded sector industries does not mean heavy-handed "industrial policy."** There is a wide space between a hands-off policy that does not prioritize traded sectors and one that targets individual firms for select benefits. Smart traded sector policy gets the tax and regulatory system right, while also supporting technology and skill development.

Policy Recommendations

- ✓ **Create a nationwide network of manufacturing institutes performing applied R&D across a range of advanced technologies:** If the United States wishes to more consistently "bridge the gap" to transform scientific discoveries into useful products that can be manufactured at scale, it needs to provide a much stronger institutional platform from which universities and industry can enter into public-private partnerships to conduct "translational" R&D. To do that, the federal government and industry should co-fund institutes to support industrially relevant manufacturing technologies.

- ✓ **Pass a 21st Century Morrill Act:** In 1862, President Lincoln signed the Morrill Act, which created the nation's system of land grant colleges. Today, we need a new Morrill Act with the federal government supporting the designation of a core of about twenty leading "manufacturing universities." Universities would receive $50 million a year, plus prioritization of their projects in the awarding of NSF grants.

- ✓ **Increase funding for the Manufacturing Extension Partnership:** The National Institute of Standards and Technology's MEP plays a vital role in enhancing the productivity, competitiveness, and innovation potential of U.S. small and medium-sized enterprise manufacturers. The next administration should double MEP's budget to approximately $220 million annually.

- ✓ **Transform Fannie Mae into an industrial bank:** Former Intel CEO Andy Grove notably has called for a "scaling bank" to help scale innovations to production in the United States. To do this, the next administration should call for repurposing Fannie Mae into an industrial financing organization. The very existence of Fannie Mae reflects the fact that America has put more emphasis on consumption (housing) than on production (manufacturing). The new Fannie Mae (perhaps called the Federal National Industrial Mortgage Association) would buy and resell loans made to traded sector firms from banks and other lenders.

- ✓ **Require the Small Business Administration to make at least two thirds of its loans to traded sector firms:** The SBA does not give any special priority or focus to traded sector firms, treating all industries alike in its funding priorities, even though traded sector firms are critical to U.S. job growth.

Related ITIF Resources

Fifty Ways to Leave Your Competitiveness Woes Behind: A National Traded Sector Competitiveness Strategy

Innovation Economics: The Race for Global Innovation Advantage (Yale University Press, 2012)

Worse than the Great Depression: What the Experts Are Missing About American Manufacturing Decline

A Charter for the Revitalization of U.S. Manufacturing

The Case for a National Manufacturing Strategy

The United States is losing the race for global innovation advantage and the jobs and income that come with that. Many other nations are putting in place better tax, talent, technology and trade policies and reaping the rewards of higher growth, more robust job creation, and faster income growth. It's not too late for the United States to regain its lead but the federal government will need to act boldly and with resolve to design and implement strategies that include cutting business taxes and boosting public investment. *Winning the Race 2012* is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage. For more actionable policy ideas, visit ITIF's *Policymakers Toolbox* at www.itif.org/policymakers-toolbox.

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