



How the United States Can Become an Export Giant

Howard F. Rosen argues that exports are a key to US economic recovery but that export-led growth will require public and private investment.

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Steve Weisman: Improving exports is key to the future of the United States' economic recovery. This is Steve Weisman at the Peterson Institute for International Economics with Howard Rosen, resident visiting fellow at the Institute, to talk about how and why the United States can improve that performance. Howard, thanks for joining us.

Howard Rosen: Thank you for having me.

Steve Weisman: Why is export performance so important to prospects for economic recovery in the United States?

Howard Rosen: The key is that exporting is the only way we can get out of the economic mess we've gotten ourselves into without sacrificing our living standards. For about 30 years we have been consuming more than we've been producing. As a result of that, we've accumulated a lot of debt. Not just government debt but also private debt. In fact, if you put all of this together the debt is actually larger than our GDP right now. And so in order to move forward, we have to do two things: we have to pay down that debt, and we have to increase investment in productive activity in order to produce more and employ more people.

How do we both contract and expand at the same time? We need to shift from consuming more than we produce to producing more than we consume, and that means exporting. So again, if we were to just draw down the debt or if we were not to have economic activity, that's going to hurt our living standards. The only way that we can move out of the current situation and improve our living standards is by exporting. And that's why I suggest that exporting is no longer an option for the United States, it is an imperative.

Steve Weisman: President Obama signaled last year at the G-20 Summit that the world must expect that the United States will rely more on exports. One signal that some countries got was that the United States would address currency concerns that have affected exports. But Howard, you have testified before Congress that there are other steps that the United States can take. What are some of them?

Howard Rosen: The main thing is that we need to develop an export culture here in the United States. First of all, we just are not an exporting country. We have some firms that export, but we're not an exporting country. Only 4 percent of US companies actually export and most of those companies are large companies. Those companies with

more than 500 employees make up 70 percent of our exports. So we need to not only just have our companies export more but we need to broaden the base. We need to have more exporters. We need to start getting small- and medium-sized companies into exporting also. As I said, exporting is no longer just a luxury, it's an imperative. The question is: How do we build or develop that export culture? I would argue that comes in several different ways. The first thing is that we need to have a macroeconomic environment that's conducive to exporting. We need drastically to increase our investment in real productive activities. What I mean by that is investment in plant and equipment and technology, not residential investment but nonresidential investment.

Steve Weisman: What are some sectors in the economy where that investment might bring dividends?

Howard Rosen: Well, primarily in the manufacturing sector.

Steve Weisman: Such as what kinds of things? We know that planes are a big export item but what other things might the United States look to export?

Howard Rosen: For a long time the United States has been known for developing new technologies, but then once they get into mass production they move overseas. There's no reason why we should be losing the production and we should be able to capture the real profits from our investment in the technology and innovation.

Steve Weisman: And create jobs.

Howard Rosen: And thereby create jobs, correct. Not only create jobs but create high-wage jobs and, as we'd like to say, good jobs. So you can go down the list, none of these new technical gadgets are made here in the United States.

Steve Weisman: But they could be.

Howard Rosen: But they could be.

Steve Weisman: And what kind of gadgets are we talking here?

Howard Rosen: All of the telecommunications, all of the things for the TVs and the videos and all those. But more importantly, scientific equipment, measuring equipment, these are very—

Steve Weisman: Medical equipment.

Howard Rosen: Medical equipment. We have traditionally been a producer of medical equipment and an exporter but we're facing competition from others. And as we face that competition we've been pulling back. It's a two-edged sword: not only do we have to export but we have to attract our companies to maintain their production here in the United States and not move their production overseas.

Steve Weisman: Are there tax policies or other things that can be done to do that?

Howard Rosen: Yes. For example, a lot of our major companies are placing their research and technology here but then once it gets in to the development and productions stage it moves overseas. So yes, there are tax policies that should be done. First of all, we tax export income. We also tax the sales of things here that are made here in the United States and so if the taxes are higher here than they are in other countries, that's going to be a disadvantage and countries and companies are going to want to get behind those tax barriers. Then we also tax companies for some of their offshore activities. That also needs to be addressed. Most economists would say that we need to move toward a consumption-based tax system.

