MakingItInAmerica

BUILDING THE NEW ECONOMY

Where we're going. How we'll get there.

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OurFuture.org

America's economy is now struggling to recover from the Great Recession. But even when the economy was said to be humming, it did not work for most Americans. Wages were stagnant or declining and the costs of basics – health care, housing, college – were soaring. Growth was built on unsustainable debt, as the country borrowed $2 billion a day from abroad and Americans spent more than they earned. Wall Street captured fully 40 percent of the country's profits.

President Obama has stated that we can't go back to the old economy, and shouldn't want to. We must make more, sell more and consume less. The question is: What is our economic strategy in a global economy?

"The fight for American manufacturing is the fight for America's future," Obama has declared. That fight will require a fundamentally different economic strategy, one that will ensure a sustained prosperity that is widely shared, one that will leave the American dream within reach of those who work hard.

Making It In America is a new project sponsored by the Institute for America's Future in conjunction with its sister organization, the Campaign for America's Future, to expand these discussions from small groups of experts into a broad public debate. Through conferences, papers and an aggressive effort to engage the press and the blogosphere, IAF and CAF will seek to further explore and debate America's global economic strategy, with an emphasis on reviving manufacturing as a key element in the new economy.

We invite you to join an open discussion between bloggers, industry and union leaders, economists, policy experts and legislators exploring what it will take to make this happen.

For information on the project, contact us at *makingit@ourfuture.org*.

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We can't go back. We can't pull out of the present downturn and return to the economy of the past—a high-consumption, low-wage economy based on asset bubbles and foreign borrowing. We need to look ahead. Our response to the current crisis must plant the seeds for the economy of the future.

The contours of the new economy are starting to take shape. Barack Obama set a different tone with an inaugural address that promised a "new foundation for growth."

> "We will build the roads and bridges, the electric grids and digital lines that feed our commerce and bind us together…. We will harness the sun and the winds and the soil to fuel our cars and run our factories. And we will transform our schools and colleges and universities to meet the demands of a new age. All this we can do. All this we will do."

> "It is not sustainable to have an economy where in one year, 40 percent of our corporate profits came from a financial sector that was based on inflated home prices, maxed-out credit cards, over-leveraged banks and overvalued assets. It's not sustainable to have an economy where the incomes of the top 1 percent has skyrocketed while the typical working household has seen their incomes decline by nearly $2,000. That's just not a sustainable model for long-term prosperity."
>
> **President Obama**
> *April 14, 2009, Georgetown University*[3]

Some of this is happening already. "Recovery Act" signs dot the landscape where construction crews are fixing bridges, filling potholes and laying new airport runways. Field work has started and competitive grants have been awarded to improve our nation's electric grid and create new, renewable sources of energy. The House of Representatives has passed, and the Senate is considering, the biggest boon for college student financial aid in a generation, shifting $87 billion in subsidies from banks to students over the next decade.

Outside of government we hear a different tone. Titans of finance receive more scorn than awe. We hear talk of sustainability, about returning to a real economy based on production, not consumption, and manufacturing, not finance. Celebration over cheap Chinese imports is giving way to alarm over the loss of jobs, currency manipulation, low environmental standards and dangerous workplaces that lower Chinese costs and give Chinese imports an unfair advantage.

But the opposition to reform is fierce. Wall Street is mobilizing against financial reform and regulation. Obama's decision to impose tariffs on Chinese tires was called "economic vandalism" —though he merely followed the recommendation of the independent, bipartisan International Trade Commission under a safeguard against market disruption that China had agreed to in advance.[1] Similarly, modest "buy American" provisions in the Recovery Act, designed to keep more American stimulus spending in the American economy while meeting our international obligations, met accusations ranging from "counterproductive" (U.S. Chamber of Commerce) to "the worst instincts of Congress" (*The Wall Street Journal*).[2]

Deficits generate concern across the political spectrum. Already bloated from Bush's tax cuts and wartime operations, the deficit was pushed to alarming heights by the recession and the urgent recovery spending. Good Democrats worry that government spending on infrastructure, education, or even health care will break the bank.

The next economy must be built on a solid platform. It goes without saying that we need to reform health care. Beyond that, we need to rebuild our infrastructure, renew our manufacturing base and educate our people.

Building a 21st Century Infrastructure

We need to modernize our infrastructure, the backbone of our economy. The public investment deficit in this area is staggering and costly. One in four bridges in the United States is "structurally deficient or functionally obsolete."[4] Most drinking water and sewer pipes are more than 50 years old, and many are more than 100 years old.[5] A third of our public schools are in conditions bad enough "to interfere with the delivery of instruction."[6]

The troubles seem endless. Our electric grid is obsolete; our fastest trains run a fraction the speed of high-speed rail in Europe and Asia. Investment in research and development—vital to the products and markets of the future—is chronically underfunded. The U.S. will not thrive in the global economy unless we lift our economic infrastructure into the 21st century.

