US needs a ‘real’ industrialisation policy

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NOT many people in the world know this: The United States has never had a proper industrialisation policy. Germany has one. South Korea has one. Singapore has one and many others do too. An industrialisation policy is not just “a policy”. It is more of a framework to get things done in the economy.

Everybody knows this: The US has been consuming more than it produces for decades, a bargain it has been able to pull off because it is the only country in the world that can print money and get away with it. But emerging economies like Brazil, China and India, as well as the rest of the world, are not going to play the dumb fool forever, buying US Treasuries in large quantities the way they did in the past.

To stop running large trade deficits, the US will need to revive its manufacturing base so as to start making things again. This is where a “real” industrialisation policy comes in. The country subsidises agriculture, maintains an energy policy that favours cars and aircraft, and under the former Republican administration increased funding for national health care (the last item at least has its merits).

There are a few pointers the US can learn from the Germans, the best economic survivors in Europe today (and perhaps in the world). Germany’s method of creating wealth is simple, straightforward and efficient.

■ Rule 1: Educate and produce an effective workforce, relative and benchmarked to the rest of the world.

■ Rule 2: Have that workforce create and make higher value-added and advanced, precision products and services for higher wages, relative and benchmarked to the rest of the world.

■ Rule 3: Export the products and services produced in Rule 2 at a high price and then reinvest a substantial portion of that money back into the industries in Rule 1, relative and benchmarked to the rest of the world.

Note the phrase “relative and benchmarked to the rest of the world”. This is how and why Germany is the No. 2 exporter in the world today even though it has only 27 per cent of America’s population and only 6 per cent of that of China, the world’s No. 1 exporter. The Germans realised early on that they cannot beat China or India based on costs alone. Advanced nations cannot compete on costs alone.

Even if the US negotiates with all the unions, gets rid of minimum wage, eliminates all non-basic (relative and benchmarked to the rest of the world) social benefits and taxation, it will still lose jobs to low-wage nations, because the costs in developing nations are still much lower.

Germany avoided going down the path of downward spiral among its middle class that the US is on now, by heavily investing in its people and also in research.

These are in stark contrast to most of the US’ current policies, which can basically be summed up thus: First, let the free enterprise market work by having the least government interference (which we know cannot work after the 2008-2009 crises and is being reviewed). Second and more importantly, the country has no “real” industrialisation policy or framework for future growth (currently not being reviewed and requires urgent action).

If the US is going to grow out of its current economic crisis and prosper again, it has to start making, building and exporting things the world wants and is willing to pay for. Its existing economic structure is too narrowly focused on information technology, finance and the consumption-expenditure economy, and does not produce tangible wealth for the middle and lower classes, which still form the bulk of the population.

The first step towards “making things happen again”, so to speak, is having a government that makes the decision to restart higher value-added manufacturing, heavy industry and other alternative services industries, over finance and banking. A failure to do this will speed up America’s economic decline, which has already begun.

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