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Miron Wolnicki and Ryszard Piasecki\*, 6 April 2018

## The post-neoliberal US economy: the new active role of the state is necessary

**Abstract** – In the past 75 years the world was either influenced by, competing with or learning from U.S. corporations. This is no longer true. As the economic power shifts from the West to the East, U.S. corporations are lagging behind many Asian and European competitors. In a world dominated by interventionist and neo-mercantilist states, having an ineffective non-activist government becomes a costly neoliberal delusion which weakens the world's largest economy. American conservative economists continue talking about the superiority of the free market system in generating new technologies and the U.S. President imposes tariffs to protect sunset industries and restricts technology trade with China.

### Introduction

The essential economic questions facing the U.S. are well known: How to assure a sustainable growth? How to eliminate public debt and current account deficit? How to stop capital concentration and create better paying jobs? Also, the basic limitations are known as well: aging population, rising cost of health care, declining competitiveness, ruinous infrastructure and environmental challenges. However, in practice, the worst problem is that the economists and politicians cannot agree how to solve all of the above.

In the last elections average Americans gave their votes to a politician who cut taxes for super rich, corporations and those who bounce in and out of poverty. The middle class which generates 70 percent of the GDP by consumption was left with the neoliberal narrative: wait for trickle down income and the economic protectionism to work.

Harvard historian, Niall Ferguson said that the U.S. has fallen into what Adam Smith called “the stationary state”, a formerly wealthy country that stopped growing, where rich elite exploit laws and regulations to the detriment of business and individuals, and where worsening inequality will lead to social upheaval<sup>1</sup>.

The studies of the global economy prove that about half of the countries involved in globalization are more or less market driven while the other half are neo-mercantilism with strong market protectionism and industrial policy. In the last quarter of the centu-

ry the latter countries had the highest economic growth and also succeeded in commercialization of most advanced consumer technologies. South Korea, Singapore, China, Taiwan, Malaysia and Japan raised their GDP per capita between 3 and 4 times. Asia experienced formidable improvement of the quality of life of hundreds of millions of people, an achievement larger in scale and scope than the United States of America had between the late Sixteenth century and middle of XX<sup>th</sup> century<sup>2</sup>.

The neoliberal theorists never stop trying to find proof that unregulated home markets, under-taxed, freewheeling transnational corporations employing cheap labor are better for long term growth. Unfortunately, such arguments are flawed. American free market economy is a myth. The tax law is absurdly complex; starting and running business means following copious and unnecessary regulations year by year pushing down U.S. on the overall Index of Economic Freedom. The Dodd-Frank Act of 2010 regulations package designed to control the financial sector risk is very costly and almost impossible to implement.

The real solution for the system paralysis in the U.S. today is to create a synergy between private sector and government, restore an equal playing field for the U.S. multinationals in the global markets, create new high paying technology jobs at home, reduce current account deficits, increase saving and investments. To achieve these goals typical American anti-governmentalism must give way to a new cooperative approach which is perhaps the most challenging task of all. Therefore the solution is most likely in revamping government-business relations which proved to work in Asia and Europe to large extent.

Can an advanced economy like the U.S. learn anything from the experiences of the Asian Developmental States (DS)? The First, DS was an improvement in the governance of the market system, not a general assault on corporate autonomy. It worked because it was a heterodox, pragmatic and adaptable...Second, also it was created in response to a closed economy it opened Japan, South Korea, Singapore, Malaysia to the world exports. This feature is particularly important considering new

wave of protectionism offered as a solution to U.S. slacking productivity. Third, it was non-adversarial, cooperative model, a positive sum game solution in which all players, capital, labor, consumers and government were acting at relatively high level of synergy.

There is a serious urgency to redefine the role of the government in a modern market economy. Governments can do many things which individual corporations no matter how large cannot do even if they find common ground on many of the problems of their global *modus operandi*.

- The government is not a problem but a solution. Besides the power of the purse it can set up economic goals beyond quarterly profit targets and define long term goals of the entire economy.

- Economic goals can be clearly stated, understood and implemented by all participating agents such as legislators, business leaders, banking industry, government bureaucrats, politicians, labor leaders and consumers.

- The economic goals can be tangible, not rhetorical, not simply designed to gain votes in the near elections. They can focus on infrastructure, education, debt reduction, not just the stock value.

- The government offices can become institutions of educated, competent professionals immune from the political cycle. Basically, the government can reduce the deficiencies of electoral democracy: partisanship, wasteful spending and creation of a punitive patchwork of laws as it happened after 2008 Great Recession in the USA.

- The government can enforce strategic trade initiatives, it can monitor industrial protectionism abroad and act to eliminate it.

- The government can work towards achieving equal opportunity in the world markets against global corporations which break the rules of fair trade, pay bribes to get access to local markets give foreign-government subsidized loans.

- The government has the power to work against import restrictions within the World Trade Organization framework without resorting to economic nationalism, unilateral tariffs and Non-Tariff Barriers.

- The government can promote new technologies such as AI, change the immigration law to provide access to best talent for the industry.