These problems did not arise overnight. They are the result of years of deferred maintenance and budget decisions that prioritized tax cuts or immediate needs over long-range investments. Now the American Society of Civil Engineers estimates that $2.2 trillion is needed over the next five years simply to bring our infrastructure back to satisfactory condition.[7] To make it the best in the world would cost even more. The solution must be on the same scale as the problem.

The benefits of investment to scale are clear. The most immediate benefit is putting people to work. In this era of widespread unemployment and under-employment, hiring is urgent and necessary. As Barack Obama promised when he was still campaigning, "Maintaining our levees and dams isn't pork-barrel spending, it's an urgent priority, and that's what we'll do when I'm president."[8]

Infrastructure has long-term benefits as well. Freight moves faster and cheaper by rail than by truck. Childhood asthma can be reduced with larger classrooms and better ventilation. Commuters stuck in traffic might switch to subway or bus rapid transit — if lines, lanes and stations were made available. They'll waste less gas and get an extra week's worth of work (or vacation) every year.[9]

New energy infrastructure is a linchpin, with consequences ranging from clean air to national security. We can start simply, with weatherization and double- pane glass. Then we can climb the ladder to high-speed rail, so that travelers between New York and D.C. or Los Angeles and Sacramento can avoid airports and airplanes, with their costly jet fuel and the direct injection of exhaust into the upper atmosphere. Finally, we can get serious about alternative energy sources. We can improve solar technology and electrical storage, build wind farms, and modernize the transmission grid. That's the path to a clean-energy future that creates jobs in the short run and freedom in the long run.

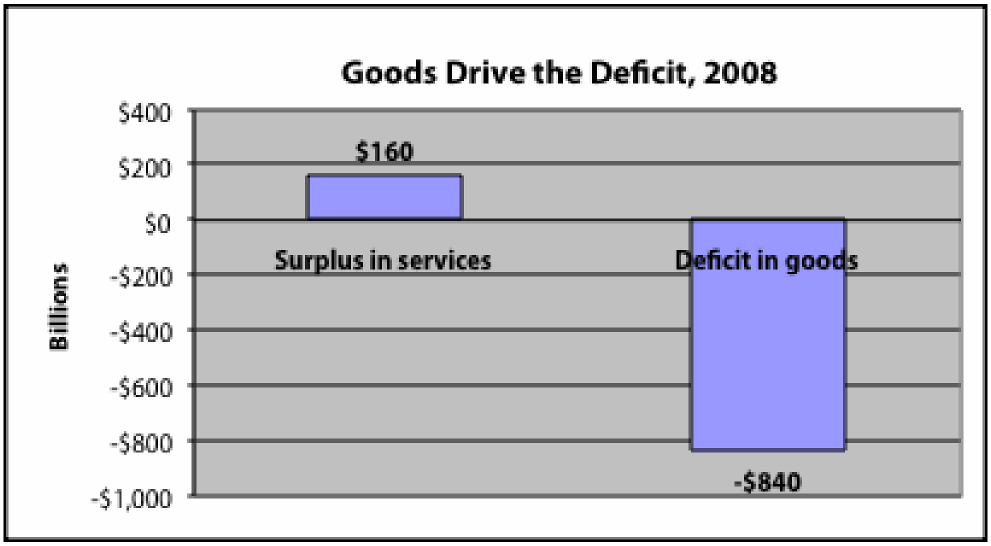
Restoring Production

"A new energy economy is going to be part of what creates the millions of new jobs that we need," Barack Obama has said.[14] He's right, of course. But America will not realize the maximum benefit of those

"Demoralization caused by vast unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order."

President Franklin Delano Roosevelt,
Fireside Chat, September 1934

Row of completed Model T's come off the Ford assembly line, about 1917.[15]



