How a Competitiveness Audit Can Help Create Jobs

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Introduction

America is deep in a jobs crisis. The unemployment rate is stuck around 9 percent nationally, with states such as Florida, Nevada and South Carolina in double digits. Real wages for educated workers are still plunging, while new college graduates are squeezed between rising student loans and the toughest labor market in recent memory.

Against this backdrop, the global economy looms large as both threat and promise. There's a justifiable fear that America has lost its competitiveness, that our jobs are being siphoned to China and India, that the wages of our young people are being depressed by a global education glut. At the same time, the rapidly growing markets of the developing world could be a potent target for U.S. exports of goods, services, and intellectual capital, creating good jobs here.

We need to know the price gap between U.S. Industry and our foreign competitors.

In this global economy, we need to know which industries are internationally competitive, which ones aren't, and whether the gaps are closing or widening. Unfortunately, the reality is this data currently does not exist. And what we don't know hurts us, because it prevents us from pursuing effective strategies for boosting US jobs.

Although the government collects reams of economic data, it doesn't measure what's most vital to our ability to reverse America's jobs decline: how our goods and services stack up against those of China and other competitors in terms of price.

You can't fix what you can't measure. We need a new national jobs strategy that begins with an accurate way of measuring America's competitive prowess, on an industry-by-industry basis.

This policy brief proposes that the Bureau of Labor Statistics undertake a "Competitiveness Audit." The Competitiveness Audit will compare the price of selected imports with the comparable domestically produced goods and services. That will tell us the size of the 'price gap' between imports and domestic production.

The initial results of the Competitiveness Audit will enable us to identify industries that are globally competitive (domestic prices are below import prices, so the price gap is negative); industries that are currently uncompetitive (domestic prices are significantly above import prices); and industries that are 'near-competitive' (domestic prices only slightly above import prices). Over time, as the Competitiveness Audit is repeated, it will become possible to tell whether price gaps are widening or closing.

The data from the Competitiveness Audit will be extremely valuable for small and medium-size U.S. companies trying to compete in global markets. It will in essence provide a benchmark that they can use to guide their investments.

In addition, the Competitiveness Audit data will greatly assist in targeting federal, state and local economic development and training funds. In general, industries that are 'near-competitive' will offer the biggest bang for the buck, since assistance might make a difference in regaining market share against comparable imports to the U.S. and in developing export markets overseas. Although there will be upfront costs associated with conducting a Competitiveness Audit, allocating the resources now will save more money in the long-run through the ability to appropriately target future investment.

Competitiveness audits would not be a new tool of an old industrial policy. On the contrary, they could keep us from misspending billions to help US industries that are the farthest from being globally competitive.

Devising new and creative ways to create U.S. jobs has become a national priority. Yet with a large budget deficit, resources are limited. Using available resources to promote job growth in a targeted, effective way is crucial—and that requires better data.

What's Available Now and What Isn't

In a time when understanding U.S. competitiveness, and the associated impact on U.S. jobs, is as important as ever, the reality is no one knows whether the price gap between U.S. industry and our foreign competitors is widening or converging. In other words, we do not know if, or to what extent, the U.S. is globally competitive.

Currently the Bureau of Labor Statistics collects extensive data on changes in import and export prices through the International Price Program. BLS also releases the Producer Price Index (PPI) each month, which measures changes in the price charged by domestic producers of good and services. So, for example, in the year ending August 2011, the price of imported goods (except energy) rose by 5.3 percent, while the price of domestic-made finished goods (except energy) rose by 3.9 percent.

However, BLS makes no attempt to directly compare the **level** of import and export prices with the **level** of domestic producer prices. If we ask how the price of an imported industrial pump, say, compares with the price of a similar domestic-made pump, no such data exists--even though that comparison is the key factor determining whether the domestic pump factory will stay open or not.

It's important to reiterate this point, because it is poorly understood even by many economists. Let's use furniture as an example. Each month the BLS publishes data on the changes in the price of imported household furniture, and data on the changes in the price of domestically-produced furniture. But nowhere can we find data on whether a table from China costs less than a similar table made in North Carolina, and by how much.

Knowing the size of the price gap in furniture would make an enormous difference to a state like North Carolina, which has lost 60 percent of its furniture-making jobs since 2000[1], many to China. If the price differential is only 10 percent, then some of those furniture-making jobs might come back as exchange rates adjust or as wages rise overseas. But if the price differential is 40 percent, those jobs are probably gone for good, and would unlikely be helped even by strategic investment.

That's why the Competitiveness Audit goes beyond comparing changes in domestic and import prices, because to really understand U.S. competitiveness we must understand the difference in actual market prices. We need price comparisons not just for furniture, but for construction machinery, for medical equipment, and even for services such as call centers.

