TOWARD A U.S. COMPETITIVENESS STRATEGY

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The 2016 U.S. presidential election turned in part on the fact that people who live in areas of the United States that have suffered job losses due to global trade tended to vote for Donald Trump.[1.] President Trump bested a number of big-name contenders in both the Republican and Democratic parties largely because he was the only candidate who focused continually on the impact international competition has had on the domestic economy.

Once upon a time—from the nation's founding up to the Great Depression—the ability of U.S.-based businesses to compete in global markets was central to American economic policy and political platforms. However, that has not been the case since Franklin Roosevelt was president. The reasons include the primacy of geopolitical concerns; the lack of industrial competitors in the aftermath of World War II; the development of Keynesian economics, which focuses on the economic cycle rather than on structure; consistent positive trade balances up to the early 1970s; and political conservatives' general antipathy, from the 1980s forward, toward activist policies designed to advance national competitiveness—think Reagan's disparagement of "industrial policy".

In this essay I propose a U.S. competitiveness strategy comprised of elements—information, analysis, collaboration, and strategy—drawn from America's 19th-century economic playbook—a time when the nation cared about competitiveness—and repurposed for the 21st century. I begin this article by describing my rationale for a competitiveness strategy, then set out principles of approach, and end by suggesting three activities on which to construct a strategy.

RATIONALE

The nation's economic well-being is determined by the ability of U.S.-based business establishments to sell goods and services in increasingly competitive international markets. These establishments' competitiveness depends on their capacity to innovate—to provide customers with goods and services that have unique characteristics, at an attractive cost, and with superior service.

Market mechanisms alone cannot give businesses adequate access to a number of the resources important to competitiveness. Historically, examples of such resources include new general-purpose technologies, transportation and communications infrastructure, skilled and educated workers, financial capital, basic and applied research, product standards, collaborative networks, socioeconomic data for decision-making, reliable market operations, frameworks for dispute resolution, and macroeconomic stability.

The federal government has long played an important role in facilitating business access to important resources that are not adequately provided through market mechanisms—that is, in helping markets work better. Between 1789 and 1932, Congress regularly sought to develop an integrated, organized approach to competitiveness policy. After the loss of U.S. economic hegemony in the 1970s, Congress and multiple presidential administrations have put forth a stream of competitiveness-related policies and programs. Regrettably, these have not been designed, managed, and monitored in an integrated fashion. Moreover, although the America COMPETES Act of 2010 required the U.S. commerce secretary to produce an international competitiveness strategy, this has not been done.

Meanwhile, other industrialized and industrializing nations, such as China, India, Singapore, Taiwan, Germany, and Finland, are actively developing and implementing comprehensive national competitiveness and innovation strategies. In America's early years, when the country was competing against the world's industrial giant, Great Britain, the government took a similar approach. For instance, Congress directed the treasury secretary on four occasions (1790, 1809, 1815, and 1832) to prepare a plan to promote U.S. manufacturing competitiveness.

It is in the nation's economic interest for the federal government to once again systematically and strategically assess the competitiveness of U.S.-based industry and its capacity to innovate, and to encourage improvements based on these assessments. Furthermore, such actions will help the American public understand the importance of investing in building the nation's base of assets, including its people. A set of evidence-based competitiveness policies could lead the nation to have a much broader sense of "we" and a reduced sense of "them."

PRINCIPLES OF APPROACH

Because global markets change quickly, successful business leaders must be knowledgeable, entrepreneurial, innovative, strategic, and collaborative. To promote economic growth effectively, the federal government must have these qualities as well. A White House competitiveness and innovation strategy should rely on the following principles of approach.

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Be Knowledgeable. The White House must have access to an "economic intelligence network" of federal agencies and other organizations that provide regularly updated information on

- the size and competitive strengths and weaknesses of the U.S. trade sectors;
- the strengths and weaknesses of the systems that drive competitiveness and innovation, including workforce development, R&D, and communications infrastructure;
- federal policies, programs, and staff resources that promote competitiveness and innovation; and
- the relative efficacy of alternative approaches to competitiveness and innovation policies and programs.

Be Innovative and Entrepreneurial. The White House should encourage responses to economic intelligence that are creative, adaptive, and flexible, rather than linear, formulaic, or prescriptive. The White House can encourage experiments, particularly if they are low cost and the results can be utilized.

Be Strategic. The White House should encourage the design of competitiveness and innovations policies and programs that have a high impact relative to their cost. In doing so, it should promote information- and relationship-based efforts, as these have the potential to influence a large number of decisionmakers at a very low cost.