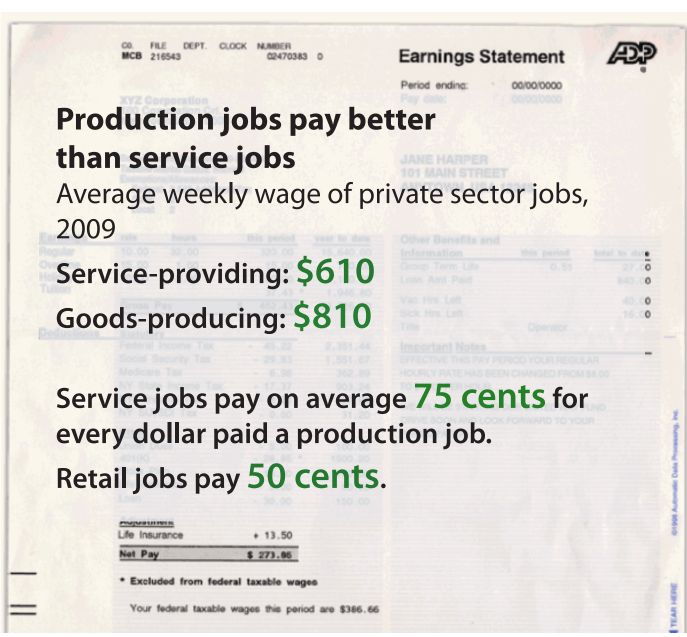
clean-energy jobs if we import the wind turbines from Spain and the solar cells from China. America needs to restore its productive capacity. It would be folly to replace our dependence on foreign oil with a dependence on foreign manufacturing.

From the Model-T Ford to the Arsenal of Democracy, America grew up as an industrial superpower. Production was at the heart of our national identity and our national strength. But America's once-robust system of economic production — the invention, design and manufacture of products — has steadily eroded. Instead of building, we import. Instead of producing, we consume.

First, the loss of production drives our trade deficit. Every year we import significantly more goods than we export ($840 billion in 2008), so our accounts are precariously out of balance.[16] We run a deficit in excess of $50 billion just on high-tech products, many of which we invented.[17] Our modest surplus in services ($160 billion in 2008) isn't enough to make up the difference.[18]

Between 1970 and 2009, goods-producing jobs in America shrank from 39 percent of the private-sector workforce to 18 percent (a decline of 54 percent). At the same time, service jobs increased from 61 percent to 82 percent (an increase of 34 percent).[19] This shift has not served our country well.

What's worse, the service jobs don't pay as well. Even in the broad category of "services"—which includes high-end professionals such as doctors, lawyers, and investment brokers—service-providing jobs have an average weekly wage of $610, compared with $810 in the goods-producing sector.[20] Service jobs pay 75 cents for every dollar paid a production job. Retail jobs pay 50 cents. This shift in the nature of work helps explain why median household income dropped a thousand dollars in the 10 years before 2008, the only 10-year period in census records in which incomes failed to rise.[21]



The loss of manufacturing has other consequences too. Manufacturing generates 60 percent of America's exports. To move to more balanced trade, we will need to make things to sell. And manufacturing accounts for 70 percent of U.S. research and development — so it's key to intellectual leadership.[8] Furthermore, economists argue that manufacturing has a higher "multiplier effect" than other sectors of the economy.[22] Manufacturing adds new value to the economy, which enables production workers to buy products and services from other sectors of the economy. Manufacturing has twice the multiplier effect of financial services or retail trade.

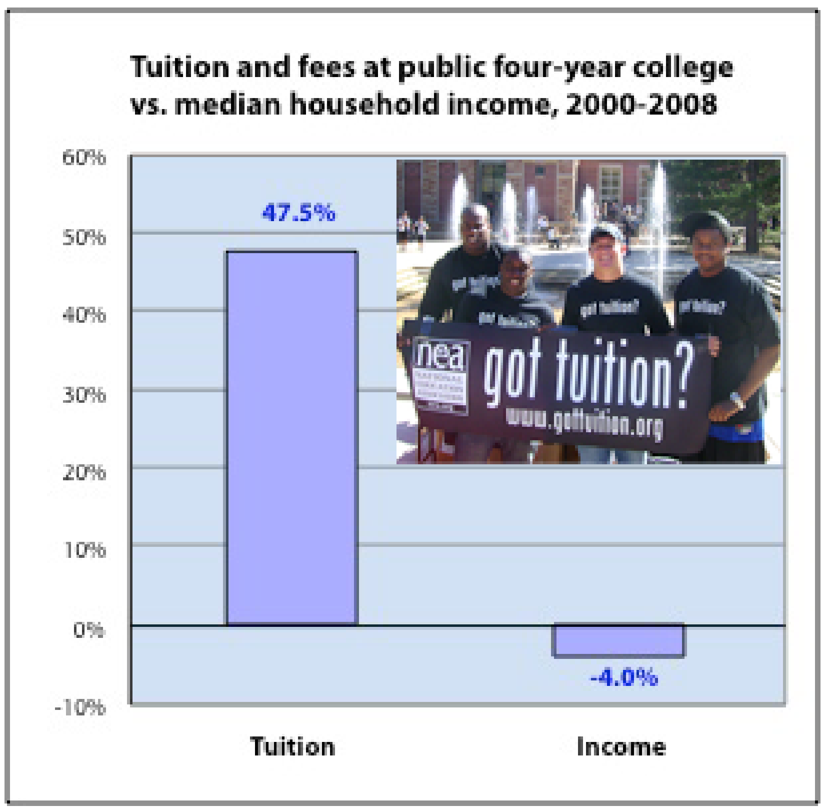
We need to go back to the basics. We need to move the economy back to production and confront the illusion that an economy can survive on services alone. America needs to return to an economy that makes things it can trade with others. That always has been and always will be the path to prosperity. As Barack Obama has said, "The fight for American manufacturing is the fight for America's future."[23]

