The Role of the American Government in Promoting Competitiveness and its Importance in the Period of Economic Slowdown

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Setting the Framework

The global importance of the concept of competitiveness has rapidly increased in recent years. Continuous attempts have been made to clarify this concept, leading to a definition of competitiveness which is both theoretically complex and more empirically refined. There are different dimensions of competitiveness, including domestic, national and international competitiveness. Michael Porter (1990) has been one of the first authors to define and outline national competitiveness in his research. According to him, national competitiveness is an outcome of a nation’s ability to innovate in order to achieve, or maintain, an advantageous position over other nations in a number of key industrial sectors. Overall competitiveness remains the ultimate goal for the successful competitor nation. Countries display different degrees of success in achieving overall competitiveness and have different levels of attainment in different sectors. Overall, it is difficult to assess whether a country is genuinely internationally competitive. Making such judgments can be problematic in some cases due to the economic slow down and major shifts in the global economy. Nevertheless, one can examine the role of the government as it pertains to building a competitor nation.

Despite continuing discourse regarding what is the appropriate role of the American government and what constitutes suitable federal government competitiveness development policy, it remains an undisputed fact that the government’s actions do affect the private sector and the dynamics of the global marketplace. Numerous regulations and initiatives have become de facto policy as they affect various aspects of competitiveness, especially innovation and technological advancement. The U.S. Commission on Industrial Competitiveness has developed the most widely accepted definition of competitiveness: “the degree to which a nation, under free and fair market conditions, produces goods and services that meet the test of international markets, while simultaneously maintaining and expanding the real incomes of their citizens.”

There has been ongoing interest in the pace of U.S. technological advancement and in strengthening American competitiveness due to their influence on economic growth, productivity and global competitiveness. In recent years, especially due to economic slowdown, the concept of national competitiveness has emerged as a universally discussed paradigm of economic development. The American government and society display growing awareness of both the challenges posed by global competition and limitations of effective government actions due to budgetary constraints. There is an indisputable fact that the private sector faces difficult barriers to competition in both domestic and international markets. Many domestic businesses, their markets infiltrated by overseas competitors, are directly experiencing the impact of internationalization. A global perspective is mandatory, even if one’s business is still domestic in focus.

Due to the lack of consensus on the scope and direction of national policy in various administrations, Congress has taken a step-by-step approach aimed at creating new mechanisms.

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to promote and facilitate technological advancement. The proper and clearly-defined role of the federal government with regard to the competitiveness of U.S. industry continues to be a topic of congressional debate. In the light of the recession and growing domestic and international challenges, it is especially important to define a set of effective policy recommendations for both economic developers and federal policymakers.

In conclusion, the major findings regarding the manner by which the American government encourages competitiveness in the private sector in an increasingly global economy will be summarized and if necessary, redefined. A set of recommendations will be presented.

Promoting American Competitiveness – A Historical Perspective

Generally speaking, there is a clear trend when it comes to defining a role of American government in the development of American economy. Interest in a more proactive government role has tended to come to the forefront during periods of economic difficulty and disappear in times of prosperity. Interest in more forceful centralized economic planning was most widespread during the Depression of the 1930s and again after the end of World War II. Furthermore, the energy crisis of the 1970s encouraged renewed pleas for an interventionist position of the federal government. However, oil related problems disappeared without the need to adopt a national planning mechanism.

Despite all of the past developments in domestic and international market conditions, one has to note that in the last 20 years, growing international trade and investment activities have forced many governments to adapt a new role in order to enhance the competitiveness of businesses in their respective countries in a global economy. Dissatisfaction with the performance of the industrial economy has led the American government to be more involved in influencing the allocation of investment and renewed interest in national economic planning. This increased attention to competitiveness in the United States was a direct result of the intensifying penetration of domestic markets by foreign producers, especially imports of key products such as electronics, steel, and automobiles. Moreover, the country became heavily dependent on foreign savings to finance huge budget deficits. As a result of high budget and trade deficits, there was a renewed pressure for legislation that would retaliate against foreign countries that failed to open their markets to American goods and services.

In the 1980s, competitiveness became the most popular topic in discussions regarding industrial policy and governmental intervention. Ten years later, policymakers focused more on technology policy, emphasizing the importance of science and technology in promoting the competitiveness of an American nation as an advanced industrial nation.

One has to acknowledge the influence of recessions in the 1970s and early 1980s on the growing quest for industrial policy which can provide effective governmental assistance to industry sectors and regions of the country which were in economic distress. According to Murray Weidenbaum, “Technically, industrial policy can be defined as any selective governmental measure that prevents or promotes changes in the structure of an economy. In practice, most
industrial policy proposals involved a tripartite policy planning group and a financing agency.\textsuperscript{2} The members of tripartite group would consist of high-level government officials, business, and organized labor. In a majority of cases such groups would identify specific actions to support lagging regions and industries.