Without this data, we don't know whether the U.S. is becoming more competitive or losing ground. On one hand, some studies conclude the U.S. is losing competitiveness, and assert this downward trend will continue without action. In their 2011-12 report, the World Economic Forum (WEF) found that U.S. competitiveness deteriorated in 2011 for the third year in a row, globally ranking fifth behind Switzerland, Singapore, Sweden, and Finland.[2] The WEF's "Competitiveness Index" ranks countries based on 12 pillars including investment climate, infrastructure, and macroeconomic environment using a business opinion survey and available statistical data released by international organizations.

Other studies come to the opposite conclusion, that the U.S. is in fact becoming more competitive. The Boston Consulting Group (BCG) recently released a report highlighting their view that U.S. manufacturing is becoming more competitive relative to China as double-digit increases in Chinese wages make manufacturing in China less cost-effective. BCG asserts U.S. manufacturing is poised to have a "renaissance" as manufacturers realize the closing Chinese wage gap, coupled with logistical and other supply chain considerations, makes moving manufacturing back to the U.S. a logical next step.[3]

That leaves journalistic and anecdotal reports to attempt to give us clarity on U.S. competitiveness. For example, several such reports have estimated the average gap between Chinese-made and U.S.-made products at about 30 percent.[4] This so-called "China Price" has been widely cited in books, magazines, and news publications because it is one of the few estimates available on a subject people want and need to understand.

The Competitiveness Audit is essential to any export-promotion program.

The lack of consensus on the nature of U.S. competitiveness leaves policymakers and industry participants at a disadvantage when trying to develop effective policies targeted toward economic growth and job creation. If the only thing we know about U.S. competitiveness is that we don't actually know U.S. competitiveness (differences in market prices), there is a problem. It is a problem that must, and can, be solved. Undertaking a Competitiveness Audit is the necessary first step to bridging this knowledge gap.

Implementation

The Competitiveness Audit would require BLS go beyond its current program of running separate price indexes for imported and domestic goods. As such, the first step would be additional funding for a pilot program focusing on a few selected key goods. In the initial pilot program, BLS will have to develop a way to resolve definitional and classification differences between the import price survey and the domestic producer price survey, which are now run separately. The problem is not simply bureaucratic: The BLS has to ensure that, say, a plasma torch, is classified the same way in both surveys. It's important to compare apples to apples.

In the same vein, BLS will also have to make sure that it is comparing imported and domestic products of similar quality and characteristics. In the past, finding such comparable products and services might have been difficult, since many imports were of lower quality than the domestic equivalent. These days, however, the quality is close enough in many areas to make price comparisons possible.

This means that in the initial phase of the Competitiveness Audit, only a selected number of goods would be included, and perhaps services if there are sufficient funds.[5] To facilitate comparison across countries, the initial list of goods will be at the finished product level, and will not break down input prices or the origin of the inputs. This list of goods and services considered will expand over time as BLS is able to put the necessary processes for comparison in place.

In addition, we suspect that state and local governments would quickly want competitiveness data for their particular region. Such a "Regional Competitiveness Audit" would compare domestic producer prices and global prices for key industries in a region. Such a project would require more data and additional funding. But the information would be extremely useful for economic development policy, especially at the state and local level.

It should be noted that the Competitiveness Audit would mesh well with efforts already underway at the BLS to shed more light on trade and the global economy. For example, the BLS is planning to issue additional "locality of origin" price statistics. So instead of just one price index covering all of China-made products, the BLS should be able to track the prices of several types of goods coming out of China. As in the case of the Competitiveness Audit, the goal of the additional data is to provide businesses and policymakers with more information that can be used to make good decisions.

In general, our proposal for a Competitiveness Audit highlights the need to provide more funding for the International Price Program at the BLS. Given the growing importance of the global economy to the U.S., we need to make sure that we understand both the benefits and costs of trade—and that requires good information about the prices of imports and exports.

How to Use the Competitiveness Audit

The Competitiveness Audit will provide a wealth of critical information not available today regarding price differences for domestic versus internationally produced goods and services. For example, the Audit might find it is 40 percent more expensive to produce furniture in the U.S. than abroad, while domestically produced medical equipment is only 10 percent more expensive than comparable imports. It is safe then to conclude the U.S. has a much further path to travel to maintain and restore competitiveness in furniture relative to medical equipment. The smaller price gap would suggest policymakers would be better off focusing their attention on U.S. production of medical equipment over furniture, since they could be competitive and create jobs with a relatively smaller amount of assistance.

Similarly, finding that the U.S. has a small but growing competitive disadvantage in manufacturing medical equipment might spur policymakers to pay more attention to keeping medical equipment jobs in the United States, including quicker approval of device innovations and more assistance in training workers with the necessary skills. FDA approval for new healthcare equipment is also problematic, choked by excessive regulation that results in the loss of valuable time and money.[6] More generally, the Competitiveness Audit will enrich the public policy debate by providing objective measures of competitiveness for key leading-edge industries. In particular, it will help make the case that innovation-friendly policies can encourage economic and job growth right here in the U.S. Innovation-friendly policies will encourage economic and job growth right here in the U.S.