Be Collaborative. The White House should encourage and facilitate the development of inter-organizational networks—across the federal government and with outside organizations—as a key means of intelligence gathering, analysis, strategy development, and implementation. Outside organizations include trade and industry associations, universities, other research organizations, and businesses. Public-private collaboration, which is a bottom-up approach to industry strategy, differentiates this approach from the top-down efforts favored in many nations.

THE BUILDING BLOCKS OF STRATEGY

The White House, through the National Economic Council, should carry out three activities that would establish a foundation for a comprehensive, long-term strategy. These activities are (1) assessing U.S. competitiveness by industry, (2) gaining a comprehensive picture of the federal policies and programs that support competitiveness and innovation, and (3) carrying out strategic industry analyses.

Assessing U.S. Competitiveness and Innovation

An effective national strategy for competitiveness and innovation must be based on an accurate reading of the nation's economic competitiveness. The National Economic Council should prepare and regularly update three analyses:

- A summary of the characteristics of the traded portion of the U.S. economy (the businesses that compete in international markets), by sector
- A working picture of the nature of competitiveness and innovation, their importance to the nation's economic health, and their sources (drivers)
- A detailed series of indicators of U.S. competitiveness and innovation, and their drivers, relative to other nations

The value of the nation's economic intelligence largely depends on the quality of its economic statistical system. Unfortunately, the current system is geared toward cyclical policy, not competitiveness; domestic manufacturing, not services and foreign trade; and surveys, not "Big Data" and administrative records. As a result, the federal government cannot obtain a current, detailed, accurate picture of U.S. economic activity and competitiveness.

To address this problem, the White House should ask Congress to establish federal economic statistical agencies that have the authority and the resources to carry out a series of improvements that together would cost about $40 million annually (see Text Box 1, below).

Comprehending the Breadth of Competitiveness and Innovation Policies and Programs

To design and implement an effective competitiveness and innovation strategy, the White House must have knowledge of current relevant policies, programs, and resources operated by the federal government, at the state and local level, and by national nonprofit organizations, and those developed by foreign nations.

Competitiveness and innovation policies are crafted in the context of a complicated, idiosyncratic collection of relevant federal laws, programs, and resources. New policies are more likely to be effective if decision-makers are fully aware, and take advantage, of this context. Therefore, the White House should prepare a comprehensive set of reference materials on federal competitiveness policies, programs, and resources. The materials would include the U.S. Code, executive orders, programs, interagency working groups, advisory committees, experts, and congressional caucuses.[2]

The White House also should prepare reference materials on non-federal competitiveness and innovation policies, programs, and resources. These materials should include efforts by U.S. states, regions, and nonprofit organizations, along with foreign national strategies. Knowledge of non-federal domestic efforts could spark useful ideas and help identify how the government can complement these activities without duplicating them. Knowledge of foreign efforts would aid similarly in designing national strategy.

The White House should support efforts by the Commission on Evidence-based Policymaking and the Census Bureau to create a federal data clearinghouse that enables an assessment of the impact federal programs and regulations have on competitiveness and innovation. This would allow the creation of competitiveness strategies based on knowing what works, what doesn't work, and why. The commission is scheduled to release its report in September 2017.

Conducting Strategic Industry Analyses

The federal government organized numerous systematic strategic analyses of industry sectors in the first third of the 20th century. Similar studies have been conducted at the state and regional levels and in foreign nations for decades. Some of the studies were conducted periodically in recent decades by the U.S. commerce and energy departments.

A strategic industry analysis measures a sector's economic contributions, assesses its competitive strengths and weaknesses, and provides a basis for addressing those findings. A good analysis is informative, accurately reflects market conditions, includes the input of a wide range of industry-related actors, and catalyzes public and private action. (Typical elements of a strategic industry analysis are presented in Text Box 2, below.)

In the near term, the National Economic Council should sponsor the first round of

TEXT BOX 1. ECONOMIC STATISTICAL AGENCIES THAT COULD IMPROVE U.S. ECONOMIC STATISTICS

Innovation Accounting under the Bureau of Economic Analysis: Provide $2 million annually to accurately ascertain the role innovation plays in U.S. economic growth.

Longitudinal Enterprise Database under the Census Bureau: Provide $1 million annually to construct and regularly update a database of U.S. enterprises to provide a richer picture of the economic activities of firms that operate in the U.S. A longitudinal enterprise database would enable industry analysts to examine, for instance, the impact firm characteristics have on firm and industry outcomes, by industry.

Bulk Download Tool under the Securities and Exchange Commission: A web tool funded by user fees would enable the bulk download and analysis of SEC filings, which are a rich source of information on the structure, relationships, activities, and locations of U.S. corporations. Analyses of these data would enhance understanding of the characteristics of firms and the impact they have on competitiveness.