However, in the mid-1980s the importance of industrial policy diminished as a result of the recovery in the national economy. The massive trade deficit of the 1980s declined following a major depreciation in the foreign exchange value of the dollar. It was a difficult decade for American business, characterized by strong competitiveness both at the domestic and international level. The trend of increasing American business presence overseas as a response to growing international competition was highly visible in the 1980s. Again, the problems were resolved without the adoption of ambitious competitiveness policies and programs.

On the other hand, the increased investment activities of foreign companies and the continued high unemployment rate in some parts of the country, particularly in the “rust belt” of the Midwest, contributed significantly to growing calls to improve American industry through creation of an effective competitive policy. Proponents of both industrial and technology policy, including the Clinton administration, developed similar sets of objectives, emphasizing the importance of mitigating the impacts of industrial decline on unemployment and to ensure job creation in the private sector during a period of intensifying global competition. They further argued that by proposing an array of new government policy actions, the perceived failure of market forces could be effectively overcome.

The image of the United States as a competitive country to do business was faced with another major question with the recent release of KPMG’s “2010 Competitive Alternatives”\textsuperscript{3} report which presents the firm’s guide to international business locations. KPMG analyzed ten countries and ranked them by several criteria - including labor and facility costs, transportation and tax costs. The U.S. ranked in eighth place, after Mexico and Canada which ranked first and second, respectively. One has to agree that the findings presented in this report should alarm federal and state lawmakers. Our neighboring countries offered the lowest overall cost of doing business as a result of Mexico’s low labor and facility costs, and due to Canada’s pro-business tax policies which were enacted over the past decade at both the federal and provincial levels.

As a result of the recent recession, the role of the government in the American economy has been redefined. President Obama’s economic strategy was presented and implemented in a time of deep economic crisis with an attempt to lay the foundation for renewed American prosperity that is more competitive globally. One can question if individual government’s decisions matter in the global scheme. According to Edward Dolman, CEO of Christie’s International “The government and political climate doesn’t match commercial reality. With the G20 and things like that, you can see attempts being made to come to terms with the fact that every economy in the world is now linked to such a degree that individual decisions taken by individual governments are fairly


\textsuperscript{3} KPMG: *2010 Competitive Alternatives Report*, 2010
meaningless on their own and have to be coordinated globally. As a business, that reality is mirrored in our experience.\(^4\)

These sentiments and opinions are reminiscent of the ideas of John Maynard Keynes, who believed government should play an important role across an economy. During the Great Depression and after World War II, the U.S. government was viewed with reverence, as the force to rebuild not only the American but also the European economy. On the other hand, some other schools of thought, especially the Chicago School represented by George J. Stigler and Milton Friedman, took almost the opposite track, expressing near disdain for government. They created the intellectual foundation for the idea that markets are self-adjusting and the best role for government is to do nothing. The Chicago School’s faith in markets gained wide influence in both public opinion and fiscal policy.

As a result of the recession, the Chicago School of thought became a main target of scientific and economic discourse. “The direction in economic thought pioneered by Milton Friedman and enthusiastically adopted by Ronald Regan and his Republican successors helped to get us where we are today—the worst economic contraction in 50 years, characterized by an increasing concentration of wealth in the top tiers of society,” wrote Andrew Leonard.\(^5\) However, given the fact that there have been various business cycles for centuries, some mild, some more severe, and the breadth of the current economic failures involved, blaming a single school of thought may seem overly simplistic.

As a result of the 2008 market collapse that shocked the global economy like nothing since the Great Depression, numerous government commissions and business councils have urged efforts to expand technology, invest more in research and development, speed up the pace of innovation, reform regulation, finance more capital investments, and increase exports. The need for improving the American education system, especially when it comes to core sciences, was strongly emphasized, as well. Current government behavior in the United States demonstrates different approach toward economy. Beginning in fall 2008, the government moved quickly to intervene in markets by assembling stimulus packages. The U.S. government in many economists’ opinions has effectively nationalized the banking system.

The author agreed with Friedman that government has a role to play, in particular as a setter and enforcer of rules and controller of money supply. When it comes to government intervention, it is hard to argue with Richard Thaler whose research suggests that markets actually need a helping hand, sometimes from government. Nevertheless, there is a legitimate concern that bad market behavior would spawn even worse regulation. To address the government’s role in the marketplace, President Obama’s economic strategy was presented and partially implemented in times of deep economic crisis with an attempt to lay the foundation for renewed American


\(^5\) Andrew Leonard quoted by Michael Fitzgerald: *Is Chicago School thinking to blame?*, University of Chicago Magazine, Sept-Oct 2009, Chicago, p.34
prosperity that is more competitive globally. Although, many economists do not argue that the government was wrong to step in and unfreeze the financial markets, they remain skeptical that the recovery would be robust because the government had gotten involved into long-term economic intervention.