Or take engineering services. One area of great dispute these days is whether there's a cost advantage to outsourcing product engineering to lower-cost countries such as India. Some sources say that the cost gap has closed as engineering salaries have risen in India, while others say that's nonsense. Obviously, the answer to this question makes a big difference for companies and for U.S. policy. If the Audit finds that the U.S. is globally competitive in providing engineering services, policymakers can use this information to encourage growth in the sector (and discourage further outsourcing) by ensuring it is easy to start up new engineering firms and that these businesses have the opportunity to export.

Finally, consider the price of a computer. The Competitiveness Audit will shed light on just how competitive (or un-competitive) the U.S. actually is relative to foreign producers. As the price of a computer incorporates efficiencies along the supply chain, and embedded R&D (much of which is created in the U.S.), we will finally be able to get a close look at just how much the price difference would be if the final computer were manufactured in the U.S. versus other countries. The results may just surprise us – what if the Audit revealed that the U.S. is near-competitive? Further investigation may reveal a re-working of the U.S. tax code would encourage computer manufacturing to come back to the U.S., or it could show how targeted investment by industry participants will lead to new production efficiencies enabling the U.S. to become a competitive computer producer. Or, the Audit could find the price of U.S. computers to be so uncompetitive that we agree once and for all computers are better made elsewhere and focus our resources on a sector with better potential.

Better data could help target economic development funds.

Competitiveness of U.S. Exports

The Competitiveness Audit should be an essential part of any export-promotion program, by providing data about where U.S. industries are globally competitive. This in turn will indicate which industries have the strongest export potential (an important component of future economic growth).

Alternatively, there might be products or industries where the U.S. is a big exporter now, but losing ground in terms of competitiveness. This would serve as an early warning system, allowing policymakers to take steps such as trimming unnecessary regulations or encouraging local production clusters for efficiency.

Low Cost, High Benefit

It can't be repeated too often: Right now we are flying blind!

The benefits associated with a Competitiveness Audit are immediate and real. Policymakers need better data to create better economic policy, especially as the U.S. economy is struggling with over 9 percent unemployment. U.S. industry leaders need to understand where they are competitive to efficiently target future investment, which can lead to cost-effective U.S. job creation. The Competitiveness Audit can facilitate the development of an effective import recapturing strategy while encouraging effective promotion of U.S. exports. Given the President's goal to double exports in 5 years, it is essential to have the best information available to achieve this objective in a targeted, strategic way.

The cost implications imposed by undertaking a "Competitiveness Audit" do not need to be prohibitively expensive. To the contrary, the funds needed to implement an enhanced data collection effort that would allow policy makers to obtain a better understanding of U.S. competitiveness are relatively inexpensive compared with other forms of investment. The statistical framework necessary is largely in place with the existing International Price Program and Producer Price Program at BLS.

Conclusion: Fund a Competitiveness Audit

The Progressive Policy Institute calls on Congress to provide BLS with the funding needed for to conduct a Competitiveness Audit. The appetite for obtaining real numbers on U.S. competitiveness is real. The need for better data to make targeted economic and financial decisions that effectively uses the resources available is real. BLS has the infrastructure in place with its existing price indices and survey program, and is the best candidate to conduct the Competitiveness Audit. This is the time to provide the BLS with the funding to conduct a "Competitiveness Audit," as we work toward getting the U.S. economy and work force back on track to a better future.

Endnotes

[1] Bureau of Labor Statistics, Current Employment Survey (CES).
[2] World Economic Forum, "The Global Competitiveness Report, 2011-2012," http://reports.weforum.org/global-competitiveness-2011-2012/.
[3] Boston Consulting Group, "Made in America, Again: Why Manufacturing Will Return to the U.S.," August 2011, http://www.bcg.com/documents/file84471.pdf.
[4] Pete Engardio and Dexter Roberts, "The China Price," *BusinessWeek*, December 6, 2004, http://www.businessweek.com/magazine/content/04_49/b3911401.htm and Alexandra Harney, *The China Price: The True Cost of Chinese Competitive Advantage*. New York: The Penguin Press, 2007.
[5] Currently the Bureau of Economic Analysis is responsible for tracking the price of imported services, while the BLS tracks the price of domestic services. That inter-agency issue would have to be resolved.
[6] Michael Mandel, "How the FDA Impedes Innovation: A Case-Study in Overregulation," Progressive Policy Institute, http://progressivefix.com/wp-content/uploads/2011/06/06.2011-Mandel_How-the-FDA-Impedes-Innovation1.pdf.

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The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through research and policy analysis, PPI challenges the status quo and advocates for radical policy solutions.