

## **How to Rebuild Manufacturing by Ralph E. Gomory**

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Let me start by saying this: the real world that we live in is not a world of free trade; it is a world of mercantilism: a world in which many foreign governments do whatever it takes to make their industries succeed.

And in that world of mercantilism there is a fundamental divergence, a fundamental conflict, between the goal we are discussing here – of rebuilding manufacturing in the United States – and the goal of our corporations, which is to maximize profit.

In a mercantilist world, our great American companies can maximize their profits by taking their technology and know-how to Asia, where they can receive subsidies in the form of underpriced currency, ready-built factories, tax incentives and sometimes cheap labor. A country like China can add enough in subsidies to make outsourcing to China very profitable and American companies will outsource as they believe their mission is to make as much money as possible for their shareholders. They believe it is someone else's job to take care of the American economy.

If we go on imagining that we are in a textbook free-trade world, this will not change. So the very first step is to recognize that the free-trade arguments used to justify most of our trade deals with Korea, Japan, Vietnam and many other countries, simply do not apply in a mercantilist world. That is why these agreements have not given the boosts to our economy that they were supposed to give, but have often harmed our industries without being balanced by increased exports. We end up trading jobs, and sometimes also technology, for profit.

Until we learn how to assess the real effects of these trade deals, we should have no more of them. And the next president should immediately take that step.

There is another trade development that also demonstrates we do not live in a world of free trade. Building on a trend that started with NAFTA and the WTO, the TPP has buried in its 6,000 pages dispute settlement clauses, which give corporations the power to sue a country's government if that government takes any action that hurts the company's profits in that country. If the TPP is accepted, the grant of legislative and judicial power to corporations over governments will have the potential to undermine our democracy.

Our next president must immediately end TPP and this dangerous trend.

These are immediate steps, but in a longer time-frame, what can we do for the U.S. economy in a mercantilist world?

In the United States the traditional tools that we have used to affect industrial action have been tax incentives and tariffs. We are used R&D tax credits to spur R&D, so why not tax credits for companies with high value added in the United States? In other words, make the corporate income tax lower but proportional to the productive activity that these companies have in the United States and not outside our borders.

Next, to balance trade, Warren Buffet has proposed a very straight-forward system he calls "Import Certificates," which is basically this: if you are an exporter you get Import Certificates to the amount of your exports. You sell these in an open market. An importer cannot import into the U.S. without buying import certificates. So, import certificates are an incentive to export that also automatically balances trade. Of course, you don't make a change like that in one bite, but over a period of years. But it would do the job.

So even in this world of mercantilism and even within the limited framework of what we have traditionally done, we can act if we choose to open our eyes.

But all this naturally raises a fundamental question: is this devotion to profit as the only goal right for our great corporations?

Many think corporations have always acted this way, but that is not so. From World War II until about 1980, the accepted corporate view (the "stakeholder" view) was that the corporation needed to balance the needs of customers, employees, community, society at large, suppliers and shareholders.

The present "shareholder primacy" view only emerged during the 1980s, when the shareholders essentially tied executive compensation to share price and opened the possibility of top executives becoming rich beyond their previous wildest dreams, if only they could get the stock price up.

A greater incentive to outsource, keep wages down and stock price up could not be imagined, and I hope our next president will use all his/her presidential powers to end that fundamental motivation.

Such a president would be following in the footsteps of President Theodore Roosevelt, who in 1901, addressed congress as follows:

Great corporations exist only because they are created and safeguarded by our institutions; and it is therefore our right and our duty to see that they work in harmony with those institutions.

Today's corporations, with their inversions, their very successful tax avoidance and their enormous share buybacks, do not follow Roosevelt's prescription. They would serve the nation better if they did.

I believe that in the 1980s we moved to a style of capitalism that benefits large shareholders, who are mainly rich, at the expense of wage earners who make up the backbone of America.

We have built into our economy a natural tendency toward extreme inequality.

All of this strongly suggests it is time to rethink "shareholder primacy".

I hope our next President will.