Education

A 21st century economy requires a workforce with 21st century skills. America needs a first-rate education system that progresses with every step of life, meeting the needs of both students and workers, or as Obama himself stated, "from the cradle up through a career."

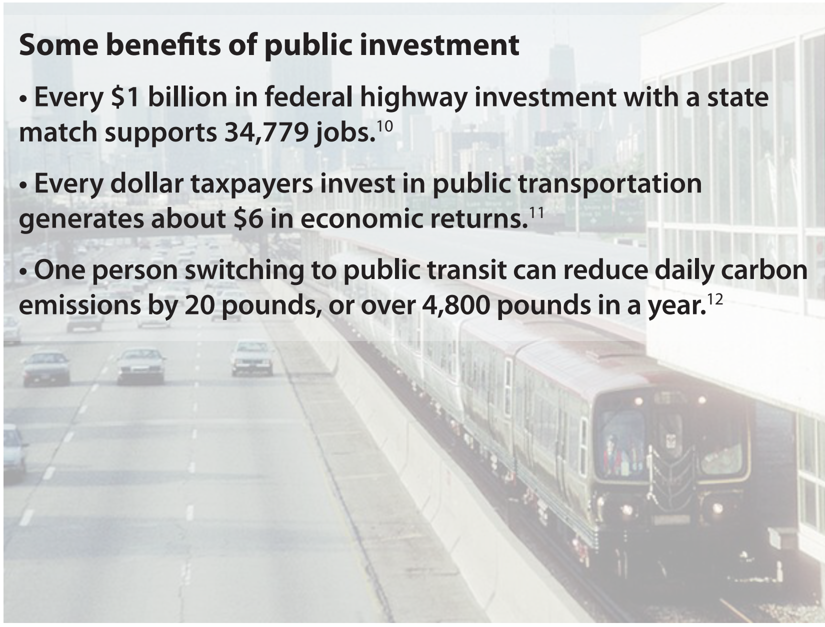
> "It's time to prepare every child, everywhere in America, to out-compete any worker, anywhere in the world. It's time to give all Americans a complete and competitive education from the cradle up through a career. We've accepted failure for far too long. Enough is enough. America's entire education system must once more be the envy of the world — and that's exactly what we intend to do."[26]

Today's education system is falling short. American children start from behind, even during the toddler years, because we disregard the classic lesson of Perry Preschool that one dollar invested in early childhood produces over seven dollars in later social returns — from fewer arrests to higher earnings and home ownership.[27] Once our kids reach school age, they fall further behind their age mates in many other countries every year. By fourth grade, American students rank 11th in reading literacy.[28] Entering high school, our students rank 20th in science and 31st in math.[29] When they graduate from high school—those who do—only 23 percent are prepared for college-level courses in English, reading, math and science.[30]



Post-secondary education is in similar trouble. Historically, a college degree helped individuals reach their highest personal potential and filled our economy with skilled, knowledgeable, and productive workers. But the cost of college today is soaring out of reach. Tuition and fees at four- year public colleges rose 48 percent between 2000 and 2008, but median income declined 4 percent over the same time.[31] Pell Grants to help lower-income families pay for college covered fully 77 percent of the total cost in 1977, but only 35 percent today.[32] That's why the average debt for college graduates today is a crippling $23,000 and why an estimated 1.7 to 3.2 million qualified students will skip college over the next decade.[33] They just can't afford it.

