

# The US Economy Needs an Exports-led Boost

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A recent visit by President Obama to an Ohio steel mill underscored his promise to create 1 million manufacturing jobs. On the same day, Commerce Secretary Penny Pritzker [announced her department's commitment to exports](#), saying "Trade must become a bigger part of the DNA of our economy." These two impulses — to reinvigorate manufacturing and to emphasize exports — are, or should be, joined at the hip. The U.S. needs an export strategy led by research and development, and it needs it now. A serious federal commitment to R&D would help arrest the long-term decline in manufacturing, and return America to its preeminent and competitive positions in high tech. At the same time, increasing sales of these once-key exports abroad would improve our also-declining balance of trade.

It's the best shot the U.S. has to energize its weak economic recovery. R&D investment in products sold in foreign markets would yield a greater contribution to economic growth than any other feasible approach today. It would raise GDP, lower unemployment, and rehabilitate production operations in ways that would reverberate worldwide.

The Obama administration is proud of the 2012 increase of 4.4 percent in overall exports over 2011. But that rise hasn't provided a major jolt to employment and growth rates, because our net exports — that is, exports minus imports — are languishing. Significantly, the U.S. is losing ground in the job-rich arena of exported manufactured goods with high-technology content. Once the world leader, we've now been surpassed by Germany.

America's economic health won't be strong while its trade deficit stands close to a problematically high 3 percent of GDP (and widening). Up until the Reagan administration, we ran trade surpluses. Then, manufacturing and net exports began to shrink almost in tandem.

Our past performance proves that we have plenty of room to grow crucial manufacturing exports, and even eliminate the trade gap. The rehabilitation should begin with a national commitment to basic research, which in turn boosts private sector technology investment. The resulting rise in GDP would be an important counterbalance to a slightly higher federal deficit.

Just-completed [Levy Economics Institute simulations](#) measured how a change in the target of government spending could influence its effectiveness. The best outcomes came about when funds were used to stoke innovation specifically in those export-oriented industries that might yield new products or cost-saving production techniques. When a relatively small stimulus was directed towards, for example, R&D at high tech manufacturing exporters, its effects multiplied. The gains were even better than the projections for a lift to badly needed infrastructure, which was also considered.

Economists haven't yet pinpointed a percentage figure that reflects the added value of R&D, but there's a strong consensus that it is significant. Despite the riskiness of each research-inspired experiment, R&D overall has proven to be a safe bet.

Government-supported research tends to be pure rather than applied, but, even so, when aimed to complement manufacturing advances, small doses have a good track record.

Recognition that R&D outlays bring quantifiable returns partly explains why the federal National Income and Product Accounts have recently been altered to conform with international standards. NIPA will now treat R&D spending as a form of fixed investment. This will be a powerful tool to help reliably gauge its aftermath.

Private sector-based innovation has also proved to be far more likely to occur when it is catalyzed by a high level of public finance. (For amazing examples, check out this just-released [Science Coalition report](#).) Contractors spend more once government has kicked in; productivity rises and prices drop.

The prospect of a worldwide positive-sum game is far more realistic than the “currency wars” dynamic so often raised by the media. Overseas buyers experience lower prices and the advantages of novel products. Domestic consumers, meanwhile, enjoy higher incomes and more employment, with some of the earnings spent on imports.

An export-oriented approach faces multiple barriers. Anemic economies across the globe could spell insufficient demand. Another challenge lies in the small absolute size of the U.S. export sector.

But the range of strategic policy options for the U.S. is limited. A rapid increase in research-based exports is the only way we see to simultaneously comply with today’s politically imposed budget restrictions and still promote strong job and GDP growth.

Instead of stimulating tech-dependent producers, though, we’ve been allowing manufacturing to stagnate and competitiveness to erode. Public R&D spending as a percentage of GDP has dropped, and is scheduled for drastic cuts under the sequester.

Sticking with the current plan means being caught up in weak growth and low employment for years. Jobs are being created at a snail’s pace, with falling unemployment rates largely a reflection of a shrinking workforce.

For our R&D/export model, we posited a modest infusion of \$160 billion per year — about 1 percent of GDP — until 2016. We saw unemployment fall to less than 5 percent by 2016, compared with CBO forecasts that unemployment will remain over 7 percent. Real GDP growth — instead of hovering around 3.5 percent, by CBO estimates, on the current path — gradually rose to near 5.5 percent by the end of the period.

We need this boost. It’s urgent that we bring down joblessness and grow the economy. A change in fiscal policy biased towards R&D shows real promise as a viable way to help rescue the recovery.

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