- The government can lower the short-run adjustment costs to import –competing industries and fend off populist sentiments of the voters

- The government can simplify corporate tax law, promote exports and expatriation of profits from

foreign tax heavens.

- Governments can work with smaller, meritocratic, well-compensated bureaucracy which would become a first choice for the best talents with vision and motivation. Governments can index bureaucratic compensation to economic growth.

- Government can fund good education which is fundamental for growth of well compensated jobs. Government can set rigid and demanding curricula for schools and educate young people about the rules and protections against the cyber wars.

- Government can defuse concentration of capital, encourage social responsibility and public spending to reduce pressure on wages and reduce labor costs.

The role of the government economic policy is not to modify the rules of the game in the market economy but create a level play field with the neo-mercantilist and interventionist governments. The objective of the AES is to understand the synergy of the economic agents and turn the government into a smart rule maker.

### **The American Entrepreneurial State**

A solution for a post neoliberal economy should be the “American Entrepreneurial State” (AES). In short, AES is a capitalist market economy which creates a tight link between government and business to achieve two goals, one rebalancing the economy and two, accelerating economic growth in a technology-driven age. A general concept of an Entrepreneurial state was proposed by Mazzucato <sup>3</sup>.

The logic of the ES is to allow agents (corporations) to use their resources to lower their uncertainty and get support in developing and employing cutting edge technologies – a key foundation of high growth. To achieve this goal the government does not exercise an authoritarian power to override the economic freedom of the agents (impossible in a democracy) but manages by consent and cooperation similar to MITI in the past. Under new rules, compliance is voluntary and non-compliance is fraught with lost opportunities and a higher risk. In the ES democratic institutions “rein” and the government “rules” i.e. Takes a leadership role and sets clear, well defined rules of the market game. The rebalancing the economy implies introduction of a wide range of policy and institutional reforms, all under the broad spectrum of activist government. Here are selected propositions by this author for the U.S.: Table 1 and 2.

TABLE 1 - INSTITUTIONAL FRAMEWORK

GOAL	PROPOSED INSTITUTIONAL RESTRUCTURING
<p>Improve cooperation of the government with business of all sizes.</p> <p>Set up a national goal of developing cutting edge industries</p> <p>Cut the size of government bureaucracy and offer compensation based on economy's performance</p>	<ul style="list-style-type: none"> <li>Establish <b>Department of International Competitiveness</b> which would include departments of Commerce, Energy, and Transportation along with the office of the US Trade Representative, DARPA (Defense Advanced Research Projects Agency) and NASA (National Aeronautics and Space Agency). The DIC should be among the first rank in the Cabinet along with the departments of State, Treasury, and Defense</li> <li>Formulate objectives for DIC and assure government legal, institutional and financial support for R&amp;D in key industrial, high-tech and service sector</li> <li>Coordinate state and local economic development efforts and assure funding of the programs</li> <li>Medium and small size startups should be able to get coordinated support of the government and venture capital</li> <li>The (new) <b>U.S. Trade Advisory Council on Artificial Intelligence</b> should include not only CEOs of large global corporations but also representatives of small and medium size technology startups</li> </ul>
<p>Make the country truly business friendly and encourage profit expatriation</p> <p>Revamping of the entire corporate tax environment</p> <p>Revamp personal income tax system for individuals</p>	<ul style="list-style-type: none"> <li>Create tax incentive for firms which use Artificial Intelligence to manufacture exportable products</li> <li>Restore competitive parity of U.S. multinationals. For example, American employers required to provide health insurance to the employees are in a clear disadvantage to foreign companies covered by nation-wide public health system. The U.S. corporation should get a tax incentive or a compensating subsidy to create a competitive playing field</li> <li><b>Introduce VAT</b> (Value Added Tax) and increase the tax base by removing the deductions which favor consumption over investment (mortgage deductions, employer-provided health benefits, etc.)</li> <li>Balance the Federal debt by the progressivity of the marginal income tax. Simplify the tax code</li> </ul>
<p>Change the corporate accountability standards</p> <p>Improve corporate governance</p> <p>Improve accountability of management</p>	<ul style="list-style-type: none"> <li>Introduce <b>Federal Corporate Charter</b>. U.S. corporations should be chartered by the federal government not by the states. States seeking for revenues from incorporation are in a kind of "race to the bottom" in terms of the CEO responsibility to stakeholders. The new charter will create an even playing field and common standards for corporate governance and reporting.</li> <li>The new <b>Federal Corporate Charter</b> should adopt the Scandinavian or German (Mitbestimmung) standards mandating the representatives of employees on the Boards.</li> </ul>
<p>Improve business-labor relations</p> <p>Revamp Innovation funding system</p>	<ul style="list-style-type: none"> <li>Create new bodies to build mutual trust and reciprocal loyalty of the workers and the management. This corporate culture has proved to be very effective in many high tech companies in the U.S. to stabilize employment and increase performance.</li> <li>Set up Japanese-type <b>Advisory Councils</b> to facilitate contacts between government bureaucrats and business leaders to discuss technology sharing, excess capacity, trade barriers, quality control, meeting federal energy standards, etc.</li> <li>The U.S. should introduce <b>Innovation Plan</b> for federal government, meritocratic hiring system</li> <li>The new <b>Department of Innovation and Technology</b> should expand Defense Advanced Research Projects Agency (DARPA) and Small Business Innovation Research (SBIR)</li> </ul>
<p>Vision builder: expanded role for a <b>National Economic Council</b></p>	<ul style="list-style-type: none"> <li>Develop and articulate of the national economic vision and goals</li> <li>Review the legislative proposals with regard to their likely impact on business and labor</li> </ul>