The author strongly believes that because change is inarguably constant and global, the role of the federal government’s leadership pertaining to competitiveness is becoming increasingly important. Previous certainties cannot and should not serve as a guide. Therefore, the achievement of greater competitiveness for the overall American economy shall reflect national dynamism, adaptability and responsiveness, rather than a static set of explanatory factors, rules and policies. Economic forecasters, especially the Organization for Economic Cooperation and Development (OECD), and the International Institute of Management Development (IMD), conclude that American competitiveness is making a modest recovery. Finally, the American government needs to maintain a global perspective and understand that there is a critical link between the performance of the national economy on the global stage and a long-term investment in education, research and development and effective design of trade policies.

In the following sections, the vision and strategies crafted and implemented by the American government through a number of new initiatives and policies regarding competitiveness will be discussed. They will be presented and analyzed in three strategically important aspects of the American economy, including research and development, education, and trade. Due to the scope of this paper, only some insights will be provided into the complexities of the issue being discussed.

**The Quest for American Competitiveness in Research and Development**

“There is no avant garde. There are only those who are a little late.”

-Edgar Varese, composer

Passion for reinvention has historically driven innovation in the United States. Through America’s investments in science and technology, the economy has been constantly changing by becoming more technologically advanced and achieving higher levels of economic productivity. As other countries continue to build their 21st century economies, America will face a new set of challenges. Therefore, the importance of research and development (R&D) in enhancing national competitiveness is unquestionable. According to Jonathan Spector, President and CEO of The Conference Board “The innovation challenge is not just about business performance. Innovation will increasingly determine the long-term potential growth rate of the U.S. economy and its competitive position in the world.”

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The American government has sponsored numerous research programs through modern history. For instance, in the 1950s and 1960s, the Department of Defense supported innovation in semiconductors through targeted research programs and government procurement. From the 1960s until the 1980s, NASA-sponsored research helped to create American science and engineering capabilities in computer chip design and satellite communications. In general, government agencies have generated positive results in their support of innovation, especially when they have acted as a customer seeking a solution to a compelling need.

Nevertheless, the government’s support of innovation has generally failed when it has bet on unproven technical solutions that required extensive knowledge of commercial applications. For instance, the supersonic transport program of the 1960s and the thermal solar and synthetic fuels initiatives in the late 1970s and 1980s are well-known examples of failures. Today’s government is far more complex than it was after World War II. Unfortunately, “all too often, the debate what role Washington should play in supporting innovation degenerates into a battle between two extremes: the laissez-faire camp and advocates of centralized industrial policy,” state Gary Pisano and Willy Shih.8

Worldwide expenditures on research and development have doubled since 1996 to $1.1 trillion annually, with much of the growth originating from China and India. Such growth benefits U.S. competitiveness by increasing overall knowledge and creating more venues for international cooperation. Everyone benefits from more competitive science and engineering expertise. However, the American government must develop a better understanding of innovation processes and identify the critical areas of research. “The experience of the U.S. economy in the 1990s shows how improving our knowledge of innovation is vital for policymakers. Innovation drives our economy and yet it has always been difficult -- if not impossible -- for policymakers to understand how innovation is affecting current economic conditions. Improving our knowledge of how innovation happens and how it is occurring in the economy will help inform our policy decisions in this dynamic economy” – states Alan Greenspan, Former Chairman, Board of Governors of the Federal Reserve System.9

Whenever, there is discussion regarding R&D, the most important issue seems to be the adequacy of funding. Very often, one does not think about the quality of the research nor the direction in which it is aimed. As a result of these trends, the National Science Foundation in its latest report10 emphasizes the fact that it should support “truly transformative” research that keeps U.S. researchers ahead of the world. Accordingly, the Obama administration should force federal agencies to compare their research initiatives against world countries to ensure they provide funding to cutting-edge transformative projects. Based on the National Science Foundation recommendations, the Obama administration should examine policies that protect the American economy, intellectual property and technical leadership. It also supposed to pick critical research areas for which the U.S. should be the global R&D leader.