But college isn't for everyone. For millions of Americans, higher education means vocational, associate and certification programs. The nation's 1,200 community colleges play a crucial role in career development in fields ranging from manufacturing to nursing to law enforcement.[34] But public investment for these programs has also withered. In 1980, sixteen states contributed 60 percent or more of the total revenues of their community colleges; by 2000, that number dropped to zero.[34] Community colleges raised tuition to make up the difference, of course. During the downturn, states are cutting support for community colleges even more than they're cutting support for state colleges or universities.[35]



Some benefits of public investment

- **Every $1 billion in federal highway investment with a state match supports 34,779 jobs.[10]**
- **Every dollar taxpayers invest in public transportation generates about $6 in economic returns.[11]**
- **One person switching to public transit can reduce daily carbon emissions by 20 pounds, or over 4,800 pounds in a year.[12]**

This lack of investment feeds one of the great ironies of the American workforce. Even when the economy is growing, our workers often have a hard time finding work—while our employers often have a hard time finding workers with the skills they need. A survey by the National Association of Manufacturers found that more than 80 percent of manufacturers reported difficulty finding workers with the skills they need.[36] Ninety percent of the fastest-growing job categories, 60 percent of all new jobs, and 40 percent of manufacturing jobs now require some form of post-secondary education.[37]

The federal government is moving to address this issue. In 2007, Congress increased Pell Grant awards for the first time in years. The Recovery Act directed over $98 billion to state education budgets and school infrastructure.[40] The Student Aid and Fiscal Responsibility Act would end $87 billion of bank subsidies over the next decade, and redirect most of the savings to students in the form of Pell Grants, low-cost loans, and community college investments. The bill passed in the House of Representatives in September and is awaiting attention in the Senate.

But more must be done and a long-term education strategy must be crafted. Too often education investment is at the mercy of the ups and downs of state budgets, while at the federal level hasty shot-in-the-arm approaches overshadow sustained strategy.

> "A strong manufacturing sector is a cornerstone of American competitiveness and a critical part of President Obama's economic strategy. As we meet the challenges of globalization and technological change, it is vital to have a concerted effort across the Administration to support an innovative, vibrant manufacturing sector."
>
> **Ron Bloom**
> *September 7, 2009, upon nomination as Senior Counsel for Manufacturing Policy*

Putting the Pieces Together: Industrial Policy

A different problem is failure to see how the pieces fit together. These are not individual problems with individual solutions. They all come together.

The transformation to new energy and the building of a 21st century infrastructure can provide the basis for reviving manufacturing—but only with a clear strategy to ensure that the jobs are created here. Where does the steel for the new rail line come from? From China, which manipulates its currency to keep costs down, and produces three times more carbon emissions per ton than U.S. steel makers? Who operates the equipment? Where was it made? Who designed the software? How did they pay for school?

America needs an industrial policy to help fit these pieces together. From workforce development to component manufacture, we need a strategic collaboration between the private sector and the government to reach our shared national goals. We need an opportunity for stakeholders to come together to remove obstacles, allocate resources, and create rules that work for everyone involved.

Federal involvement is needed to move beyond what state and local governments can do for themselves. Our nation needs to reexamine our global economic strategy, with a clear commitment to end the destabilizing global imbalances in exchange rates and trade. We need to reconsider tax breaks that create incentives to move production offshore and to provide fertile ground on which manufacturing can thrive. Our federal government can return to the role it played in years past: investing in a modern infrastructure and providing seed money for research and development in key sectors whose commercial application will come later—like clean energy now and the Internet 30 years ago.

Industrial policy will help create Barack Obama's vision of "a future … built by skilled, productive workers, by sound investments that will spread opportunity at home and allow this nation to lead the world in the technologies and the innovation and discoveries that will shape the 21st century."[42]

Talk and Action

We see the direction we need to go. Back to the basics with education. Forward into the future with a rebuilt infrastructure, a comprehensive industrial policy and new energy technologies. Barack Obama campaigned successfully on these themes in 2008 and took first steps in that direction in 2009.

Much more needs to be done. The challenges are difficult and the costs are high. Those who benefit from the status quo are politically savvy and well entrenched. Obama has called for making the public investments vital to our future. He has only begun to wrestle with how we transform our global economic strategy. And his policy on fostering manufacturing—starting with ensuring that the new energy economy gets built here—has not yet taken shape. This is a time for new ideas, new initiatives, and action to turn ideas into realities.

> "Now is not the time for small plans. Now is the time for bold action to rebuild and renew America. We've done this before. Two hundred years ago, in 1808, Thomas Jefferson oversaw an infrastructure plan that envisioned the Homestead Act, the transcontinental railroads, and the Erie Canal. One hundred years later, in 1908, Teddy Roosevelt called together leaders from business and government to develop a plan for a 20th century infrastructure. Today, in 2008, it falls on us to take up this call again—to re-imagine America's landscape and remake America's future. That is the cause of this campaign, and that will be the cause of my presidency."
>
> **President Obama**
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> *June 21, 2008, campaign speech to the U.S. Conference of Mayors*[43]

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