

THE EIGHT FACTORS OF AMERICAN COMPETITIVENESS

BY JOHN RAIDT, LEAD AUTHOR

**A NATIONAL
SELF-ASSESSMENT
THROUGH THE EYES
OF JOB CREATORS**

America has momentous decisions to make. Extraordinary challenges and unprecedented opportunities shaped by an increasingly competitive global economy, shifting demographics, and expanding freedom are taking shape all around us. At the same time, alarming indicators and dangerous trends in our nation's economy, governance, and politics are seriously impeding our progress and threaten America's competitiveness position.



We are emerging too slowly from the severest economic downturn since the Great Depression. Eight and a half million jobs were destroyed. Twenty-five million Americans are unemployed or underemployed. Uncertainty and anxiety remain high, and skepticism about our ability to come to grips with the challenges before us is rampant. The country remains hungry for facts, solutions, and decisive action, beginning with an honest analysis of exactly where we stand in the competitive global economy and what we must do to prosper.

Our nation's level of economic preparedness and capacity to grow and prosper is often referred to as the state of "American competitiveness." At its core, "competitiveness" is our purest leading economic indicator. It captures the complex set of factors and conditions that determine the extent to which job creators – the indispensable enablers of national prosperity – are well positioned and suitably incentivized to start businesses, develop products, expand operations, hire workers, and mobilize investment here in the United States.



FACTORS

1. Will we have access to open, growing markets at home and abroad?
2. Will the costs of doing business be reasonable and competitive?
3. Will we, our suppliers, and our customers have reliable access to affordable capital?
4. Will we have access to a properly skilled, agile, and competitively priced workforce?
5. Will we be supported with modern infrastructure and a reliable energy supply to sustain business operations?
6. Does the country have sound fiscal conditions and wise macro-economic policies?
7. Does the country have transparent governance, a fair and efficient legal system, and stable civil society?
8. Does the country offer a dynamic culture of innovation?

Fundamentally, competitiveness is about the following question: When entrepreneurs, corporate planners, and other job creators decide where to locate new facilities and jobs, as well as where to direct capital, what will motivate them to select the United States over an ever-growing list of appealing destinations? A starting point in understanding our competitive position is to identify the questions that job creators ask themselves in determining when, where, and how to take risks, invest capital, and create jobs in the United States versus the other places they can go.

From the wealth of research, surveys, and inputs on this

topic, the decisive questions boil down to “the eight factors of American competitiveness.”

1. Will we have access to open, growing markets at home and abroad? Job creators require access to vibrant and growing consumer demand so that enterprise can flourish. They thrive by agilely supplying customers who have increasing purchasing power in open and sizable domestic and international markets.

2. Will the costs of doing business be reasonable and competitive? Job creators often survive – or not – as a result of their costs of doing business. To promote



success, enterprises need tax costs that are competitive and fair; government policies that promote investment, hiring, and expansion; and a regulatory system that is sensible, flexible, and consistent.

3. Will we, our suppliers, and our customers have reliable access to affordable capital? Job creators must have efficient access to ample financing at a reasonable cost to fund start-ups, expansion and employment.

4. Will we have access to a properly skilled, agile, and competitively priced workforce? Job creators depend on ample access to world-class human capital with the proper skills and productivity to be the best and sustain success.

5. Will we be supported with modern infrastructure and a reliable energy supply to sustain business operations? Job creators must have efficient world-class transportation and communications infrastructure and sustainable access to reasonably priced energy to keep operations humming and goods moving smoothly, swiftly and reliably.

6. Does the country have sound fiscal conditions and wise macro-economic policies? Job creators require a fiscal environment that ensures they will not be driven into the ground by budget policies that increase the cost of capital, hamper the free and productive flow of capital or demand unreasonable taxes.

7. Does the country have transparent governance, a fair and efficient legal system, and stable civil society? Job creators take enormous risk in committing capital, hiring workers, and contributing to the economy, and they look to limit risk from political,

“Job creators require access to vibrant and growing consumer demand so that enterprise can flourish.”

social, legal, and economic instability arising from ineffective governance, an unfair legal system, and social decay and disorder.

8. Does the country offer a dynamic culture of innovation? Job creators depend on a strong national ecosystem of innovation to refresh opportunity by spawning new ideas for products, services, and processes; to provide the means to efficiently marshal innovations from research and conception to development, demonstration and commercial deployment.

Over the past year, the National Chamber Foundation has researched and studied these questions carefully to:

- Define and examine the dynamics of each factor;
- Evaluate how the United States is faring compared to



our chief competitors and our own potential to excel; and,

■ Prescribe solutions to maximize our strengths, fix our problems, and mitigate the difficulties we can't or won't change.

As a context for the analysis of these eight competitiveness factors, there are three broader findings that serve as an important frame of reference:

THE UNITED STATES HAS A COMPELLING NEED AND OPPORTUNITY TO BOOST ITS COMPETITIVENESS. The globalized economy is a fact, not a policy choice. The requirement to compete is a necessity, not an option. While the burgeoning global workforce poses significant competitive challenges, the dramatic surge in global spending power and the expanding

THE UNITED STATES HAS SIGNIFICANT VULNERABILITIES.

