THE BLEYZER FOUNDATION

HOW THE US CAN LEAD AND INNOVATE IN A NEW ECONOMY

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The US must change its current policies in order to catalyze economic growth, innovation and jobs while maintaining fiscal balance. In fact, a new focus on innovation can be the key to create sustainable growth and permanent jobs.

The current policies of the US government on how to create jobs and sustain higher rates of growth are just wrong, reflecting a lack of understanding of the causes of the current high level of unemployment. The US government is putting its emphasis on aggregate demand measures, whereas what are now needed are aggregate supply measures.

In fact, manufacturing as a share of the economy has been declining over the last decades. In 1965, manufacturing accounted for 53 percent of the economy. By 1988 its share of GDP had declined to 39 percent. By 2004, it accounted for just 9 percent and now it represents X % of GDP. As a result, the U.S. has lost XX million manufacturing jobs just since 1988. For the first time since the Industrial Revolution, fewer than 10 percent of American workers are now employed in manufacturing.

During all these years, a good portion of this unemployed labor was utilized in the service sector, such as finance and IT. This was a natural and welcoming development. But a good portion of the manufacturing jobs were transferred to housing construction and in its related activities during the housing boom. With the collapse of the housing sector in 2008, these jobs are now gone and are unlikely to return soon as there is still an oversupply of houses.

It is important to understand that traditional low-technology manufacturing jobs will not return to the US, particularly over the next few years. Globalization and outsourcing are here to stay and low wages in other less developed countries will continue to be attraction poles for many manufacturing sectors, at least over the next few years.

Therefore, the current government proposals for larger investments in infrastructure and putting money in the hands of consumers are unlikely to result in more jobs. Instead, they are likely to result in higher imports from more competitive countries. This explains why the previous fiscal stimuli have recently generated the largest trade deficits in US history.

Furthermore, the proposed measures aimed at increasing domestic demand may provide temporary jobs in these infrastructure projects; but will not generate permanent jobs or sustainable growth. More money is not going to re-create the housing boom of the early 2000’s. It is not going to result in manufacturing jobs of the type we used to have in the past.

What is needed is supply/production -side measures that will encourage innovation and new technologies – not demand-side measures. Increases in aggregate demand will not resolve the problem.

In fact, we need to put the emphasis on innovation and technology as the main engine of growth and jobs. We need to improve the capacity of the country to further innovate and create new technologies as it is only with new technologies that growth can be sustain over time. This will further develop jobs in high-tech industries and services, the sectors that can be the drivers for future growth.

Several think-tanks, including The Bleyzer Foundation, have identified the main drivers that could spur a bust in innovation and technology. These drivers include the following:

1. Reducing the Cost of Doing Business in the State.

Innovation and technology will not create jobs if the cost of doing business is high. New technologies could be developed; but their manufacturing may take place elsewhere. Therefore, the first priority should be to remove urgently those conditions that make difficult and more costly to do businesses in the US.

The World Bank's annual report "Doing Business 2011" ranks the US very low in key areas that define the easiness of doing business. The US ranks poorly in the following indicators:

Paying Taxes (rank 62)
Dealing with Construction Permits (rank 27)
Trading Across Borders (rank 20)
Closing a business (rank 14)
Registering property (rank 12).

Similarly, the World Economic Forum's Competitiveness Report of 2011-12 identifies the following as the "most problematic factors for doing business" in the US, in order of importance:

High tax rates
Inefficiency of government bureaucracy
Access to financing, and
Tax regulations.

All these are the constraints that must be addressed -- both at the Federal and State levels -- if we want to avoid US firms seeking production opportunities in other countries. In particular, tax reform is urgently needed.

2. **Investment in Information Technology Infrastructure:**

Innovation and technological change benefit not only the firms undertaking them, but have many spill-over effects that benefit the economy as a whole. In this regard, they can be considered public goods. This also means that private enterprises may not by themselves invest in IT has much as may be needed by the country. The state government therefore do have a role in encouraging and promoting the grow of a well-developed information, communication and internet infrastructure that can facilitate the effective communication, dissemination, and processing of information.

3. **Establish Links between Business and Research Centers, Universities, Consultants and other groups**

An effective innovation system with dynamic interaction between the world of science and technology and the world of business that can tap into the growing stock of global knowledge, adapt it to local needs, and transform it into products valued by markets. The state governments may take measures to encourage an expansion in the number of university programs with support/collaboration with businesses.

4. **Investment in Education**:

An educated, creative, and skilled population that can create and better use knowledge. The state governments should find ways to encourage the greater private sector financing of educational facilities not only at the university level, but at all levels of education. The use of education vouchers to permit parents to select the primary and secondary schools for their children will increase competition and encourage better education.

5. Establish Technology Parks with government infrastructure support but managed by the private sector.

Well-designed technology parks have proven to be effective in reducing the cost of doing business for technology firms. State government can promote the establishment of these parks with government support of infrastructure, but with private sector management.