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10 National Science Foundation: Globalization of Science and Engineering Research, Arlington, Virginia, 2010
President Bush and his administration had a track record of strong support for American leadership in science and technology. According to George W. Bush: “The role of government is not to create wealth; the role of our government is to create an environment in which the entrepreneur can flourish, in which minds can expand, in which technologies can reach new frontiers.”\textsuperscript{11} The President announced the \textit{American Competitiveness Initiative} which allocated $5.9 billion in FY 2007 to increase investments in research and development and encourage entrepreneurship. Over 10 years, the Initiative will allocate $50 billion to increase funding for research and $86 billion for research and development tax incentives. In addition, the 2007 U.S. fiscal budget requested $137 billion for Federal research and development, an increase of more than 50 percent compared to 2001 levels.\textsuperscript{12}

In 2009, President Obama called for U.S. public and private spending on research and development to increase to 3\% of the nation’s $14.2 trillion GDP, up from about 2.8\% ($398 billion) today.\textsuperscript{13} American industry provides about 2/3 of the current R&D funding. While American firms continue to lead in high tech sales, the goods are very often manufactured elsewhere. Therefore, it is important to analyze the trade balance in advanced technology products. The Census Bureau\textsuperscript{14} tracks imports and exports of goods in 10 high-tech areas, including life sciences, biotech, advanced materials, and aerospace. In 1998, the United States had a $30 billion trade surplus in these advanced technology products. Nine years later, in 2007 that had changed to a $53 billion deficit. Suddenly, the U.S. was running a trade deficit in life sciences, a field where it is supposed to be a leader. It explains why Pisano and Shih argue that decades of outsourcing manufacturing has left U.S. industry without the means to invent the next generation of high-tech products that are key to rebuilding its economy.\textsuperscript{15} There is widespread concern in U.S. industry about research commercialization, or the ability to move products invented in the laboratories to the marketplace.

Due to innovation, the American economy is constantly changing. One has to agree that it is important to understand these changes and to identify and continue what we are doing well. In order to better understand the importance and dynamic nature of innovation, in January 2008, Commerce Secretary Carlos M. Gutierrez announced innovation measurement initiatives including comprehensive accounting of the effect of high-tech goods and services, measuring the increase in productivity as a result of increased investments, and expanding data collection. As a result of the recommendations provided by the Advisory Committee on Measuring Innovation in

\textsuperscript{11} George W. Bush quoted in \textit{American Competitiveness Initiative}, Domestic Policy Council, Office of Science and Technology Policy, Washington D.C., February 2006, p.1
\textsuperscript{12} \textit{American Competitiveness Initiative Leading The World In Innovation}, Domestic Policy Council, Office of Science and Technology Policy, Washington D.C., February 2006
\textsuperscript{13} Figures cited come from National Science Foundation: \textit{Globalization of Science and Engineering Research}, Arlington, Virginia, 2010
\textsuperscript{14} Figures cited come from U.S. Census Bureau, \texttt{www.census.gov}

\textsuperscript{15} Gary P. Pisano, Willy C. Shih: \textit{Restoring the American Competitiveness}, Harvard Business Review, July-August, 2009
the 21st Century Economy, the Bureau of Economic Analysis will work with the Bureau of Labor Statistics to provide a comprehensive account of the effect of high-tech goods and services on economic growth, especially productivity. Although total factor productivity growth is not a direct measure of innovation, it is important to correctly assess productivity at the sectoral level in order to significantly improve our understanding of where innovation occurs.

Finally, the implemented changes will allow the United States to better measure and understand innovation, which has greatly contributed to productivity gains. In fact, the U.S. is more than 75 percent wealthier today in terms of real GDP per capita than it was 30 years ago. From a presidential administration point of view, it remains strategically important to develop polices that will further promote innovation in the years to come.

In conclusion, the government can promote technology by creating a business environment that promotes innovation. There have been numerous obstacles and various rules and regulations imposed by the government over the years. Therefore, a substantial dose of deregulation would generate a positive response and further enhance the competitiveness of the American industry. A well planned strategy for gradual deregulation would further enhance the competitiveness of American industry. Finally, determining the most proper and effective role of government in the national innovation agenda, and setting up the required organizational structures will not be an easy task.

In order to maintain American competitive edge the federal government has to come up with needed capabilities to turn the comprehensive vision of a national innovation agenda into reality. Government support of basic and applied research can build the foundations, but it takes private companies willing to make long-term investment in risky research and development to build the U.S. industrial commons. One has to agree with Peter R. Orszag that “Because the U.S. is at the frontier of modern technological and scientific advances, sustaining economic growth depends substantially on our ability to advance that frontier.”

Competitiveness in American Education and Human Resources

“Economic success is increasingly based on the effective utilization of intangible assets, such as knowledge, skills, and innovative potential as the key resource for competitive advantage.”

One has to agree that in an increasingly competitive global economy, the United States’ economic strength depends upon the education, skills and core competencies of its workers. “In the knowledge society, the knowledge base is the foundation of the economy,” says Peter F.

