

Building the New Economy: The Challenge Ahead

We must build a new economy out of the ruins of the old. Creating an economy of shared prosperity and sustainable growth will require fundamental changes in strategy, priorities and policies.

The president is correct: "We cannot go back to the bubble and bust economy that led us to this point," and we should not want to. That economy was grounded on stagnant incomes and increasing debt, floated on asset bubbles that have now exploded. We can't go back to an economy where 40% of corporate profits come from the financial sector speculating off of inflated home prices, maxed out credit cards, overleveraged banks and overvalued assets. We can't sustain an economy where the wealthiest capture the rewards of growth while working households see their incomes decline – even when the economy is growing. We can't continue to serve as consumers of the world, while borrowing \$2 billion dollars a day from creditors abroad.

"We cannot rebuild this economy on the same pile of sand. We must build our house upon a rock. We must lay a new foundation for growth and prosperity."

—President Barack Obama

Economic recovery cannot come without reform. Even as we struggle to stem the hemorrhaging of jobs to start putting people back to work, we must address the fundamental reforms and new economic strategies vital to create a solid foundation for the future. The president's signature reforms begin this process. Reforming health care – and getting its costs under control – is essential not only for a healthier society but for a more competitive economy. Comprehensive financial reform is vital not simply to curb the financial casino but to return banking to its essential function of providing capital for Main Street. Empowering workers to organize is critical if the blessings of future prosperity are to be widely shared.

In addition, we need to generate a new engine for growth in America, one that will replace the bubble-bust economy of the past decades. Sobered by staggering losses in home values and savings, shaken by still rising unemployment, American consumers are tightening their belts. They are in no position and no mood to return to spending more than they earn, taking on debt, while serving as consumers to the world.

This requires abandoning the policies that drove us off the cliff and adopting a very different course. As consumers step back, public investment in areas vital to our future must help generate demand. Instead of policies unleashing financial speculation, we should be fostering renewed manufacturing, favoring Main Street over Wall Street. Instead of unsustainable trade deficits, we should be concerned about making it in America, and moving towards more balanced trade.

Rebuild America

In the short term, deficit financed public spending has helped generate jobs and provide the support for demand essential in stemming the economic downturn. But central to the new economic strategy should be sustained public investment in areas vital to our future – in building a 21st-century infrastructure, in educating our children and training our workers, and in research and development, helping to generate tomorrow's inventions.

Expanded investments are vital to meet a staggering public investment deficit that undermines our economic productivity and competitiveness. We see the effects of the infrastructure deficits dramatically – dikes failing in New Orleans, the bridge falling in Minneapolis, the exploding water main terrorizing Manhattan. But we pay the price each day in gridlocked traffic, outmoded water systems and schools in disruptive disrepair. The biannual report of the American Society of Civil Engineers estimates it would require \$2 trillion in spending over five years simply to bring our infrastructure into decent repair. And we aren't keeping up with modern demands – for air transport, for broadband access, for a modernized electric grid. We're not keeping up in the training of skilled workers, particularly scientists and engineers. Research and development spending has declined as a share of gross domestic product over the last two decades. Expanded public investment now is essential to making our economy more productive.

In a global economy, public investment has significant advantages. As opposed to top-end tax cuts, public investment funds are more likely to be productively invested and more likely to be spent at home. Moreover, with strategic long-term investments – in modernizing the grid, developing a fast train system, moving to new energy – we can use our purchasing power to encourage companies to bring the best technologies here, and build production plants and supply chains here.

In recovering from the recession, few doubt the need for public investments that are financed by deficits. The only worry is that they take too long to implement. But this economy is facing not a short-term downturn, but a prolonged stagnation or jobless recovery. Long-term commitments to build the infrastructure, modernize the education and training systems, and fund research and development are essential to helping to mobilize private investment in a time of slack demand. If Americans are increasing their savings, and corporations are reluctant to invest, then government must step in to replace the demand. Debt financing of public investments make the most sense. Public investments have a productive return; their benefits accrue over time so it is reasonable that they be paid for over time. Creating a national public investment bank with the authority to issue long term bonds would provide a formal structure for infrastructure financing – and help insure the investments were made more strategically. A formal capital budget account in the federal budget would help distinguish those expenditures sensibly financed over time from the operating expenses that should be paid for annually.

Making it in America

As we rebuild the economy, we must be concerned with reviving manufacturing in America. The old model assumed trade deficits were almost virtuous, helping to hold down costs, accepted manufacturing job losses and off-shoring of investment as natural and paid little attention to the question of where new industries would develop. The new strategy must be clear about making a vibrant, cutting-edge manufacturing sector a centerpiece of the economy.

President Obama has already identified the green industrial revolution as a centerpiece of this effort, promising to “harness the renewable energy that can create millions of new jobs and new industries.” Obama argues that we cannot “accept a future where the jobs and industries of tomorrow take root beyond our borders.” The president’s Recovery Act provided funding for renewable energy and for making buildings and homes more efficient. His energy bill is designed to create a framework for the clean energy economy, spurring investment in renewable energy, fuel-efficient cars, and environmentally certified construction.