TABLE 2 - POLICY CHANGES

POLICY CHANGE	IMPLEMENTATION
<p>Review trade deals</p> <p>Restore trade parity among major U.S. trading partners</p> <p>Improve access of the U.S. firms to foreign markets</p>	<ul style="list-style-type: none"> <li>The government should use WTO (World Trade Organization) to revamp the asymmetric trade protection which allows some countries to maintain higher tariff on autos, agricultural goods, and manufactured goods than in the U.S.</li> <li>Implement the principle of distribution channels reciprocity as an international trade standard</li> <li>Use WTO to bar sovereign investment funds and state controlled enterprises from transferring government subsidies onto exporters</li> <li>Develop economic diplomacy system to promote U.S exports similar to other industrial nations.</li> </ul>
<p>Protect home jobs</p>	<ul style="list-style-type: none"> <li>Have a quick review process for offshoring home jobs</li> <li>The Government should create special fund and financial and tax incentives to allow less developed or depressed areas come with credible counteroffer to use home labor instead of offshoring.</li> </ul>

CONCLUSION

Create criteria for subsidies in key sectors of the economy	<ul style="list-style-type: none"> <li>Expand National Science Foundation R&amp;D programs in key areas, Artificial Intelligence material science, semiconductors, nanotechnology, genetics, energy production and transmission and transportation.</li> <li>Introduce performance requirements in return for provided subsidies</li> </ul>
USA should create environment saving industries	<ul style="list-style-type: none"> <li>Water conservation projects</li> <li>Put greenhouse gasses emission under cap and trade programs</li> <li>Accept and implement the international climate control standards</li> <li>Apply tariff on the goods coming from polluting companies under WTO rules</li> <li>Treat global warming as a case of market failure and find market incentives to reverse it</li> </ul>
Energy independence: conservation and domestic production	<ul style="list-style-type: none"> <li>The DIC should adopt the best proven energy saving practices in the world</li> <li>Introduce tighter federal energy building standards</li> <li>Expand use of natural gas and electric car propulsion</li> <li>Tax on gasoline powered cars and use the revenues for public transport system</li> <li>Focus on natural gas, nuclear power, solar power and alternative fuels</li> </ul>
Education and quality of labor – a new strategic sector of the economy	<ul style="list-style-type: none"> <li>Merit and needs educational funding system to prepare for the AI job reduction</li> <li>Provide merit and need based funding for education for the knowledge-based economy</li> <li>Introduce a long overdue Immigration Law reform to attract the most motivated and talented immigrants</li> </ul>
Reduce current account deficit  Reduce capital imports and rise of domestic saving to 15 percent	<ul style="list-style-type: none"> <li>Promote export and saving without protectionist measures</li> <li>Increase export of surplus natural gas</li> <li>Gradually restrict consumer credit and introduce investment tax credit</li> <li>Sponsor revaluation of other currencies against the dollar in the G-20. Reduce our liabilities and encourage U.S. exports</li> <li>Encourage consumption in Asia and Germany by the revaluation of the Euro and Yuan, Yen against the dollar</li> <li>Encourage investment at home by the new tax code.</li> </ul>

The AES is not a panacea for all ills of the post neoliberal U.S. economy. The decline of the U.S. and eventually of the West could be accepted as a natural development of world history but actually it is not. When Great Britain lost its position as an industrial power it was replaced by the United States. When the United States abdicates from its position, there is hardly a well-positioned country to take its place. China would eagerly take its place but there is question of choice for the people how they want to live. So far China does not provide it to this choice to her citizen, the Western liberal democracy does.

The AES is not a proposal to put economy under state control; this would be naïve and wrong. Nobody believes that the U.S. government would be better in running AIG, Bank of America or General Motors. But it is also true that their executives almost bankrupt them and necessitated a government bailout. The best solution is a balance. In a sustainable, high growth economy the government and businesses should understand the value added of this relationship.

AES must begin in a political process. The hard truth is that the U.S. economy cannot avoid some form of activist government which will replace neoliberal mythology. So far the activism is on the part of the political class which offered populism and economic nationalism as an alternative. The US is trending Europe and other parts of the world but there always is a hope that common sense will prevail in humanity.

**\*Miron Wolnicki** PhD., is an Associate Professor in the Department of Economics at Villanova University School of Business.

**\*Ryszard Piasecki** is a Polish economist and diplomat, professor at the University of Lodz, recently Ambassador in Chile, member of the board of CIFE.

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