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18 Economic and Social Research Council: 2005 Knowledge Economy Fact Sheet, Swindon, UK, 2005
Through education, business’s most important resource, people, has been transformed into human capital. The quality of that human capital remains critically important because it determines how well any business can perform, produce, innovate and compete locally and globally. The relationship between cognitive skills on one hand, and innovation and technology on the other, indicates an established view of the role of education. Therefore, American business needs an effective school system at every level to remain globally competitive.

The political debates surrounding American education have been justified by the major challenges resulting from recession and shrinking sources of funding. However, one has to remember that the American education system has impressive achievements. In the 1949-50 academic year, just over 31 million Americans were enrolled at schools and universities. Five decades later, the number had more than doubled, to 67.6 million. Despite such achievements, there has been growing dissatisfaction among business leaders, and the American population as a whole, regarding the quality of the current education system.

United States competitiveness and the country’s position among our global counterparts have been critical issues in public policy debates for the past 25 years. This particular issue came to the forefront in Spring 2007 as a result of the publication of reports from the National Academies, the Electronics Industries Alliance, and the Council on Competitiveness. All three argue that the United States is in danger of losing out in the economic competition of the 21st century.

There is widespread agreement that the foundation for future success is a well-educated and intelligent workforce. The United States is in direct competition with numerous countries that recognize the importance of investing in human resources. The numbers of well-trained scientists and engineers being educated in other countries, primarily in India and China, continue to increase. For instance, in 2004, India’s colleges produced 350,000 engineering graduates, compared to 70,000 in America. The elite 10 percent of India’s engineering graduates outnumbers America’s top 50 percent. Moreover, broadband communication networks allow companies to access scientific talent globally, thus increasing competition faced by U.S. scientists and engineers.

Providing high quality jobs for Americans should be the central goal of any policy in Congress in order to foster and advance American competitiveness. However, this goal would be impossible to achieve without improved science and mathematics education, which must be the key step in any competitiveness agenda. Unless the United States maintains its edge in innovation, which is based on a well-educated and creative workforce, high quality and well-paying jobs may soon be found overseas. According to Margaret Spellings, the former Secretary of Education for the Bush administration, “In 1970, half of the people in the world who held science and engineering doctorates were Americans, but by 2010 projections show that figure will have dropped to 15 percent. To keep America strong, we need our young people to take us to the next level of innovation. President Bush and the Congress are committed to ensuring America’s high school graduates are ready for the jobs of the 21st century.” Students’ performance is not just an

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20 Margaret Spellings: *Increasing America’s Competitiveness with Education*, United States Department of

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education issue; it has economic, civic, social and national security repercussions.

The National Assessment of Educational Progress (NAEP) has tracked the academic performance of U.S. students for almost 40 years. Although student performance in mathematics improved in the last decade, most students do not perform at a proficient level. In science, progress has also been slow. Moreover, United States students perform poorly in international comparisons of student achievement in science and mathematics as tracked by the Program for International Student Assessment (PISA), which is coordinated by the Organization for Economic Cooperation and Development.

To address these concerns and to ensure that the U.S. education system remains strong, in July 2009, President Barack Obama and U.S. Secretary of Education Arne Duncan announced that states implementing school reforms and innovation in classrooms will be eligible to compete for $4.35 billion in Race to the Top competitive grants that will highlight and promote effective education reform strategies. “This competition will not be based on politics, ideology, or the preferences of a particular interest group. Instead, it will be based on a simple principle - whether a state is ready to do what works. We will use the best data available to determine whether a state can meet a few key benchmarks for reform, and states that outperform the rest will be rewarded with a grant. Not every state will win and not every school district will be happy with the results. But America’s children, America’s economy, and America itself will be better for it,” stated President Obama in a speech at the U.S. Department of Education in Washington.21

The four key areas emphasized include adopting internationally benchmarked standards and assessment processes that prepare students to succeed in college and the workplace, creating data systems that measure student success and inform schools how they can improve their practices, recruiting and retaining effective teachers and principals, and reforming the lowest performing schools in America. According to the U.S. Secretary of Education, Arne Duncan, “The $4.35 billion Race to the Top program is a challenge to states and districts. We’re looking to drive reform, reward excellence and dramatically improve our nation’s schools.”22

Furthermore, more than $5.6 billion in additional grants will be available to state educational systems. The Obama Administration has been calling on state officials to utilize funding from all of these programs in a well-structured way to advance these crucial reform goals. Moreover, between the 2009 budget and the American Recovery and Reinvestment Act, more than $10 billion in grant money will be awarded to states that are implementing educational reform.