America's standing in international economic competitiveness is falling as other countries are gaining fast, and in some cases, surpassing us. In almost every one of the World Economic Forum's (WEF's) 12 pillars of global competitiveness, America is losing ground. A decade ago, the United States led in thirteen of the twenty "country attractiveness" factors in McKinsey Global Institute's evaluation of economic fundamentals, business climate, human capital, and infrastructure. Today we lead in only seven, having sunk to the bottom quartile of the factor that the majority of surveys and evidence suggest is most important in attracting investment and jobs: business taxes. America is perceived as continuing to fall in fourteen of the twenty categories, staying the same in six and rising in none. When asked

“The dramatic surge in global spending power and the **expanding reaches of freedom offer unprecedented opportunity for Americans.**”

reaches of freedom offer unprecedented opportunity for Americans to sell goods and services to markets hungry for U.S. innovation and know-how. Yet, a defining feature of a freer world is that private enterprises are at liberty to be or not; to come to the United States and remain here or not. Accordingly, the adverse consequences of U.S. competitive failure and economic retreat are severe and unacceptable.

to select the 5 most problematic factors for doing business in their country, American executives selected, in order, tax rates, inefficient government bureaucracy, access to financing, tax regulations, and inflation.

Negative trends in our fundamentals threaten continued backsliding. In the words of the WEF, “A lack of macroeconomic stability continues to be the United States' greatest area of weakness.” Indeed,



in macroeconomic stability – considered absolutely necessary for growth and one of the four pillars that support a country’s entire economic structure – we rank 90th, between Senegal (89th) and Serbia (91st).

STRATEGIES TO BOOST U.S. COMPETITIVENESS MUST ACCOUNT FOR ECONOMIC REALITIES, HISTORICAL LESSONS LEARNED, AND CONSEQUENTIAL TRENDS. As America works to reverse adverse trends and improve our competitive standing, we must take into account key economic realities, historical lessons, and consequential trends shaping the global environment.

■ **The global flow of capital, liberal international exchange of goods and services, and economic**

cooperation and interaction across borders greatly benefit the United States. As stated in a report by the National Research Council, “The broader process of economic globalization, of which the restructuring of innovative-related activities is one part, is on the whole beneficial for the United States. Consumers benefit from higher-quality, lower cost, and more innovative products; employees benefit from the ability to exploit their skills in a global rather than a domestic market; firms benefit from lower costs and economies of specialization through vertical specialization and increased collaboration; and the processes of trade liberalization can have beneficial political consequences for international relations.”



■ **U.S. competitive success will require excellence in all three major economic sectors: manufacturing, services and agriculture.** A service economy alone can't sustain prosperity, particularly given that manufacturing produces the largest multiplier effect and is a major stimulus for innovation on which long-term economic vigor depends. Moreover, America is a major breadbasket of the world, and we must aim for it to remain so.

■ **Our strategies must encompass the full mix of enterprises that compose the U.S. business system.** Domestic enterprises (small, medium and large), U.S.-owned multinational corporations (MNCs), and U.S. affiliates of foreign-owned MNCs each play a vital role in U.S. job creation, economic growth, and global competitiveness.

■ **America's policies and approaches must account for the continuous evolution in the skill requirements as well as the nature of work and employment.** Innovation and the dynamics of global competition are reshaping employment opportunity, requiring new skills – particularly in the technical areas.

■ **Technology-driven productivity will heavily influence the economy and job patterns.** Advanced technology will perform a greater range of activity. As the Council on Competitiveness states, "(such) productivity will result in greater efficiency, which means less labor will be required to perform a given task.



“Innovation and the dynamics of global competition are reshaping employment opportunity.”

This creates a healthy economy as long as businesses are innovating, and public policy is stimulating new business creation, new job creation, and attracting investment to drive the creation of new jobs.” Some jobs will leave the United States and never return. Other jobs will be lost due to technology and efficiency gains. Our challenge and opportunity is to invent new products and industries that create new, different, and often better jobs.

■ **We must come to grips with the rise of state capitalism and the increasing role of governments in luring job creators.** Competitors such as Russia and China practice state capitalism, in which governments play an active political role in markets. America must recognize the serious implications of these models and strategies and formulate effective measures to counter the competitive disparities they pose – while maintaining our free enterprise values, which have served us well and will do so over the long run.

No matter what tactics and approaches particular nations adopt, it is clear that many nations are devising and implementing more sweeping and sophisticated competitiveness strategies than ours – a discrepancy

we must remedy if we are to succeed. We can neither ignore nor emulate these approaches; rather, we must develop more effective competitiveness strategies of our own, consistent with our principles.

President Barack Obama stated the overarching task clearly and succinctly, “We know what we have to do to win the future ... we have to make America the best place on earth to do business.” This initial article and the subsequent follow-on offerings identify the critical, practical measures necessary to achieve the president’s well-stated imperative. It does so from the perspective of private-sector job creators – those who are on the economy’s front lines and whose decisions so greatly determine the level of employment and the size of the economy – the ultimate arbiters of whether we are indeed creating the world’s best business environment. ■

John Raidt, the lead author, serves as a senior fellow at the Atlantic Council. Raidt has over 21 years of public policy experience, including national and homeland security, energy, the environment, and natural resource management. Before coming to the Atlantic Council he served as a professional staff member of three national commissions as well as a senior staff member in the U.S. Senate.

Over the next several weeks, NCF will be posting a series of detailed analyses on each of the eight questions to the NCF website (ncf.uschamber.com), iPad app, and other outlets. Each of these offerings are designed to cast a spotlight on critical issues, stimulate deeper thinking and debate about where our nation stands, and identify prospective paths on what America must do to move its economy forward. Be sure to reach out to these networks and contribute your own thoughts and insights to a dialogue that focuses on the future of America’s role and leadership in the global economy.