International Trade Data: Analysts currently have significant difficulty measuring and assessing the full nature of economic relations between the U.S. and other nations. This could be improved by establishing the following:

- Services Trade Data under the Bureau of Economic Analysis: provide $3 million annually to provide more detailed information on U.S. trade in services, by industry. The Bureau's data on trade in services do not have the same quality and detail as do data on trade in goods.
- International Price Indices under the Bureau of Labor Statistics: provide $20 million annually to develop an input price index, import and export price indices for services, and a foreign currency price index. This would allow the government to accurately measure foreign trade trends by adjusting for price differences over time and between nations.
- Global Value Chains and Trade in Value-Added under the Bureau of Economic Analysis, Census Bureau, and U.S. International Trade Commission: provide $15 million annually to develop the capacity to map global value chains and measure trade in value-added. This would allow us to understand the role U.S. businesses play in the world economy, their strengths and weaknesses, and the implications for policy.
- Data Synchronization: authorize the Census Bureau to share IRS-derived data with the Bureau of Labor Statistics (BLS). One-third of businesses have been classified by Census in one industry and by BLS in another. Because Census is authorized to see IRS tax records and BLS is not, the two agencies cannot compare their records to be consistent. As a result, the government published two very different pictures of the distribution of jobs and earning by industry, which confuses economic policy. Allowing the agencies to compare notes would make it possible to develop one official statistical profile of U.S. economic structure, by industry.

TEXT BOX 2. ELEMENTS OF A STRATEGIC INDUSTRY ANALYSIS

- Narrative description of the nature of the industry (e.g., nature of goods or services, uses, trends in technology development)
- Statistical description of the characteristics of the U.S. industry (e.g., jobs, revenues, number and characteristics of firms and establishments, geographic location, trade and markets, foreign affiliations)
- Listing of the major actors in the U.S. and global industries, including firms, key establishments, trade and professional associations, university research centers, federal government agencies (e.g., regulatory, R&D)
- Statistical description of the global industry, trade dynamics, and the U.S. position in global activity (e.g., global value chains, trade in value-added, location quotients)
- Assessment of the key drivers of competitiveness (e.g., product qualities, transit speeds, labor costs, customer service)
- Identification of the competitive strengths and weaknesses of the U.S. industry—now and looking ahead
- Implications of the competitiveness analysis for the future of U.S. industry
- Elements of a U.S. strategy going forward, with identification of the roles of the various public, private, and nonprofit organizations

three strategic industry analyses to test various collaborative approaches, assess the value of the analyses, and gain experience in the implementation process. Each industry analysis would be expected to lead to the creation of a public-private entity to support implementation. The group analysis would create the foundation for a second round that would cover a larger number of industries. Through this industry-by-industry process, the public and private sectors would create a set of strategic efforts spanning the breadth of U.S. traded sectors.

To begin, the Council would identify the essential characteristics of industry strategic analyses concerning, for example the processes, timeframe (18 months), products, and outcomes, as a guide for the teams it would commission. Efforts should include government and industry participation.

Second, the Council would identify three traded industries of immediate interest. The choices should be informed by an overview of the traded economic structure suggested earlier.

Third, the Council would issue a public request for proposals for three strategic industry analyses to be carried out through public-private partnerships; a description of the desired substance, process, and outcomes of the industry review (including the need for industry involvement and plans for implementation); and the criteria by which each proposal would be judged. Proposals might come from federal agency teams, academic institutions, trade associations, consulting firms, and nonprofit research organizations.

Fourth, the Council would select three winning proposals, and those teams would get to work. Council staff would monitor the efforts regularly and provide feedback. After 18 months, the federal government would have a strategic assessment of three key industries and the basis for public-private collaborations to act on those assessments. It also would have a greater understanding of the efficacy of various public-private collaborative approaches and knowledge of how to design a second round of industry assessments.

CONCLUSION

For almost a century, elected federal policymakers have neglected the fact that the health of the nation's economy depends on how well U.S. businesses compete in global markets. The consequences of that neglect can be seen across America's communities. Efforts to boost U.S. competitiveness were once central to federal policy, and they can be so again. The potential benefits to economic growth, jobs, earnings, profits, and public health far outweigh the modest costs of investing in data, information, and indicators, and collaboratively assessing and addressing competitive strengths and weaknesses, industry-by-industry.

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1. Eduardo Porter, "Where Were Trump's Votes? Where the Jobs Weren't," *New York Times*, December 13, 2016.

2. The U.S. Code is the official compilation and codification of the general and permanent federal statutes of the United States.