Additional programs include the $650 million Investing in Innovation Fund. Its aim is to support local school districts’ efforts to start or expand research-based innovative programs that will foster quality learning, help close the achievement gap and improve academic outcomes for

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21 President Barack Obama quoted in President Obama, U.S. Secretary of Education Duncan Announce National Competition to Advance School Reform - News Release, Department of Education, Washington, DC, July 24, 2009

22 Arne Duncan quoted in President Obama, U.S. Secretary of Education Duncan Announce National Competition to Advance School Reform - News Release, Department of Education, Washington, DC, July 24, 2009
students. Moreover, $350 million has been allocated from Race to the Top to fund assessments for states that adopt common international standards. Furthermore, $919 million in State Educational Technology Grants, which aim to bring technology into the classroom, will be made available. The Education Department will advise school districts on how to apply for grants from the Investing in Innovation Fund, the Teacher Incentive Fund, the Title I School Improvement Grants, and the State Educational Technology Grants. All of these new funds are expected to advance bold and creative reforms to make American education more competitive globally.

In the coming years, jobs requiring at least an associate’s degree are projected to grow twice as fast as those requiring college experience. To address this need, President Obama has set two national goals. First, by 2020, the United States will once again have the highest proportion of college graduates in the world, and community colleges will contribute an additional 5 million graduates. Due to affordable tuition and open admission policies, community colleges are especially important for students who are working adults. Colleges work with business and government to create tailored training programs to meet economic needs like health information technology and advanced manufacturing. They strategize closely with employers to design training that is relevant to the local labor market and build essential skills through step-by-step worksite education programs. The offered programs help American workers obtain the skills and credentials they need to succeed both locally and globally.

In 2009, the federal government proposed the American Graduation Initiative to invest in community colleges. The Health Care and Education Reconciliation Act includes $2 billion over four years for community college and career training. The Initiative will primarily focus on the Department of Labor and will be implemented in close cooperation with the Department of Education. This program complements President Obama’s broader agenda for higher education, including nearly doubling funding for Pell grants over three years and tripling the largest college tax credit, called the American Opportunity Tax Credit.

One must consider the existence of structural challenges in the American economy that will outlast the current recession. The biggest challenge is a lack of skills among a substantial share of the workforce. The recession has affected the least educated and least skilled American workers especially hard. As a result, the American states will continue to face the hard-to-ignore fiscal challenges. Without further relief, the economy could expect to lose another 900,000 jobs. Therefore, short-term skill building strategies like on-the-job training must be utilized as part of a broader commitment to improve the American education system and to ensure that workers possess strong industry-recognized credentials.

Finally, education is an excellent investment for individuals and society as a whole. At this time of economic hardship and uncertainty associated with recession, the Obama Administration’s agenda aims to foster a highly skilled workforce that will be imperative for economic accomplishments and successes in the 21st century. Education fundamentally supports advances in the productivity upon which Americans’ growing standard of living depends. The United States is not alone in the quest to innovate and compete to improve economic results, especially after recession. The global economy emphasizes and forces other nations to improve their 21st century skills, as evidenced by educational results and economic growth in emerging nations.
While federal and state governments frequently emphasize the importance of improving the quality of education, education reform often fails to become a top priority in policy making. It could be explained by the fact that investing in education only pays off in the future. Therefore, it is possible to underestimate the importance of necessary improvements. Changing schools and educational institutions is a difficult task. Nevertheless, concluding that change is simply “too difficult” would imply foregoing significant gains in the overall well being of Americans. The PISA Report 23 published in 2007 demonstrates that relatively small improvements in labor force skills can largely impact the future well being of a nation. For instance, a modest goal of all OECD 30 countries boosting their average PISA scores by 25 points over the next 20 years would increase OECD gross domestic product by USD 115 trillion over the lifetime of the generation born in 2010. The underlying principle is that economies with more human capital innovate at a higher rate than those with less human capital, thus implying that nations with larger human capital (as measured by cognitive skills) in their workers keep appreciating more productivity gains.

According to the Council on Competitiveness, (2008) national and global demographic trends are “raising red flags” for competitiveness. Among these trends, a slowing growth in the U.S. workforce could slow economic output if productivity does not increase. Boosting productivity and sustaining competitiveness requires many more highly skilled workers throughout the labor pool. Indisputably, there is high societal and economic cost of low educational performance. This makes it imperative for the United States to take concerted action as soon as possible. The competitiveness of the American educational system and workforce development must remain top priorities for the U.S. government and Congress. American leaders must continually experiment, innovate, and evaluate to ensure that rational decisions and policies have been crafted and implemented accordingly. Nobel Laureate Robert Lucas, in his presidential address to the American Economic Association, concluded that, “Taking performance in the United States over the past 50 years as a benchmark, the potential for welfare gains from better long-run, supply-side policies exceeds by far the potential from further improvements in short-run demand management.”24 Therefore, without minimizing the need to assess current recession and unemployment conditions, considering issues of longer-run economic growth may be more important for the welfare of the American society.