Steve Weisman: Like a value added tax?

Howard Rosen: Like a value added tax. That idea obviously has been around for many decades and lots of people would say we're getting closer and closer. I don't necessarily see us throwing out our current tax system and replacing it with a VAT anytime in the real near future, but we can, on the margin, expand the kinds of taxation that we do and make it more consumption-based tax as opposed to income tax. For example: the whole issue of taxing carbon emissions, gasoline, all of those kinds of things. Those are consumption taxes and that would be consistent with what I'm suggesting.

Yes, there is a tax issue that needs to be addressed. But again, I want to come back because it doesn't get enough attention. Productive investment in the United States as a share of GDP is at the lowest that it's been over the last several decades. We have been disinvesting in productive activity in the United States. There is no way we could, over the long term, create jobs unless we have the investment to support that. There's a lot of stimulus money out there right now and that's great. But what that's doing is, one, it's stopping the hemorrhage from job loss but it's also creating some short-term jobs, which is great for the current situation but doesn't solve our long-term problem. The only way we can do that is to raise productivity. The only way we can raise productivity is by investing more in plant equipment. So although that sounds like a domestic agenda, it is intrinsically linked to an export strategy.

Steve Weisman: Can those investments be geared to export industries?

Howard Rosen: Steve, that's a great question because I believe what's happened is our anxiety over industrial policy has inhibited us from determining our strengths and our weaknesses. I mean that from an analytical standpoint. We don't really look back and say, "Which industries are the strengths in this economy?" And then whenever we do that, everyone always says, "Oh we don't want industrial policy."

Steve Weisman: We don't want to pick winners and losers.

Howard Rosen: We don't want to pick winners and losers, okay? The important word there is "pick." I'm not suggesting picking them, I'm suggesting knowing them. And so if we know them, then the market is going to respond and will shift investment toward those industries. Let me give you an example. On the day that I testified, Senator Wyden released a report on the new green industries and how we need to promote export and production exports in those industries. It is a great initiative. We really need to do that. Currently, those industries comprise 3 percent of our exports. Those

industries are not currently the answer to our export problem. So doing that kind of an analysis where we say, yes, these are the ones we want to promote but they're really small right now. Over time they can get bigger but what we really need to know is: What are the big industries?

Steve Weisman: But you think that Senator Wyden's proposal was a good one but not enough or do you think it's a bad proposal?

Howard Rosen: It is the right proposal. It is a strategy, but it is not enough.

Steve Weisman: Right.

Howard Rosen: And all this talk about green industries and green jobs, we should be promoting that and we're sending a signal to the market in that. But all I'm saying is that that's not where the jobs are right now. We need to capitalize on our strengths right now.

Steve Weisman: Finally, you see an important role, don't you, for public expenditure on infrastructure that could facilitate exports?

Howard Rosen: I do. And there again I would clarify this by saying, yes, our infrastructure in this country is falling apart. We need to do something about it. Everything we're doing now is catching up. We need to even go beyond catching up to expand it. But I would argue that furthermore our investment in infrastructure should be export oriented. Let me give you an example. Our airports in this country, most of them are not fitted for large cargo airplanes to take exports. We have only two or three major ports in the United States—New York, San Francisco, Oakland, and Atlanta—and these are our major ports. We need to increase the number of our ports in this country. We need to modernize them. We need to make sure that our airports can handle exports. And in addition to that, we need to create what is called an intermodal system so that all of our infrastructure connects to one another. Our roads and our bridges connect to the airports so the trucks can move the material, and we don't have that right now because our infrastructure was built around moving people and not goods. So again, that's part of this recreating an export culture in this economy.

Steve Weisman: Howard thanks very much for walking us through that. Let's stay on top of this and talk again as Congress considers these measures.

Howard Rosen: Thank you.

