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The US growth opportunity in trading knowledge-intensive products

Susan Schwab, professor at the University of Maryland and an adviser to the law firm Mayer Brown, examines the role that trade in knowledge-intensive products such as airplanes and automobiles plays in economic growth and job creation and explores policy changes that can boost exports in these sectors.

The thing to remember about trade is that 95 percent of the world's consumers live outside our borders. And growth rates outside the United States, particularly in emerging economies, are significantly faster than the growth of the US economy. So that's where we need to be focusing. Those are the consumers with incomes to buy, and they should be buying our stuff.

We want them to be buying our technologies; we want them to be buying our pharmaceuticals, our medical equipment. We want them to be tourists who are flying on our airplanes. We hope they'll be coming here and enjoying our tourist attractions. Exports come in a lot of different forms, both goods and services. And there's a great deal of potential and unrealized potential.

I think of value-added exports—not necessarily “knowledge-intensive” exports. And that gets you into a much broader range than the “knowledge-intensive” exports that are in the McKinsey study. But how you define it is less important than the conceptual framework. I think it's worth noting, as the study does, how much aircraft is part of that.

The biggest import number is automobiles, and has been for many, many years. And you're looking at a consumer preference. It's awfully hard to have a discussion about what you do about that. Then you've got categories like computer peripherals, communications, telecom, and semiconductors. And this is the group that has, according to the study, widened the most over the last several years.

Well, I do think that there are some things that we could be doing, which are pointed out in the study, that would make it more likely that we would be exporting more; producing more and exporting more of these products in the United States—which is, I think, a good way of looking at it. Corporate tax rates are a good example.

Our corporate taxes are much higher than virtually every one of our competitors. And the effective tax rate puts us right in the middle of the OECD¹ countries, which is not acceptable. It does not promote innovation and is not a formula for encouraging U.S. companies to invest here as distinct from other places.

So there are a lot of US corporations that have a lot of money that they have generated overseas which they can't bring home, because it would be too expensive in terms of the tax rate. And if we had a territorial system of taxation, if we had a simplified tax code—there are a whole lot of “if we had” scenarios—we would be much more efficient. With a simplified tax code, we would probably be generating as much or perhaps even more revenues because of the enhanced competitiveness—who knows? But in the situation as it currently exists, we're just putting a much heavier tax burden on corporations that are doing business here, or trying to do business here.


Well, take immigration policy. We could be encouraging the best and the brightest in the STEM² areas, the science and technology areas, not to take the PhDs they got here at US universities and go home with them to India or wherever, but to stay here and use them to invest and work and innovate here.

Another example is regulatory reform. I mean, we are layering regulation on top of regulation on top of regulation. We have government agencies that are regularly harassing companies to the point where companies think twice about investing or investing *more* here, and they invest overseas.

But the good news is you have foreign direct investment coming to the United States. You have US companies continuing to invest here. Our manufacturing output in the United States has been growing steadily. With the exception of one year during the recession, it's been steadily growing. The challenge is, manufacturing employment has not been growing, and that really is attributable to technology and productivity enhancements.

¹ Organisation for Economic Co-operation and Development.

² Science, technology, engineering, and math.

And so there we get into the other aspects of the McKinsey study, having to do with education, having to do with other game changers that could provide employment opportunities going forward in the future. 

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