American Competitiveness in Global Trade

“Government regulation of foreign trade and international investment reflects, in good measure, the globalization of domestic markets.”

Murray L. Weidenbaum

Despite the most severe recession since 1945, the American Congress and the President reaffirmed a strong commitment to international trade obligation. Favorable trade policies and falling trade barriers affect the global economy through their impact on quotas, no tariff barriers, export subsidies, local content requirements, requirements on technology transfer and currency, and capital flow restrictions. One has to agree that in 2010, American exports will play a very important role in the retention and creation of new jobs, and thus increased competitiveness of the American market globally. With domestic consumers unlikely to drive the economy, the United States must turn to the export market to spark growth that will result in the recovery of American jobs. Therefore, exports have to be a critical part of any growth or employment strategy.

The American government has a significant role to play in the area of export promotion. There are numerous issues that must be resolved in order to streamline trade activities. The role of U.S. trade policy should be to open foreign markets. Historically the United States has pursued strategies that opened American market without gaining reciprocal access in foreign markets. On the other hand, questions remain as to exactly how open U.S. markets should be and which market regulations would be relevant.

Because tariff barriers, customs, standards and other practices some countries use, the importing of U.S. products is often difficult. Thus, the prevalence of non-tariff barriers should be an area of U.S. government focus. Common marketing regulations are frequently restricted due to individual country requirements. As a result, the blame should not be placed entirely on trade barriers for lack of access to certain markets. Instead, the importance of matching products with corresponding industry standards must be emphasized. On the other hand, the benefits of trade agreements have to be highlighted. They contribute positively to the United States’ ability to increase or even double exports and give companies the chance to negotiate other terms like intellectual property.

There are a number of factors that contribute to the success and limitations of increased exporting in the United States. One such factor is the corporate tax rate and a bias in our tax code that favors financial engineering over manufacturing. Another key issue is adequate intellectual property protection. Credit constraints are an important limiting factor for small businesses. Moreover, exchange rates play a crucial role in determining the competitiveness of American products. Therefore, the current economic slowdown presents an opportunity to reinvent manufacturing and encourage small businesses to increase exports. The government shall seize

this opportunity and support the local competitiveness which is key to companies’ ability to export.

President Obama’s National Export Initiative ensures that American companies will have free and fair access to potential markets worldwide. In his recent State of the Union address, President Obama called for a new National Export Initiative (NEI) to double U.S. exports and support two million new jobs in the next five years. On March 11, 2010 the President Obama signed an Executive Order instructing the federal government to strengthen and coordinate federal efforts to promote exports. The President announced five steps the Administration is taking under the NEI to help American firms expand sales of their goods and services abroad including creating a new cabinet-level focus on U.S. exports, expanding export financing, prioritizing government advocacy on behalf of U.S. exporters, providing new resources to U.S. businesses seeking to export, and ensuring a level playing field for American exporters in global markets.

The new initiative aims to mobilize government officials to actively engage in export advocacy activities, discusses an increase in funding for key export promotion programs, and the outlines a reduction in barriers to trade by opening of new markets for American trade and investment. Furthermore, the President’s Trade Policy Agenda promotes an active American role in the global trading system by clearly defining the importance of trade in times of global economic recovery. It highlights the importance of the rules-based trading system for American exports, jobs, and overall economic growth and prosperity.

The Export Promotion Cabinet will ensure that export promotion activities are effectively included in a wide array of government programs by working closely with the Trade Promotion Coordinating Committee, an interagency body that supports American trade and export efforts. Cabinet members include senior White House advisors, the heads of U.S. economic and trade agencies, and the Secretaries of State, Treasury and Commerce.

The New Export Initiative also addresses the relaunch of the President’s Export Council (PEC) which has served as the main private sector advisory committee on international trade. The PEC’s role is to advise the President on governmental policies that affect U.S. trade activities, promote export growth, and provide a platform for discussing trade-related issues among business and government entities. The PEC will be chaired by Jim McNerney, CEO of the Boeing Corporation, and Ursula Burns, CEO of the Xerox Corporation.

In order to further advance American competitiveness related to exports, increased level of financial support will be offered to companies. In order to fulfill this task, Export-Import Bank is planning on continuing expansion to ultimately double its trade finance capacity within five years. Ex-Im will also intensify its efforts to work with more small and medium-sized businesses by creating a new facility, which will provide up to 2 billion dollars per year in trade finance.