“The fight for manufacturing is the fight for America’s future.”

—President Barack Obama

But this alone won't insure that the jobs are created here. China has targeted renewable energy – windmills and solar cells – as strategic industries, and is moving aggressively to capture the global markets. European countries have subsidized production and technological development. In the 1970s, we led the world in new energy development. Today only two of the top 10 producers of wind turbines and only one of the top 10 producers of advanced battery manufacturers are in the U.S. Most of the wind turbines installed in the U.S. last year were made outside the country. We're already running a green trade deficit. As United Steelworker President Leo Gerard states, we are in danger of substituting our dependence on foreign oil with a dependence on imported solar cells and windmills.

So it is vital that America uses the leverage provided by its purchasing power and a long-term commitment to new energy to insure that companies build the best technology here. State and local governments can lead through their procurement contracts. The U.S. government can help map out strategies to capture supply chains, so that America is not simply left with final assembly jobs. That will require locating skilled workers and insuring a well-trained workforce. It will require countering subsidies offered by other nations to capture investments. With the rising energy and environmental costs of transport boosting strategies for buying locally and supplying locally, a coherent U.S. strategy in this area could have dramatic effects. Without one, we could easily end up losing what Obama calls the vital "race for the future."

Fair Trade: Expanded and Balanced

For years the International Monetary Fund warned of the destabilizing effects of the massive trade imbalances, and there is little doubt that the financial bubble was fueled in large part by growing U.S. indebtedness and the housing bubble. It is also clear that these were both fed by the money recycled by foreign nations, largely the Chinese, as part of their mercantilist trade strategies to sustain undervalued currencies.

As we come out of the ruins, it is vital that we move to a more balanced global economy. This requires, as the president says, that America move from an era of "borrow and spend to one where we save and invest, where we consume less at home and send more exports abroad." We will have to make more of what we purchase at home, and sell more of what we make abroad. But this can't be done without other nations, particularly China which now generates over three-quarters of our manufacturing trade deficit, rebalancing their economies. China will have to buy more of what they make at home, and sell less of what they make abroad.

Hoping to do this wrenching transformation cooperatively, President Obama made it a centerpiece of the discussions at the G-20, the gathering of nations with the 20 largest economies in the world. The G-20 has set up a monitoring process, designed to put equal pressure on both surplus and deficit nations. A global negotiation is the best process to create and enforce the necessary currency realignments.

But the U.S. must show that this isn't simply a rhetorical position, that after years of disdainful neglect, we now really are intent at reducing our deficits. Conservatives suggest that means cutting *budget* deficits, but there is no evidence that the *budget* deficit has any relation to *trade* deficits. We had budget surpluses under Clinton and the trade deficits went up. That's why the emphasis on a clear manufacturing strategy is so vital.

This can be sensibly reinforced by changing our tax policies that encourage the shipping of jobs abroad, by enforcing current accords against dumping or other mercantilist trade policies. If the energy act passes, we should insure that companies can't undermine global warming regulations by moving production to countries without environmental regulation. The U.S. should state flatly that we are moving to reduce our trade imbalances over a set period of years. If progress is not made, we should put in place the system suggested by Warren Buffett, one of America's leading investors. Buffet would simply issue import vouchers to exporters. The companies could sell them to companies that want to import and that would subsidize exporters and raise the cost of imports. We could reduce the total volume of vouchers slowly each year to enforce limits on the trade balance. Even the pursuit of the program would give cautious global companies the incentive to on-shore new jobs and investments in the U.S.

Time To Go Another Way

For 30 years, we have followed a conservative economic strategy – cutting top-end taxes, scrimping on public investment, pursuing a strong dollar and corporate trade strategies, deregulating finance, putting pressure on wages, deferring action on reforms vital to our economy – from health care to catastrophic climate change. Now we have witnessed the results.

The economy witnessed booms and busts, while the typical working family lost ground. Wages didn't keep up with the soaring costs of health care, of college, of retirement. Good jobs were shipped abroad, and we became the world's largest debtor nation. Inequality grew; our education system fell behind. And we suffered financial crises of increasing frequency and severity. Now we are still struggling to recover from the worst economic downturn since the Great Depression.

It is time to go another way. We need a new growth strategy – one featuring public investment, a revived manufacturing sector leading the new green industrial revolution, and expanded, but balanced, global trade. We can rebuild America and revive the American dream – but only if we get the change we need.

“...New rules for Wall Street that will reward drive and innovation; new investments in education that will make our workforce more skilled and competitive; new investments in renewable energy and technology that will create new jobs and industries; new investments in health care that will cut costs for families and businesses; and new savings in our federal budget that will bring down the debt for future generations. That is the new foundation we must build.”

—President Barack Obama

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