26 President Obama Details Administration Efforts to Support two Million New Jobs by Promoting New Exports, March 11, 2010, Office of the Press Secretary, The White House
In addition, there are an unprecedented number of trade missions being planned for 2010. Over 40 trade and reverse trade missions are scheduled at the federal level to promote U.S. goods and services overseas. Moreover, all senior level officials who work with foreign counterparts in the U.S. and abroad have received government-wide advocacy instructions. This will ensure that government officials will conduct effective export promotion efforts and seek out new export opportunities for U.S. companies. All American ambassadors will be directed to implement a New Commercial Diplomacy Strategy by emphasizing the role of trade in their work. They will also be dispatched around the U.S. to discuss export opportunities in their countries of assignment.

The Department of Commerce has created a new public-private partnership with American global shipping companies like FedEx and UPS to create strategic alliances to expand export opportunities for companies who currently export to one or two countries, but are interested in expanding their client bases to other international markets. The program has been called the New Market Exporter Initiative. The U.S. Trade and Development Agency (USTDA) is also launching a new program aimed at inviting 250-300 senior procurement officials from over 20 countries to come to the U.S. and meet with American businesses interested in gaining access to emerging economies in their respective countries.

In order to further expand American competitiveness in relation to exports, the National Export Initiative outlines increased funding for export promotion programs by $134 million for the 2011 fiscal year. This funding will be allocated toward the hiring of over 325 trade experts to provide needed advice to potential U.S. exporters. The Obama Administration is also working to streamline existing exporter resources by creating One-Stop Export Promotion Shops that will assist businesses that want to export their products, but do not have the knowledge or resources to enter the export economy. In addition, Export-Import Bank, Small Business Administration, USTDA, and the Departments of Commerce and Agriculture will partner to provide companies with comprehensive services, including financing options and export counseling. The network of 109 Commerce Export Assistance Centers, 900 SBA Small Business Development Centers, 8 Ex-Im Bank regional offices, 2,000 USDA Farm Service county offices, and more than 250 American Embassies and Consulates abroad will assist potential exporters. Finally, this export promotional initiative will support American companies in every state and 168 foreign countries around the world.

President Obama has also presented the Export Control System Reform to enhance national security and the competitiveness of key U.S. industries. There has been a set of policies and procedures that have been developed and implemented over the past 50 years to restrict the export of sensitive technologies for national security purposes. According to the White House, the Administration reform program will enhance national security by focusing on the enforcement of strict controls around the export of the most critical technologies and products, while strengthening the competitiveness of key manufacturing industries in the U.S. by streamlining the regulations that apply to their exports. The President will address this

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strategically important issue with Congress in order to spearhead the reform efforts.

In the meantime, the Administration has presented specific steps that will be implemented to reform the export control system. Their aim is to reduce the delay of U.S. exports of encryption products from 30-60 days to 30 minutes. For instance, a U.S. exporter of a product with encryption capabilities needs to file documentation with the Department of Commerce for a technical review of the product before they can export. There are over 3,300 such filings each year. The new process will ensure that the American government still receives the needed information for its security purposes, while still supporting U.S. exports and innovation for new products and technologies.

Finally, this New Exports Initiative shall create a better platform for the United States and its trading partners to work toward economic growth that is both balanced and sustainable. The recent economic crisis has created an opportunity to reinvent manufacturing and design as a “supportive ecosystem” that will help small and big businesses alike to increase exports. The American government must seek answers to common problems faced by exporting companies, identify best practices and work to coordinate domestic and international policies.

**Conclusion**

“What often happens when you have a time of crisis and things get really tense and don’t go quite the way you would like them to is that you all work better than ever before.”

John Brock, Coca-Cola Enterprises

A rapidly changing global business environment further emphasizes the role of innovation, knowledge and leadership in securing adaptability and responsiveness in domestic and international companies, government, and in the nation as a whole. Government involvement in the economy is becoming more complex with increasing demands for innovative policies and regulations to effectively and efficiently support existing and emerging businesses and foster American competitiveness in the global arena. The current recession necessitates closer government-business cooperation.

Many critics of greater government involvement believe that the efficiency of the existing economic system would be impaired as a result of expanding government intervention. Nevertheless, the public sector must address the creation of an environment that promotes innovation in education, training, research and development, and global expansion in international trade. New ways of thinking about the role of government in this period of recession shall lead to groundbreaking changes in policy and the manner in which government operates. With the implementation of appropriate policies, America’s competitive edge will be maintained

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by promoting new levels of educational achievements, opening new markets to U.S. products and services, creating incentives for private sector innovation, and protecting intellectual property rights.

In conclusion, according to President Obama, “We still have the best universities in the world. We still have the most open, entrepreneurial economy and market of any advanced nation. We still have the most productive workers in the world. If we combine traditional American optimism with an acknowledgment that we can’t go back to business as usual, and that we have to rediscover a sense of seriousness of purpose when it comes to educating our kids or when it comes to government managing money properly. I’m confident that we’re going to get through this tough time and the 21st century is going to be as good for us as the 20th was.”

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